

## RATES WORKING GROUP - REPORT ON FINDINGS – [49653]

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### BACKGROUND

The West Australian Local Government Act 1995 requires that local government rates be distributed based on valuations supplied by the Valuer General's Office. The Valuer General supplies new unimproved valuations (UV's) on an annual basis while gross rental valuations (GRV's) are revalued once every three years.

Interim values are provided by the Valuer General's Office on a progressive basis when there are improvements to the property, ie new houses, additions or a pool is constructed. These interim valuations effectively take into account improvements to the property. They generate additional income to the City.

As a consequence of the split of the former City of Wanneroo the City of Joondalup has only 13 properties on an unimproved valuation basis. The 1999/2000 rates distribution (excluding interim rates) of GRV properties is summarised thus:-

Rate Category	Rate in \$ €	Number of Properties	Rate Yield	%
Residential	6.6693	52,578	\$28,482,519	83.0
Commercial	6.0023	706	\$4,871,056	14.2
Industrial	6.6693	355	\$504,490	1.5
Rural	6.6693	859	\$460,060	1.3
<b>Total</b>		<b>54,498</b>	<b>\$34,318,125</b>	<b>100.0%</b>

Commercial rate = 90%

As a consequence of the revaluation of properties for the 1999/2000 financial year valuations of properties in the coastal strip west of Marmion Avenue increased quite substantially. As this increase was confined to the coastal pockets and was not uniform throughout the district there was a shift in the rate burden to those coastal properties with valuations on some properties increasing by as much as 68% from 8,840 GRV to 14,872 GRV.

- As a consequence of the impact of the revaluation the City considered it appropriate to establish a Rates Working Group.

As an integral part of its investigations and deliberations the group, which met on 10 occasions :-

- Sought submissions from ratepayers, local community groups, commercial/industrial owners.
- Received input from:-
  - the Valuer General’s Office on valuation methodologies
  - the Local Government Department on rating matters generally;
- Sought input from Eastern States Local Government Departments in New South Wales, Victoria, South Australia on the rationale for the inclusion of a flat “municipal charge” within their respective Local Government Acts;
- Had input at a meeting for the review of the Local Government Act 1995;
- Discussed and compared rating matters with other local governments and individuals with an interest in local government rating issues.

Very early in its deliberations the group considered that there were aspects of the City’s rating framework which could be categorised as “Short Term” Objectives and others which could be classified as “Longer Term” Objectives. These were as follows:-

### Short Term Objectives

## Commercial-Improved Rate in the \$

### Background

The commercial rate in the \$ is currently 90% of the residential rate in the \$. This rate has since 1985 been much lower than the residential rate as the following depicts:-

	Residential Cents	Commercial Cents	Percentage of Residential
1985/86	11.5831	3.5529	31%
1986/87	12.1391	3.9096	32%
1987/88	8.8010	3.2886	37%
1988/89	9.3291	3.9463	42%
1989/90	9.8888	4.7256	48%
1990/91	6.8200	5.4500	80%
1991/92	7.0900	5.6700	80%
1992/93	7.3000	5.8400	80%
1993/94	7.2130	6.1310	85%
1994/95	7.4220	6.4570	87%
1995/96	7.6447	6.8802	90%
1996/97	6.9952	6.2957	90%
1997/98	7.2050	6.4845	90%
1998/99	7.2050	6.4845	90%
1999/00	6.6693	6.0023	90%

This lower rate was established as a consequence of the former City of Wanneroo moving (in 1985) from a situation where it had unimproved valuations (UV's) throughout the district to one which had both, UV's (rural sectors) and GRV's (urban sectors). It was considered at the time that to move to a full GRV immediately would have a major impact on rating levels with the commercial sector receiving a massive rate increase. Each year the former City considered the impact of progressively increasing this commercial rate in the \$.

### **Action**

The Rating Group considered that there was an opportunity to increase the rate in the \$ for this rating category.

Rudimentary models for this category were developed which indicated that if the commercial-improved rate in the \$ were 100% of the residential rate an additional \$500,000 rate revenue could be generated.

## **Vacant Land**

### **Background**

Historically the former City of Wanneroo and more recently the City of Joondalup did not rate vacant land differentially as it was considered inappropriate to do so. The provisions of Section 6.33 of the Local Government Act 1995 however did provide for this ability.

The group noted that while rating vacant land at a higher rate than improved land would ensure that land speculators contributed to the overall rate burden, it would also impact on the genuine home builder. It also noted that some vacant land holdings, especially in the coastal strip, had valuations which were as high as \$10,000-\$11,000 GRV.

The group recognised that this opportunity would enable the City to:-

1. Rate vacant land at a higher rate in the \$ and effectively encourage the earlier development of the land.
2. That this strategy had been effectively employed by other local governments for some considerable time.

### **Action**

The group considered it appropriate to recommend to Council that:-

1. the rating relativities for residential/rural GRV vacant land be 115% of the residential improved rate for the 2000/01 financial year; increasing to 130% in 2001/02 and 145% in 2002/03;

2. the rate in the \$ for commercial and industrial zoned vacant land remain at 100% of the improved rate in the \$ which in all probability would increase in line with movements in the CPI (Perth Index); and
3. the 2000/01 minimum payment for vacant residential/rural rating category be \$500.

The group understood the provisions of Section 6.33(3) of the Local Government Act 1995 which permitted a local government to impose a differential general rate which was not more than twice the lowest differential general rate imposed. A general rate could exceed this threshold with the Minister's approval. If adopted by Council this would effectively mean that the City's 2000/01 rating structure would be as follows:-

	Improved		Vacant	
	Rate in \$	Minimum	Rate in \$	Minimum
Residential	100%	\$403 + CPI	115%	\$500
Commercial	100%	\$741 + CPI	100%	\$741 + CPI
Industrial	100%	\$741 + CPI	100%	\$741 + CPI
Rural	100%	\$403 + CPI	115%	\$500

This effectively places a higher rate in the \$ on vacant residential/rural land - a strategy to encourage development of that land.

### **Minimum Payments**

#### **Background**

The minimum payment applicable to any piece of rateable property has historically been as follows:-

Year	Residential \$	Commercial/Industrial \$
1986/87	250	
<b>1987/88*</b>	260	
1988/89	275	
1989/90	300	
<b>1990/91*</b>	325	
1991/92	338	624
1992/93	348	642
<b>1993/94*</b>	363	669
1994/95	374	688
1995/96	374	688
<b>1996/97*</b>	380	698
1997/98	391	719
1998/99	391	719
<b>1999/00*</b>	403	741

Each year this charge has been increased in line with CPI and movements in the rate in the \$ (apart from 1998/99 when the Commissioners resolved that rates would not increase).

The group noted that pursuant to the provisions of the Local Government Act 1995 a local government could:-

- Charge a minimum charge based on whether the land was improved or not improved. This effectively means that the City has the capacity to differentiate between developed land and vacant land. It noted that pursuant to Section 6.35 of the Local Government Act 1995 that the general minimum must apply to not less than 50% of the number of properties to which minimum rates apply.
- Apply a greater minimum to vacant land with the approval of the Minister.

The group noted that the 1999/2000 Budget levied minimum payments of \$403 on 8,445 residential properties. With a rate in the \$ of 6.6693¢ the minimum payment applied to rateable properties on which the gross rental valuation was \$6,042 or less. This charge applied to not only vacant land but also lower valued residential dwellings.

### **Action**

The group sought a listing of properties throughout the district to which this minimum charge applied.

## **Incentive for Early Rates Payment**

### **Background**

The former City of Wanneroo and more recently the City of Joondalup offered prizes for early payment of rates. These prizes were all donated by business houses and at no cost to ratepayers. They provided an effective way of encouraging early payment of rates.

With the introduction of the rate instalment options in the Local Government Act 1995 whereby ratepayers could select to pay rates by four instalments, the former City of Wanneroo and more recently the City of Joondalup, took the decision to introduce a discount on rates. This was set at 5% of current rates only .... it does not apply to refuse, security or swimming pool inspection charges.

### **Action**

The group considered that the early payment incentives of prizes and rate discounts were sufficiently attractive to encourage ratepayers to pay early and should be continued.

## **Security Charge**

### **Background**

As a consequence of ratepayer consultation and demand the City introduced in 1999/2000 a flat universally applied charge to fund property security and surveillance. This was applied pursuant to the provisions of Section 6.38 of the Local Government Act 1995 and Regulation

54 of the Local Government (Financial Management) Regulations 1996. The charge was \$27 for the 1999/2000 year.

The group considered it fair and equitable to fund this service via a flat charge across all properties rather than include it within the overall budget and fund it via rates. Members saw if it were included within the rates that high valued properties would carry a disproportionate rate burden.

**Action**

The group considered that Council would discuss the relevant aspects of this service as an integral part of 2000/01 budget discussions however the concept of a flat universally applied charge as permitted by Section 6.38 of the Local Government Act 1995 and Regulation 54 of the Local Government (Financial Management) Regulations 1996 be continued.

Members indicated that clarification of the items which could be included in a security charge were necessary prior to the 2000/01 Budget.

**Swimming Pool Inspections**

**Background**

This fee is levied on owners of properties where there is a private swimming pool. It is levied to cover costs associated with inspections of private swimming pools once every four years. The current fee is \$9.00 per annum. This fee will attract GST effective 1 July 2000.

**Action**

No action was required on this matter.

**Self Funded Retirees**

**Background**

Self funded retirees do not receive any financial relief in relation to local government rates or charges. Members of the group considered that this ever growing sector of the community was disadvantaged compared with eligible pensioners who received a 50% rebate on their rates or were entitled to defer their rates against the property. The State Government funded the 50% rebate where pensioners selected that option or where pensioners selected the deferment option it (the State Government) paid interest on the deferred amount.

**Action**

The group considered that both the State and Federal Governments be lobbied to afford some relief to self funded retirees in relation to local government rating.

The group requested additional information be sought from other local governments, ie Busselton & Mandurah in relation to their experience with rating impacts on self funded retirees.

Both these local governments did not offer any form of rate relief to seniors or self funded retirees in excess of those benefits afforded to eligible pensioners.

## **Maximum Payments**

### **Background**

Section 6.47 of the Local Government Act 1995 provides for a local government to grant concessions in relation to a rate. This effectively means that should a local government consider it appropriate concessions may be offered to enable a maximum rate to be struck. The concessions granted would be required to be funded by increases in rates on other properties.

### **Action**

The group considered that if the City were to use this section of the Act to limit rates to a maximum payable then very sound reasons would be required to justify the decision. The group was of the firm view that it would not be to the benefit of the majority of ratepayers to impose such concessions nor were there sufficient compelling reasons to do so. Consequently, it was agreed not to recommend to Council that a maximum rate payment be determined.

## **Home Businesses**

The group discussed whether properties where a home business was undertaken should be rated at a higher rate in the \$.

### **Action**

Whilst the group considered that it might be equitable and fair to rate these properties at a higher rate it was agreed given that not all home businesses were registered it would be unfair at this point to impose such a rate. More consideration of this matter was required before a decision could be taken.

## **Longer Term Objectives**

## **Phasing in of Valuations**

The group recognised that the Local Government Act 1995 permitted the ability to phase in valuations on a revaluation year where, in the opinion of the local government, the valuation increase would have an adverse impact on the rates levied. It was further recognised that the “phasing” option if implemented would effectively redistribute the rate burden to “other” ratepayers and such a move would need to be justified as rates would rise for those “other” ratepayers.

Those who subscribe to the principle that property valuations should be the basis upon which the rates burden should be distributed believe that it is inappropriate and inequitable to phase in valuations over the three year period as other ratepayers bear a rate impost which, if the phasing option weren't invoked, rightly belongs to those ratepayers whose property valuations increased.

### **Action**

The group recommends to Council that at the next rating revaluation of GRV properties due in 2002/03, the then Council considers the option of phasing in of valuations for rating purposes.

### **Two Component Rating System**

The group was of the view that the system of distributing a local government's rate burden to the various properties relying solely on property valuations was inappropriate and inequitable. It was considered that as some local government services and facilities were provided for the overall benefit of all residents that in the interests of "fairness" and "appropriateness" that the rates distribution should be considered in the light of the following two principles:-

**Benefit Principle** - the extent to which those who receive the benefits of Council's services also pay for those services.

**Ability to Pay Principle** - the extent to which those who pay for Council's services have the ability to pay for those services.

It was recognised that a rate which was fair when judged by the **benefit principle** may not be fair according to the **ability to pay principle** and vice versa.

The group recognised that:-

1. In recent years the benefit principle has often been quoted as the main element in local government finance as increasing attention is devoted to user charges.
2. A rate based solely on the value of rateable property ignored the cost and value of common services and facilities from which all properties benefit regardless of their rateable value.
3. While valuations were used as an indication of a person's ability to pay however, many were "asset rich" and "income poor".

The group was of the firm view that local government rates should comprise of two elements:-

- a flat charge
- a variable charge



### **Flat Charge**

In forming this view the group believed that all ratepayers had equal access to Council facilities and services and therefore should contribute equally to the cost burden in providing these facilities. The fairest and most equitable way of sharing this was by way of a flat universally applied charge across all properties.

### **Variable Charge**

The group also considered that any rating system should have an inbuilt “capacity to pay” element which reflected an ability to pay. In local government this was reflected in the valuation system where higher valued properties had a higher valuation and consequently paid higher rates.

Research was undertaken in relation to the concept of the “Two Component Rating” system.

The group determined that this matter was the subject of a report in 1981 by a Committee chaired by the late Sir J A McCusker.

At that time the “McCusker Committee” recommended inter alia “that Shires be permitted to adopt a two-component system comprised of a fixed charge per assessment to cover identifiable ‘people’ services with the balance raised by a rate assessed on a single value base.”

It was also determined that the local government legislation in New South Wales, Victoria and South Australia permitted rating based on this concept. While not compulsory local governments in those States were given the flexibility to adopt such a scheme if considered appropriate. The flat charge element varied depending on the state’s legislation:-

New South Wales      up to 50% of the total rate burden could be raised via the flat “Municipal Charge”.

Victoria                      up to 20% of the total rate burden could be raised via the flat “Municipal Charge”.

South Australia          no % was set - it was left to the discretion of each local government.

The group believed that the concept of the “two component rating” system would allow local governments more autonomy in setting their rating framework. It considered it was a fairer and more equitable system of sharing the rate burden given that all ratepayers have equal access to municipal facilities and that an element of capacity to pay should be evident in any rating system.

### **Action**

The group sought comment from the Local Government Departments in other states relating to the rationale of imposing a flat municipal charge.

In broad principle the ability for local governments in New South Wales, Victoria and South Australia to adopt a rating system which relied on a combination of the benefit and ability to pay principles was considered appropriate and gave greater flexibility and options to the respective local governments. It provided the option to flatten the

incidence of rates across ratepayers and thus reduce the magnitude of variations in rate levies between different properties of varying rateable value.

Following considerable debate and discussion the group agreed to recommend to Council that both WAMA and the Local Government Department be lobbied to effect changes to the Local Government Act 1995 to permit local governments the flexibility of a “two component rating system” based on a combination of flat and variable components similar to that introduced in New South Wales, Victoria and South Australia.

The group recognised that to be successful in promoting this rating concept would require appropriate rate modelling to be undertaken. Appropriate resources would be required to progress this matter.

To familiarise itself on all rating matters the group undertook a programme of consultation, research and rate modelling.

### **Consultation**

The group afforded local ratepayers and community groups the opportunity to make submissions on what they believed was the most appropriate method of sharing the rate burden. While some 19 submissions were received they were very similar in their overall thrust. Consequently it was agreed that a deputation comprising Mr Ron de Gruchy, Mrs Jane Axford and Mr Bruno Menagola address the group.

This group’s focus was a “two component system” with an element of the total rate burden raised by way of a flat charge and the remaining by way of a variable rate based on valuation. The rationale for this concept and approach was:-

- it is fairer and more equitable
- it incorporates both the “user pay” and “capacity to pay” principles
- it recognises (in the flat component rating system) that all ratepayers have equal access to community services and facilities
- it has been embraced in other States.

### **Research**

Contact was made with the Local Government Departments in other states to ascertain their approach to rating and developments made.

The group also explored the opportunities to “fine tune” its current system of applying differential rating within its current rating framework.

Contact was also made with other local governments in Western Australia to ascertain their approach to the sharing of the rate burden.

## Rate Modelling

Numerous rate models were developed to assist the group in its deliberations.

The group recognised that the City's new property system 'Proclaim' was still in the developmental stage and the overall system capabilities were still being developed. As a consequence rate modelling will be an ongoing matter.

Flowing from the above the group formulated a series of recommendations for Council's consideration.

## RECOMMENDATION

- 1 That Council ADOPTS the following as 'guiding principles' for the 2000/01 rating year:-
  - (a) the 2000/01 rate in the \$ for commercial-improved rated properties be set at 100% of the residential rate in the \$;
  - (b)
    - (i) in accordance with the provisions of Section 6.33 of the Local Government Act 1995 a separate rating group be created for vacant land within each rating category; and
    - (ii) the 2000/01 rate in the \$ for residential and rural vacant land in the GRV sector be set at 115% of the improved residential and rural rate in the \$ with a minimum payment of \$500 with further increases to 130% in 2001/02 and to 145% in 2002/03 and seeks the Minister's approval regarding the imposition of the minimum payment pursuant to Section 6.35(5) of the Local Government Act 1995;
  - (c) the minimum payments (other than residential and rural vacant land) be increased in 2000/01 in line with movements in the CPI (Perth Index) at 31 March 2000;
  - (d) the principle of offering incentives for early rates payment in the form of
    - (i) prizes; and
    - (ii) discount of 5% of rates only
 be continued;
  - (e)
    - (i) the security charge be continued with funding to be via a universally applied charge as permitted by S6.38 of the Local Government Act 1995 and Regulation 54 of the Local Government (Financial Management) Regulations 1996; and
    - (ii) a submission be compiled to the Minister for Local Government, WAMA and the Local Government Department with a view to

**broadening the powers of the Act in relation to the expenditure of funds raised from the Security Charge.**

**2 that Council of the day considers the option of phasing in of valuations for the 2002/03 revaluation as permitted by Schedule 6.1 of the Local Government Act 1995.**

**3 That Council:-**

- (a) strongly encourages the State/Federal Governments to assist the ever growing numbers of self funded retirees with financial relief in regard to local government rates. Such assistance be in the form of a rate relief scheme along similar lines to the “eligible pensioner” entitlements and based on income and age testing;**
- (b) (i) advises both WAMA and the Department of Local Government that the City has a strong desire to effect changes to the Local Government Act 1995 to enable local governments in Western Australia the option and flexibility of implementing a two component rating system, which encompasses both a flat universally applied charge and a variable charge based on valuation, similar to that which is permitted in New South Wales, Victoria and South Australia; and**
  - (ii) allocates appropriate resources to enable rate modelling to be undertaken on a two component rating system which encompasses both a flat charge and a variable charge based on valuation; and**
- (c) establishes a Rates Working Group to meet on a regular quarterly basis to discuss rating matters with regular reporting to Council.**

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