

City of Joondalup

Rating Report

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1.0 Local Government Rating in Western Australia:

In Western Australia, the rating process is prescribed in the *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996*. Rates Charges for properties are calculated by the following formula:

$$\text{VALUATION} \times \text{RATE-IN-THE-DOLLAR}$$

1.1 Valuation:

The valuation for all land and property is determined independently by the Valuer General. The functions of the Valuer General are prescribed within the *Valuation of Land Act 1978* and the *Valuation of Land Regulations 1979*. Property valuations are calculated using either an Unimproved Value (UV) or a Gross Rental Value (GRV).

The UV is generally used only in rural and fringe urban areas and is calculated annually. It is determined on the basis that the land contains no improvements and is established by reference to the land market at the date of valuation.

Alternatively, the GRV refers to the gross annual rental that the land might reasonably be expected to raise if let on a tenancy from year to year. The GRV is determined triennially on the basis that the rental includes all outgoings, such as rates, taxes and insurance. For example, if a property is reasonably expected to raise \$300.00 per week, the GRV is calculated at \$15,600.00, (ie: \$300.00 x 52 weeks).

In cases where the annual rental cannot be reasonably determined, the GRV is the 'assessed value'. The 'assessed value' is a set percentage of capital value, (currently fixed by regulation at 5%). For example, vacant residential land, for which no rental value can be determined, is currently valued on the basis of 5% of its total capital value.

Under Section 6.28(2) of the *Local Government Act 1995*, local governments in Western Australia are required to use the UV for land that is used predominantly for rural purposes, and GRV for land that is used predominately for non-rural purposes. In the City of Joondalup, the UV is used as the basis for valuing properties in 6 particular cases, and the GRV is used as the basis of valuations for all other properties. This reflects the developed status of the City.

1.2 Rate-in-the-Dollar:

The rate-in-the-dollar, is set by individual local governments and is determined by the level of annual budget deficit. This deficit is established by subtracting all other predicted revenue sources from the total expenses required to operate the local government in the budget year. For example, if the total predicted revenue, (such as revenue from yearly fees, grants, subsidies, contributions), is \$1,000,000.00, and the total expenditure, (such as salary, materials, contracts and capital expenses), is

\$5,000,000.00, then the budget deficit will be \$4,000,000.00.

The rate-in-the-dollar is then established by dividing the budget deficit by the sum total of all property valuations provided by the Valuer General. For example, if property valuations for a local government total \$40,000,000.00, and the budget deficit is \$4,000,000.00, then the rate-in-the-dollar will be \$0.10, (ie: \$4,000,000.00 ÷ \$40,000,000.00). Therefore, a property that has a GRV of \$15,600.000, (ie: the property is reasonably expected to raise \$300.00 rent per week), will receive a Rates Charge of \$1,560.00, (ie: \$15,600.00 x \$0.10).

Section 6.32(1) of the *Local Government Act 1995* requires that local governments in Western Australia chose to rate either 'uniformly' or 'differentially'. A uniform rate-in-the-dollar is one that is applied to all ratepayers equally, whereas a differential rate-in-the-dollar is applied at a different level according to certain categories. Under Section 6.33(1), rating can be differentiated by:

- the purpose for which the land is zoned under the Local Planning Scheme;
- the predominant purpose for which the land is held or used, (as determined by the local government); and/or
- whether or not the land is vacant land.

In the Perth Metropolitan Area, the majority of local governments use a system of differential rating. Uniform rating however, is currently utilised by the Cities of Bassendean, Canning and Stirling, and the Towns of Cambridge, Claremont and Mosman Park.

In the City of Joondalup, rating is currently applied differentially. The differential rate-in-the-dollar is levied on all rateable land within the City according to the predominant purpose for which that land is being held or used, and whether or not the land has any improvements. Specifically, properties are categorised as either: 'Residential', covering all properties used for singular and multi-dwellings; 'Commercial', covering all properties used for business and commercial purposes; or 'Industrial', covering all properties engaged in light industrial and manufacturing activities. Properties are then further categorised as either 'Improved' or 'Vacant'. For 2008/09, the rate-in-the-dollar for both 'Commercial Vacant' and 'Industrial Vacant' was set relatively higher to encourage early development of holdings of undeveloped land which would otherwise reduce the amenity of the surrounding area.

► *The table below shows the City's differential rate-in-the-dollar for the 2008/09 period:*

	Number of Properties:	Rate-in-the-Dollar (\$):
<i>Gross Rental Value (GRV):</i>		
Residential Improved	43,469	\$0.054596
Residential Vacant	1,707	\$0.054596
Commercial Improved	1,000	\$0.063117
Commercial Vacant	15	\$0.109192
Industrial Improved	369	\$0.059362
Industrial Vacant	14	\$0.109192
<i>Unimproved Value (UV):</i>		
Residential	4	\$0.006400
Rural	2	\$0.006370

1.3 Minimum Payment:

A minimum payment can be set by local governments in accordance with Section 6.35 of the *Local Government Act 1995*. A minimum payment is invoked to ensure that *all* ratepayers contribute a base amount for the provision of services and facilities. In the City of Joondalup, the minimum payment for 2008/09 was set at \$593.00. Hence, for properties where the calculated Rates Charge totalled less than \$593.00 (ie: valuation x rate-in-the-dollar < \$593.00), the minimum payment has been applied.

1.4 Yearly Fees:

Yearly fees are additional to the Rates Charge. In the City of Joondalup, yearly fees are included in all individual Rate Notices, and can include:

- *Emergency Services Levy (ESL):*
 - This levy is a State-imposed charge which is collected by the City on behalf of the Fire and Emergency Services Authority of Western Australia (FESA). The ESL funds all career and volunteer fire brigades, volunteer State Emergency Service (SES) units and volunteer emergency service units throughout the State. All property owners in Western Australia pay a levy that is proportional to the level of emergency services available to them. Suburbs in the Perth Metropolitan Area are classified under ESL Category 1, (having access to 22 career Fire and Rescue Service stations and the SES). For 2008/09, all properties in the City of Joondalup were categorised under ESL Category 1, which (for residential properties) was set at \$0.0117 per GRV dollar and was capped at \$215.00.
- *Pool Fence Inspection Fee:*
 - This fee is charged to all property owners with swimming pools to cover the costs associated with inspecting the pool's barrier fence. Under Section 245A of the *Local Government (Miscellaneous Provisions) Act 1960*, the City is required to inspect swimming pools at least once every 4 years to ensure that the statutory requirements for swimming pool fencing are complied with, (as per Section 38B of the *Building Regulations 1989*). The *Local Government (Miscellaneous Provisions) Act 1960* allows for local governments to charge a standard fee to meet some of the estimated costs of carrying out this inspection. The City of Joondalup inspects swimming pool fences every 4 years and charges a quarter of the costs to pool owners each year. For 2008/09, the (annual) Pool Fence Inspection Fee was charged at \$13.75.
- *Refuse Charge:*
 - This charge is levied to property owners to cover the costs associated with the weekly emptying of the 240L green bin, the fortnightly recycling bin service, and the nine-monthly bulk verge collection. Under Sections 105 and 106 of the *Health Act 1911*, local governments are required to supply residential properties with an appropriate receptacle for the disposal of rubbish and can levy owners for the removal of the refuse. In the City of

Joondalup, properties are supplied with one 240L green bin, and one recycling bin and are charged for any additional bins. For 2008/09, the Refuse Charge was set at \$240.00 per household, and the provision of any additional bins was charged at \$50.60.

- **Specified Area Rate:**
 - This rate-in-the-dollar is imposed on property owners in a specified area for the purpose of meeting the cost of work, services or facilities provided only to that area. Under Section 6.37 of the *Local Government Act 1995*, Specified Area Rates can only be used for the purpose for which they are collected. Should any amount in a given year not be spent, the balance must be transferred to a Reserve for future years or be refunded to ratepayers, upon request. In the City of Joondalup, property owners in Iluka, Woodvale Waters and Harbour Rise are charged a Specified Area Rate to cover the costs of additional landscaping services. For 2008/09, the Specified Area Rate for Iluka was \$0.001566; for Harbour Rise, \$0.003076; and for Woodvale Waters, \$0.019285.

2.0 Factors Affecting Rates Charges:

An increase or decrease in the Rates Charge for an individual property is linked directly to changes in the variables that comprise the formula from which the Rates Charge is calculated. Namely, the valuation and the rate-in-the-dollar. Therefore, the Rates Charge for an individual property may increase (or decrease) if:

- the property has been valued by the Valuer General and has significantly increased (or decreased) from the previous valuation; and/or
- the local government has changed the rate-in-the-dollar due to an increased (or decreased) budget deficit.

2.1 Change in Valuation:

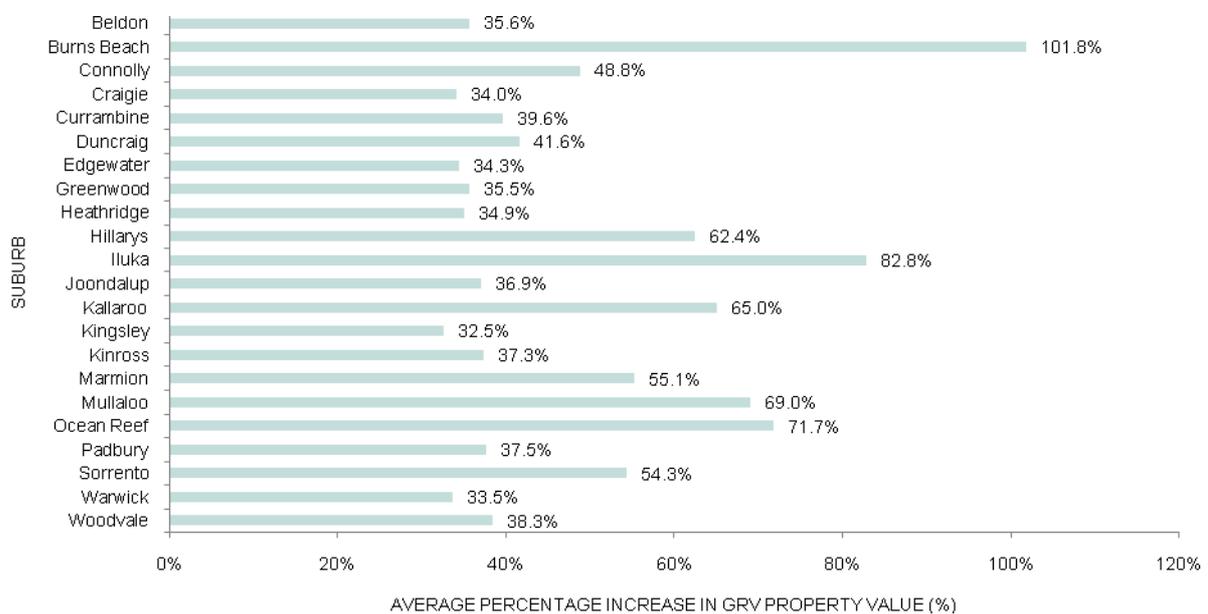
In general, property values in the Perth Metropolitan Area closely follow market fluctuations and triennial property valuations reflect this. Over a three-year period, there are generally areas that rise in value significantly more than others. This can be due to various factors, such as improved infrastructure, improved transport networks, gentrification, improved landscaping, and/or the establishment of new housing developments.

Properties that have increased in value more than the average, or have decreased less than the average (if the market has experienced a downturn), will likely encounter an increase in their Rates Charge. However, properties that have increased in value less than the average, or have decreased more than the average, will likely experience a decrease. Specifically, properties with a higher value will pay a greater *proportion* of the rates burden than properties with a lower value. Increasing (or decreasing) property values therefore only allow for the *redistribution* of rates paid between individual properties – some ratepayers will pay more and

some will pay less.

In the City of Joondalup, properties were subject to this triennial valuation in 2008/09. As a result, certain suburbs in the City were found to have significantly increased in value over the past 3 years, resulting, on average, in higher Rates Charges. Notably, the coastal suburbs of Hillarys, Kallaroo, Mullaloo, Ocean Reef, Iluka and Burns Beach were most affected.

- *The chart below shows the average percentage increase in GRV property values after the triennial re-valuation for each suburb in the City of Joondalup (2005/06-2008/09):*



Property owners who are dissatisfied with the valuation of their property are able to formally lodge an objection to the Valuer General. Under the *Valuation of Land Act 1978*, objections can be made on the grounds that the valuation is unfair, unjust, inequitable or incorrect (whether by itself or in comparison with other valuations in force). Further, if property owners are dissatisfied with the outcome from the Valuer General, the decision can be referred to the State Administrative Tribunal (SAT) for review.

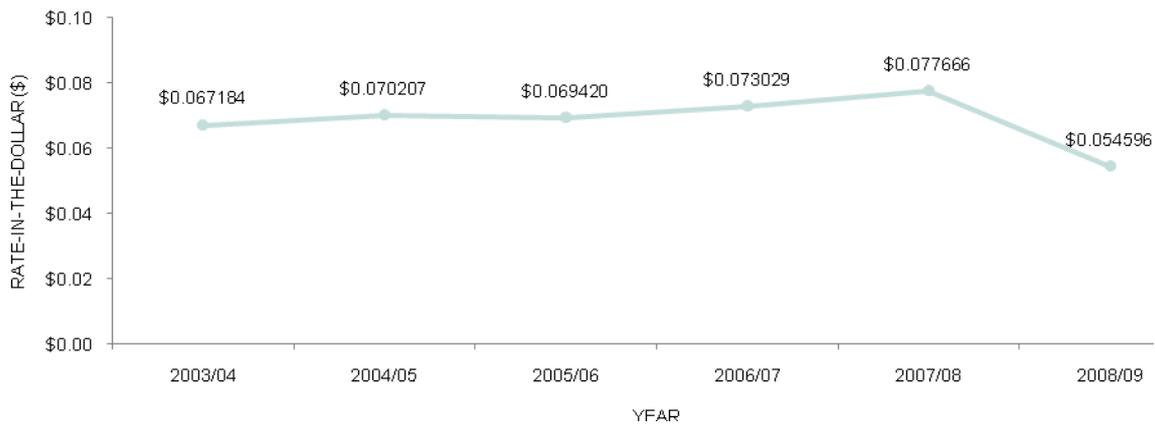
2.2 Change in Rate-in-the-Dollar:

As previously indicated, local government annual budgets are established independently from property valuations and are pre-determined to meet expenditure requirements. The rate-in-the-dollar is then ascertained by dividing the annual budget deficit by the sum total of all property valuations provided by the Valuer General. A change in the rate-in-the-dollar can therefore occur if either the annual budget requirements change or the sum total of property valuations change (or both).

In the City of Joondalup, the rate-in-the-dollar decreased from \$0.077666 in 2007/08 to \$0.054596 for 2008/09 as result of a significant increase in the sum total of

property valuations. As a result, those properties with proportionately high increases in value experienced, on average, an increased Rates Charge, and those properties with proportionately low increases in value experienced, on average, a decreased Rates Charge (or remained constant). The chart below shows that the City's Residential GRV rate-in-the-dollar from 2003/04 to 2008/09 has not increased in a linear fashion.

- ▶ *The chart below shows the change in the City's Residential GRV rate-in-the-dollar over a six-year period (2003/04-2008/09):*



As a result of the decreased rate-in-the-dollar, in 2008/09, the suburbs of Beldon, Craigie, Currambine, Edgewater, Greenwood, Heathridge, Joondalup, Kingsley, Padbury, Warwick and Woodvale have, on average, experienced a decreased Rates Charge, even though property values have, on average, increased in these suburbs.

- ▶ *The chart below shows the average increase in the Rates Charge for residential properties for each suburb in the City of Joondalup (2007/08-2008/09):*



3.0 Comparison of Rates Charges across Local Governments in Western Australia:

The Rates Charges of individual local governments depend fundamentally upon the level of services they provide. Local governments around Western Australia review programs and services annually to reconcile them both with community expectations and available sources of revenue.

Different local governments across Western Australia charge rates at different levels depending upon a variety of factors. Some of these factors include:

- *Alternative sources of revenue:*
 - The total rates revenue to be raised by a local government is determined by their annual budget deficit and is based upon the services they provide. On average, metropolitan local governments in Western Australia raise approximately half of their total revenue through Rates Charges. If a greater level of revenue can be raised through alternative sources, less revenue is required to be raised through Rates Charges. Local governments with substantial alternative sources of revenue, such as income from parking, landfill services, boating facilities, or sporting or recreational facilities, can often rate at a lower level, as the remaining revenue required is a lesser amount.
- *Purpose for which land is used*
 - Using a differential rating system, non-residential properties are often charged at a much higher rate than residential properties, due to their greater capacity to yield income and the specialised services such areas require. Consequently, local governments with proportionately large industrial or commercial zones under differential rating, often have much lower residential Rates Charges than local governments that are mostly residential.
- *Number of properties:*
 - The number of properties within a local government can greatly impact upon the level of revenue it requires. For example, local governments with low average density, (ie: large block sizes), will have less properties and hence the rate burden will be spread across a lesser number of ratepayers. Conversely, local governments with high average density, (ie: small block sizes or apartment blocks), will be able to spread the rate burden across a greater number of ratepayers. As populations are not distributed equally over different local government areas, the level of services required and the contribution individual ratepayers are required to make, can differ greatly.
- *Population demographics:*
 - The population demographics of a local government can greatly impact upon the types of services that the local government provides, and hence upon average Rates Charges. The provision of community and social

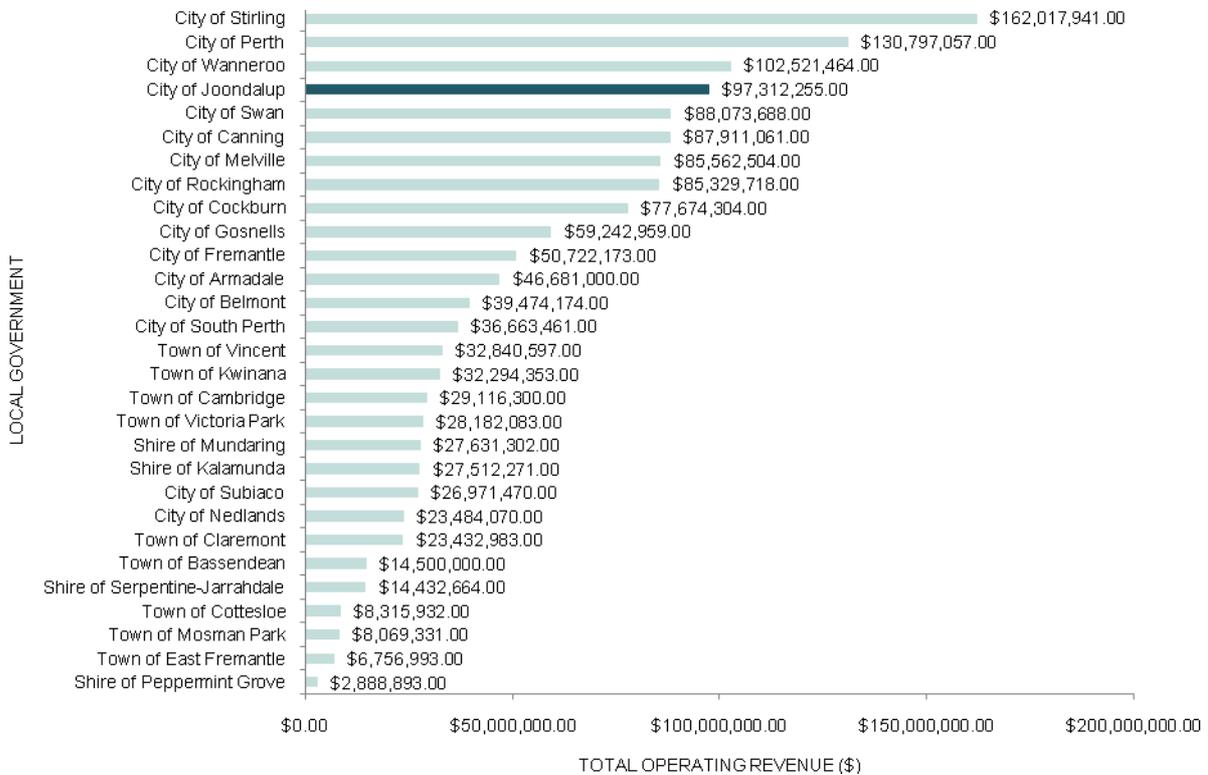
services varies significantly from one local government to the next, depending upon the expectations of the community and the various demographic population requirements. Groups such as Seniors, Pensioners, children, refugees and immigrants, are stereotypically very high users of a diverse range of local government services. Further, groups such as Seniors, Pensioners and children, are frequently low, or negligible contributors to the revenue of local government.

- *New development:*

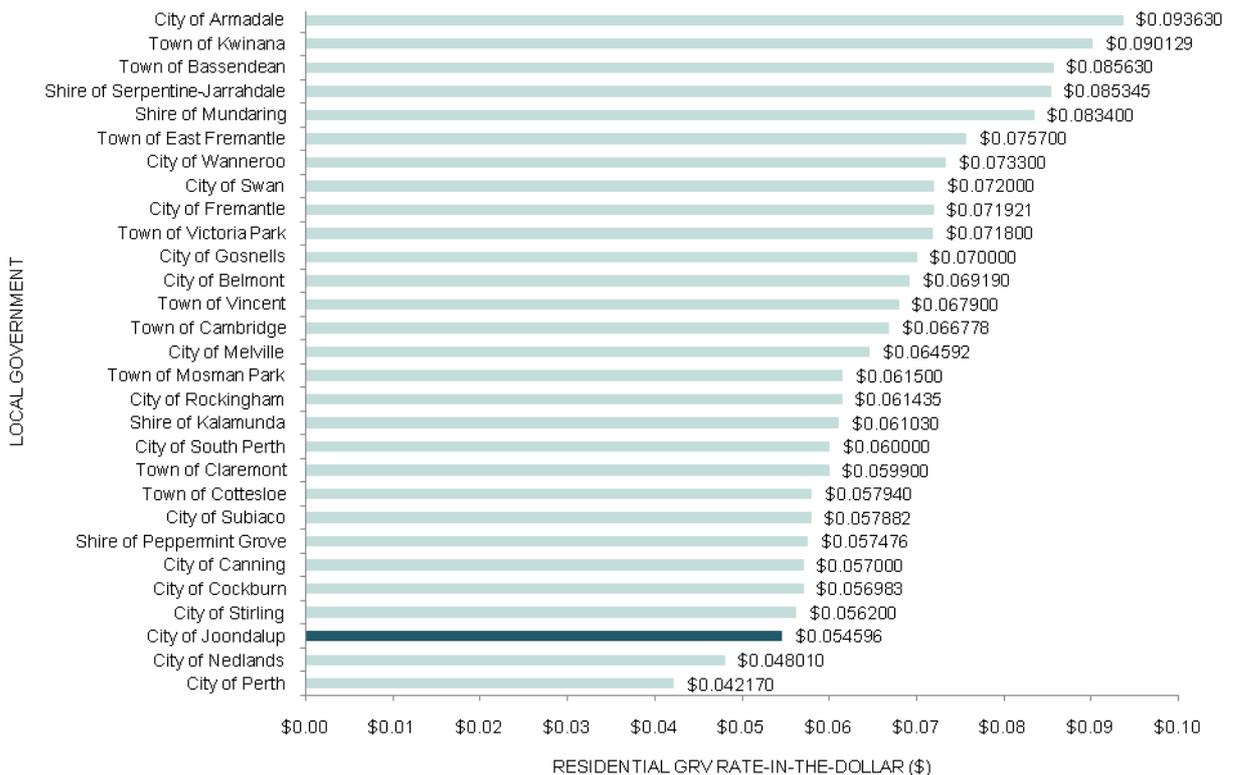
- Local government areas that contain new property developments often require a much higher level of services than more established areas. In particular, local governments with recent, large-scale developments will often experience rapid population growth and require additional infrastructure and services. Compared to local governments in older or more established areas, those with new developments will often need to charge a higher level of rates in order to yield a higher level of revenue to cover these additional services and infrastructure projects.

The following charts utilise data from the respective local governments' 2008/09 Annual Budgets to provide a comparison of Rates Charges and revenue across the Perth Metropolitan Area, (nb: data from omitted local governments was unavailable for this report). In cases where the respective local government charges residential rates differentially, the 'Residential Improved' values have been used. . It should be noted that such comparisons are often difficult as local governments determine these numbers in different ways. For instance, certain fees and charges can be included in the Rates Charge, such as fees for refuse collection, security services, or the provision of underground power. Therefore, the inclusion (or exclusion) of such fees and charges, in addition to the factors mentioned above, should be taken into consideration in analysing these charts.

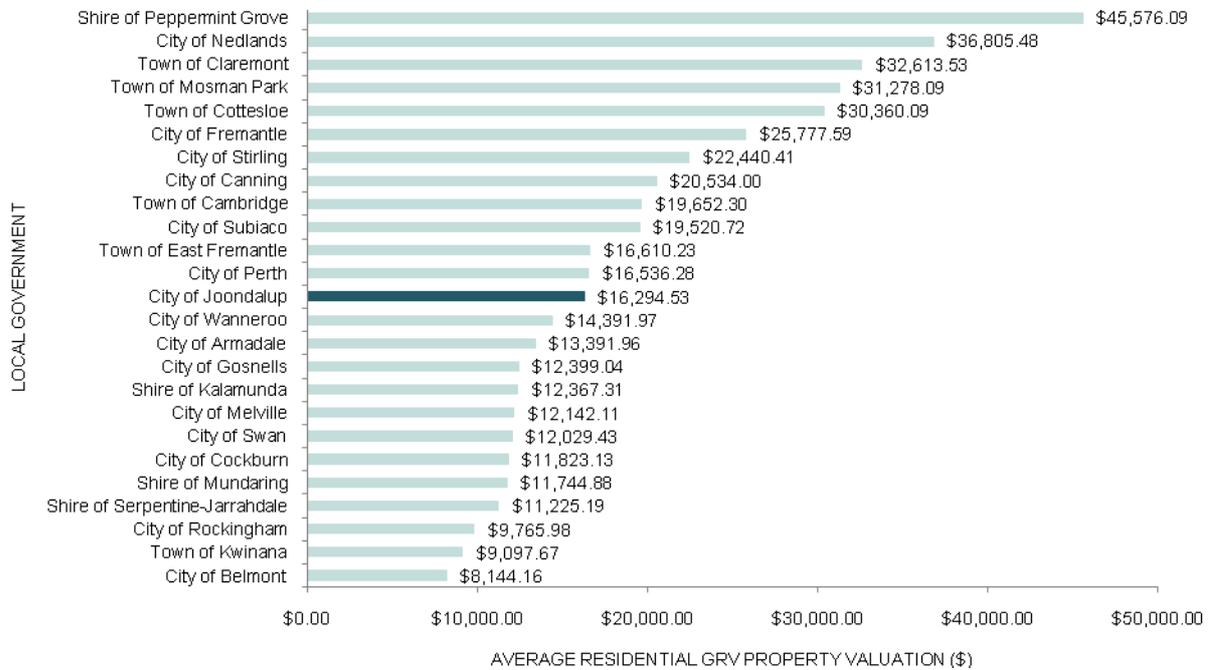
► The chart below shows the total operating revenue for local governments in the Perth Metropolitan Area:



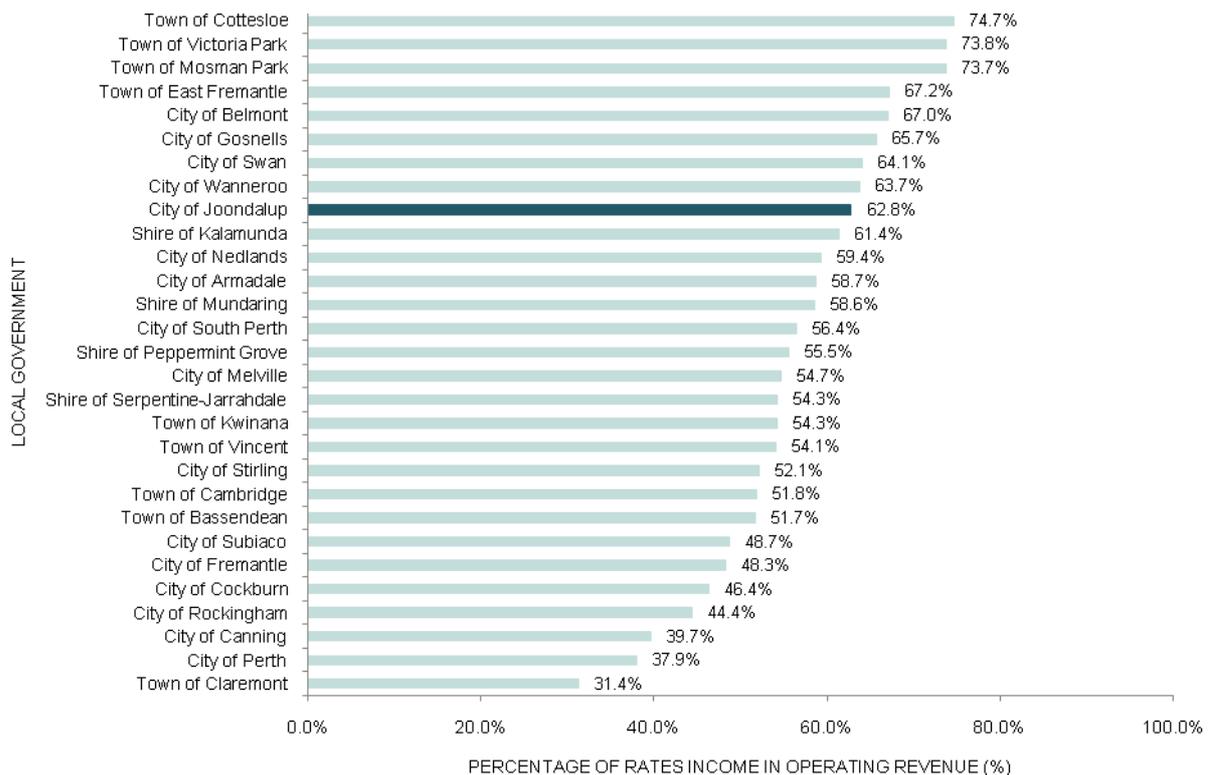
► The chart below shows the Residential GRV rate-in-the-dollar for local governments in the Perth Metropolitan Area:



- The chart below shows the average Residential GRV property valuation (GRV rateable value ÷ number of properties) for local governments in the Perth Metropolitan Area:



- The chart below shows the projected income from Rates Charges as a percentage of total operating revenue for local governments in the Perth Metropolitan Area:



- ▶ The chart below shows the average Residential Rates Charge ((GRV rateable value ÷ number of properties) x rate-in-the-dollar) for local governments in the Perth Metropolitan Area:



4.0 Provisions Available for Low-Income Ratepayers:

Under the current system, Seniors and Pensioners in Western Australia are eligible for significant deductions in their Rates Charges under the *Rates and Charges (Rebates and Deferments) Act 1992*.

4.1 Eligibility:

Property owners holding either a Western Australian Seniors Card (SC), a Commonwealth Seniors Health Card (CSHS), a Pensioner Concession Card (PCC) or a State Concession Card (SCC) are entitled to either a *rebate on*, or a *deferral of* their local government Rates Charges, annual water service charges and Emergency Services Levy, (nb: the rebate cannot be applied to the Pool Fence Inspection Fee or Refuse Charge).

A rebate of either 25% or 50% can be obtained (see below), provided the ratepayer makes payment of their portion of the Rates Charge by 30 June of that financial year. A deferral option is also available where the deferred charges remain as a debt on the property. The deferred charges are not required to be paid until the entitlement to defer ceases or the property is disposed. These charges are interest-free and can be paid at any time, but a concession cannot be applied in addition to the deferral. The following concessions are available to cardholders in Western Australia:

- **WA Seniors Card (SC):**
 - entitled to receive up to a 25% rebate on local government Rates Charges, annual water service charges and the Emergency Services Levy;
 - rebate is limited to a maximum amount; and
 - deferment option is not available.

- **WA Seniors Card (SC) and Commonwealth Seniors Health Card (CSHC):**
 - entitled to receive up to a 50% rebate on local government Rates Charges, annual water service charges and the Emergency Services Levy; and
 - may be entitled to defer charges.

- **Pensioner Concession Card (PCC) or State Concession Card (SCC):**
 - entitled to receive up to a 50% rebate on local government Rates Charges, annual water service charges and the Emergency Services Levy;
 - may be entitled to defer charges; and
 - entitled to receive a rebate on water usage charges (a capped maximum amount applies each year).

In the City of Joondalup, there are currently 11,792 ratepayers claiming either the Senior or Pensioner rebate/deferment (18.3% of all residential properties). The highest number of Pensioner/Senior properties is located in the suburb of Duncraig (1,272), and the highest proportion per suburb is located in Warwick (28.1%).

► *The table below shows the number of Pensioner/Senior Residential properties in each suburb as a percentage of total Residential properties:*

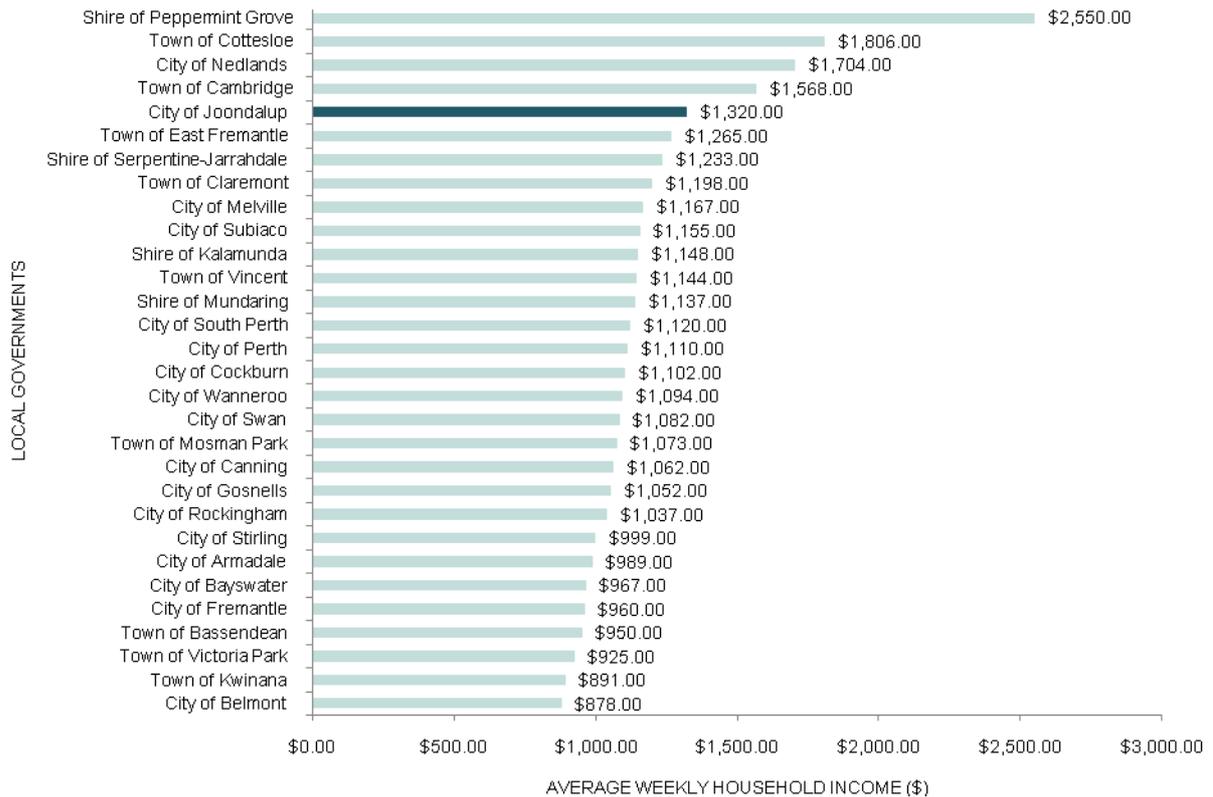
Suburb	No. Pensioner/Senior Residential Properties:	Percentage per Suburb (%)	Percentage per City (%)
Beldon	313	17.8%	0.5%
Burns Beach	37	4.3%	0.1%
Connolly	260	17.4%	0.4%
Craigie	524	19.5%	0.8%
Currambine	327	13.0%	0.5%
Duncraig	1272	21.0%	2.0%
Edgewater	369	18.8%	0.6%
Greenwood	907	21.4%	1.4%
Heathridge	477	15.7%	0.7%
Hillarys	816	17.4%	1.3%
Iluka	138	8.9%	0.2%
Joondalup	486	10.2%	0.8%
Kallaroo	545	25.0%	0.8%
Kingsley	1027	19.6%	1.6%
Kinross	320	12.3%	0.5%
Marmion	245	24.5%	0.4%
Mullaloo	448	18.2%	0.7%
Ocean Reef	582	18.5%	0.9%
Padbury	764	20.5%	1.2%
Sorrento	796	23.7%	1.2%
Warwick	455	28.1%	0.7%
Woodvale	684	19.1%	1.1%

4.2 Levels of Wealth

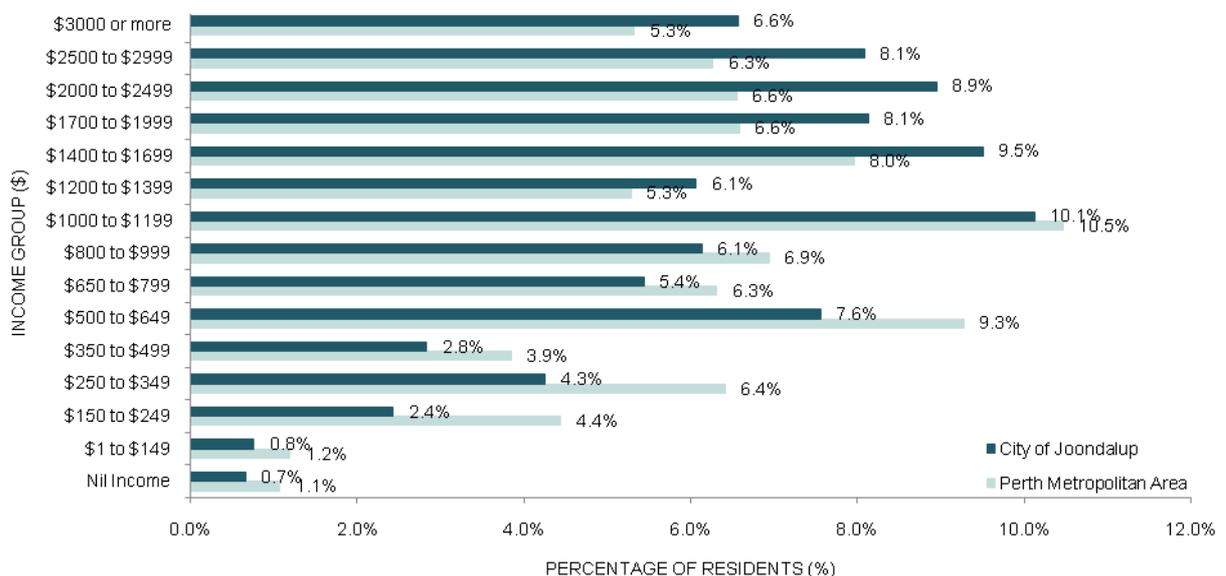
A ratepayer’s level of wealth has significant implications on their ability to pay Rates Charges. The charts below utilise data from the 2006 Australian Bureau of Statistics

(ABS) *Census of Population and Housing* to examine the level of wealth within the City of Joondalup compared to the wider Perth Metropolitan Area. (nb: the *Census* is based on 'place of residence', therefore the data includes those living in rental or State housing as well as owner/occupiers).

- ▶ *The chart below shows the average weekly household income for residents across all local governments located in the Perth Metropolitan Area:*



- ▶ *The chart below shows the number of residents in the City of Joondalup in each weekly household income group in comparison with the Perth Metropolitan Area:*



► The chart below shows the average weekly household income for residents in each suburb in the City of Joondalup:



As is evident from these charts, the average weekly household income of residents in the City of Joondalup is relatively high. Further, according to the 2006 ABS *Index of Relative Socio-Economic Disadvantage* (SEIFA Index), the City is located in the 10th decile, which denotes the least disadvantaged. The City is ranked 646 out of 666 local governments in Australia and is ranked 137 out of 142 local governments in Western Australia. In relation to household income, the City of Joondalup has the twelfth highest average weekly household income out of 142 local governments in Western Australia, and is the fifth highest out of 30 local governments in the Perth Metropolitan Area.

5.0 Alternative Rating Methods:

This section of the report examines the principles behind rating methods as well as the advantages and disadvantages of a range of alternative methods of rating to the one currently legislated under the *Local Government Act 1995*. Each method aims to address the issues of fairness and equity in distributing the rate burden across the ratepayer population.

A rating system is essentially a tax on land and the different rating methods examined in this section reveal a number of opposing views. These methods reveal that philosophical notions of ‘fairness’ and ‘equity’ can be contentious and are frequently influenced by contradictory moral, ethical and political beliefs. The philosophies underpinning these alternative methods of rating can be broadly grouped into three fairness and equity principles detailed below:

- **Benefit Principle:**
 - The 'benefit' or 'user-pay principle' requires that ratepayers be charged in proportion to the *benefit they receive* from local government services, or the *extent to which they make use* of those services.
- **Ability-to-Pay Principle:**
 - The 'ability-to-pay' or the 'capacity-to-pay principle' entails that ratepayers should be charged in proportion to their *ability to afford* local government services.
- **Equal-Distribution Principle:**
 - The 'equal-distribution principle' requires that all ratepayers should be charged *equally* for local government services as they all have equal access to those services.

These fairness and equity principles are realised to a greater or lesser extent in all methods of local government rating. In the City of Joondalup, Rates Charges are calculated primarily from property valuations, a method which embodies the ability-to-pay principle. However, the benefit principle and the equal distribution principle are also utilised in forms of fees, such as the Pool Fence Inspection Fee (benefit) and the Refuse Charge (equal distribution).

All methods of local government rating strive to be fair and equitable, although the philosophies behind them can be widely divergent. The following options have been provided, so that the current method of rating used by the City of Joondalup may be critically considered and compared.

5.1 Including Yearly Fees in the Rates Charge:

Currently in the City of Joondalup, yearly fees, such as the Refuse Charge and the Pool Fence Inspection Fee, are charged separately from the Rates Charge. A rebate or a deferment is available for Seniors and Pensioners under the *Rates and Charges (Rebates and Deferments) Act 1992*. However, this rebate or deferment can only be applied to the local government Rates Charge, annual water service charges and the Emergency Services Levy. Other yearly fees, including the Refuse Charge must be paid in full.

Within the constraints of the existing legislation it is possible to include one or more of these fees in the Rates Charge. In particular, the Refuse Charge, (which is levied to all property owners), could be included. The inclusion of the refuse/waste collection fee in the Rates Charge is currently in place in several Metropolitan local governments including the Towns of Claremont, Cottesloe, East Fremantle, Mosman Park, Victoria Park, Vincent and the Shire of Peppermint Grove.

- **Advantages:**
 - Seniors and Pensioners, (who hold a concession card), would be charged significantly less on their Rate Notice (or would be able to defer a larger portion).
 - Including yearly fees in the Rates Charge continues to utilise the current

system of property valuations based on the GRV. The GRV is derived from the income that could be raised if the property were offered for lease and therefore has some relation to the ability of the ratepayer to pay.

- Scope already exists for this system of rating within current Western Australian legislation and it would not be necessary for the City to seek a legislative amendment, a process which can be protracted.
- *Disadvantages:*
 - The rebate or deferment that is currently available for Seniors and Pensioners would only be available to holders of a Commonwealth Seniors Health Card (CSHS), a Pensioner Concession Card (PCC) or a State Concession Card (SCC). Any discount would not benefit any low- or single-income households who are not eligible for such a concession.
 - This system of rating continues to utilise the current system of property valuations based on the GRV. Such valuations can potentially experience significant triennial increases which could have a considerable financial impact on low-income ratepayers (particularly those who do not hold a concession card). The GRV also only takes into account the ability of the ratepayer to pay in relation to their capacity to produce an income off the property. It does not take into account other forms of wealth (such as salary or wage income).
 - In order to generate the income required to be raised from Rates Charges, a portion of the rate burden would likely be distributed to other ratepayers, (ie: while some ratepayers would be charged less, other ratepayers would be charged proportionately more).

Ultimately, decision in relation to this method of rating is a philosophical one. For many local government services, such as the provision of roads, it is impossible to charge ratepayers directly for their usage. For services such as refuse collection however, it *is* possible as each ratepayer is charged for a service that is carried out in an identical manner. If the City were to include the Refuse Charge in the Rates Charge, properties with different valuations would be charged at different levels for exactly the same waste collection service.

5.2 Rate-Capping

The term 'rate-capping' or 'rate-pegging' refers to the imposition of a ceiling or allowable limit on a percentage rate increase from year to year. A cap can be applied either to a local government's budgeted revenue or to the levied rate-in-the-dollar itself. Presuming the cap is low, rate-capping can be effective in protecting ratepayers from significant increases in their Rates Charges.

In Australia, rate-capping is only imposed upon local governments in New South Wales, where it has been in use since 1977. The New South Wales Government enforces a percentage limit by which all local governments may increase their total income derived from Rates Charges. The rate-capping percentage is set each year by the Minister for Local Government, which, in 2008/09, was set at 3.2%.

A similar system exists in Queensland, where local governments can choose to cap the levied Rates Charges by a stated percentage. Queensland differs from New South Wales however, in that the limit is not imposed upon Councils by the State Government, enabling Queensland local governments to retain greater autonomy in their financial decision-making. Within the constraints of existing legislation, the City of Joondalup could self-impose a rate-capping limit, similar to local governments in Queensland. However, if the City aspired to a system similar to that in New South Wales, some amendment to existing legislation would need to be sought.

- *Advantages:*

- *State-Imposed (eg: NSW):*

- Under a rate-capping system, ratepayers would be protected from significant increases in Rates Charges that result from triennial property valuations (presuming the rate-cap were low).
 - Under the *Rates and Charges (Rebates and Deferments) Act 1992*, the rebate or deferment that is currently available for Seniors and Pensioners, (who hold a concession card), could still be applied to this method of rating.
 - This method of rating continues to utilise the current system of property valuations based on the GRV. The GRV is derived from the income that could be raised if the property were offered for lease and therefore has some relation to the ability of the ratepayer to pay.

- *Self-Imposed (eg: QLD):*

- As above
 - Scope already exists within current Western Australian legislation for the self-imposition of a rate-cap and it would not be necessary for the City to seek a legislative amendment, a process which can be protracted.

- *Disadvantages:*

- *State-Imposed (eg: NSW):*

- A rate-capping system administered by the State Government could severely diminish the autonomy of local government, particularly in financial decision-making.
 - A blanket rate-capping limit imposed by State Government would not take into account regional variations in price movements, (such as between metropolitan and rural areas).
 - A rate-capping limit imposed upon local governments could be vulnerable to the political expedience of State Government.
 - Under a State-imposed rate-capping system, the overall income from Rates Charges could be considerably lower and could severely restrict a local government's purchasing decisions. In particular, if the initial (pre-cap) rating level is not high enough when the rate-cap is imposed, then the City could struggle to adequately provide services and infrastructure to residents if the population continued to grow, (or if the population changed significantly in composition).
 - In order to generate the income required to be raised from Rates Charges, a portion of the rate burden would likely be distributed to other ratepayers, (ie: while some ratepayers would be charged less, other ratepayers would be charged proportionately more).
 - A State-imposed rate-capping system does not currently exist within

Western Australian legislation and it would be necessary for the City to seek a legislative amendment, a process which can be protracted.

Self-Imposed (eg: QLD):

- A self-imposed rate-capping limit would be set by the City and not by a third-party. As such, it would be largely meaningless as it would likely be based upon the City's proposed Annual Budget.
- In order to generate the income required to be raised from Rates Charges, a portion of the rate burden would likely be distributed to other ratepayers, (ie: while some ratepayers would be charged less, other ratepayers would be charged proportionately more).

Rate-capping would not alter the underlying method of rating which is based on GRV property valuations. As such, it does not represent a significant philosophical break from the current method of rating used in Western Australia. Notwithstanding, the potential implications of rate-capping are far-reaching and could represent considerable loss of decision-making autonomy for local government. It should be noted that rate-capping is considered to be an extremely limiting method of rating, with local governments in New South Wales having been actively calling for its abolition for several years.

5.3 Two-Component Rating:

This method of rating includes two components, a flat charge and a variable charge. The flat charge is paid by all ratepayers, (regardless of the value their property), and ensures that everyone who has access to Council facilities and services contributes equally to their cost. The variable charge is usually based on the property valuation and is charged either uniformly or differentially. Local governments that choose to apply two-component rating often consider issues of equity and fairness. Hence, the variable charge is frequently based upon the extent to which ratepayers receive the benefit of Council services and/or the extent to which they have the ability to pay for those services.

A number of States and Territories in Australia currently have the capacity to implement a form of two-component rating, including New South Wales, Victoria, South Australia and the Northern Territory. In Western Australia, the *Local Government Act 1995* does not provide for the implementation of two-component rating. If the City wished to proceed with such a rating system, some amendment to existing legislation would need to be sought.

- *Advantages:*

- Under a two-component rating system, all ratepayers would contribute equally via a flat-rate charge for Council facilities and services that they have equal access to, regardless of the value of their land.
- The financial impact of Rates Charges on low-users of Council facilities and services could be lessened if the 'benefit' principle were applied.
- The financial impact of Rates Charges on low-income ratepayers could be lessened if the 'ability-to-pay' principle were applied.

- *Disadvantages:*
 - Determining the extent to which a ratepayer receives the benefits of Council services and the extent to which they have the ability to pay for those services could be difficult to assess (and possibly contentious) as these principles are often not mutually exclusive, (ie: a ratepayer may be a high user of Council services, but have a little ability to pay for those services, or a ratepayer may be a low-user, but have a substantial ability to pay).
 - This method of rating would be more expensive to implement and administer than the current system, a cost which would likely be passed on to ratepayers.
 - In order to generate the income required to be raised from Rates Charges, a portion of the rate burden would likely be distributed to other ratepayers, (ie: while some ratepayers would be charged less, other ratepayers would be charged proportionately more).
 - Scope to apply this system of rating does not exist within current Western Australian legislation and it would be necessary for the City to seek a legislative amendment, a process which can be protracted.

As an alternative method of rating, the two-component system has the potential to provide some relief to ratepayers who have either a low-income or are low-users of local government services. Difficulties could easily arise however, in establishing the levels to which these principles should be applied in determining Rates Charges. In Western Australia, use of a flat charge exists in the form of the Refuse Charge and Pool Fence Inspection Fee as well as for other services, such as fees for leisure services and building hire. The minimum payment can also be considered a type of flat charge, as all ratepayers are obligated to make this minimum contribution, regardless of the value of their property. Few local government services however, are provided in the same manner and it is likely that a two-component system would have the effect of redistributing the rate burden from properties of high value to those of low value.

5.4 Charging a Flat-Rate:

A flat-rate charge is similar to one element of two-component rating in that it recognises that all ratepayers should contribute equally towards the Council facilities and services that they have equal access to. This form of rating however, does not support either the 'ability-to-pay' principle or the 'benefit' principle, with all ratepayers being charged a universal flat-rate.

In Australia, this system of rating is only allowable in the Northern Territory in 'Community Government Councils' (non-metropolitan areas). These Councils can charge either a flat 'per parcel' rate to all properties, or differentially within 'zones' (eg: Residential, Commercial, Industrial etc.). Within the constraints of existing Western Australian legislation it is not possible to charge a flat-rate to property owners. If the City wished to proceed with such a method of rating, some amendment to existing legislation would need to be sought.

- **Advantages:**
 - Ratepayers in areas of high property values, could pay substantially less if a flat-rate system of rating were implemented.
 - A flat-rate charge would be simpler for ratepayers to understand.
 - This method of rating would be less complicated for the City to administer than the current system, as property valuations would not need to be performed.
 - Under a flat-rate system of rating, any increases in Rates Charges would be shared equally, as all ratepayers would be charged at the same level.
 - Under the *Rates and Charges (Rebates and Deferments) Act 1992*, the rebate or deferment that is currently available for Seniors and Pensioners, (who hold a concession card), could still be applied to this method of rating.

- **Disadvantages:**
 - Ratepayers in areas of low property values, could pay substantially more if a flat-rate system of rating were implemented.
 - A flat-rate system of rating does not take into account the extent to which a ratepayer receives the benefit of Council services, nor their ability to pay for such services, (eg: the owner of a small, suburban apartment would pay the same as the owner of a large, ocean-front house).
 - In order to generate the income required to be raised from Rates Charges, a portion of the rate burden would likely be distributed to other ratepayers, (ie: while some ratepayers would be charged less, other ratepayers would be charged proportionately more).
 - Scope to apply this system of rating does not exist within current Western Australian legislation and it would be necessary for the City to seek a legislative amendment, a process which can be protracted.

Charging a flat-rate to all ratepayers signifies a complete shift in philosophy. In order to implement such a vastly different method of local government rating, considerable changes would need to be made to State legislation.

5.5 Conducting Annual Property Valuations:

The frequency of property valuations could have a significant impact on Rates Charges, especially in areas where property values are rising (or falling) by a considerable amount. In Western Australia, the GRV, used mainly in metropolitan regions, is evaluated triennially, and the UV, used mainly in rural regions, is evaluated annually.

The income to be derived from Rates Charges is determined by a local government's annual budget and remains the same, regardless of property valuations. Hence, properties that have increased proportionately more over the 3 year period since the last valuation will carry a significantly larger portion of the rate burden than in the preceding year. If property valuations were to be carried out annually, instead of triennially, significant rises in Rates Charges would occur to a much lesser extent. The *impact* of increases therefore would be lessened, as Rates Charges would increase in smaller, yearly increments, instead of remaining the same for 3 years and

then potentially increasing by a large amount.

Across Australia, differences in valuation methods have resulted in a variety of valuation time-frames. In South Australia, property values are ascertained every 5 years, in the Northern Territory, every 3 years, in Tasmania, every 7 years, in Victoria every 1-2 years, and in New South Wales, Queensland and the Australian Capital Territory, every year. Under Section 25 of the Western Australian *Valuation of Land Act 1978*, local governments can request supplementary valuations within the triennial period. However, this would invoke a significant charge to the City which would likely be passed on to ratepayers. If the City wished to proceed with yearly valuations as standard, it is likely that some amendment to existing legislation would need to be sought.

- **Advantages:**

- Valuing properties annually could lessen the impact of significant increases in Rates Charges, as property valuations in areas of increasing value would increase in smaller, yearly increments.
- Ratepayers in areas of decreasing property values, or areas where property values have increased the least, could pay substantially less over a 3 year period if their proportion of the rate burden decreased annually (instead of triennially).
- Under the *Rates and Charges (Rebates and Deferments) Act 1992*, the rebate or deferment that is currently available for Seniors and Pensioners, (who hold a concession card), could still be applied to this method of rating.
- Valuing properties annually continues to utilise the current system of property valuations based on the GRV. The GRV is derived from the income that could be raised if the property were offered for lease and therefore has some relation to the ability of the ratepayer to pay.

- **Disadvantages:**

- Ratepayers in areas of increasing property values, or areas where property values have increased the most, could pay substantially more over a 3 year period if their proportion of the rate burden increased annually (instead of triennially).
- Valuing properties annually continues to utilise the current system of property valuations based on the GRV which only takes into account the ability of the ratepayer to pay in relation to their capacity to produce an income off the property. It does not take into account other forms of wealth (such as salary or wage income).
- This method of rating would be more expensive to implement and administer than the current method, a cost which would likely be passed on to ratepayers.
- In order to generate the income required to be raised from Rates Charges, a portion of the rate burden would likely be distributed to other ratepayers, (ie: while some ratepayers would be charged less, other ratepayers would be charged proportionately more).
- Scope to apply this system of rating only partially exists within current Western Australian legislation and it would be necessary for the City to seek a legislative amendment, a process which can be protracted.

As an alternative to the current method of rating, conducting property valuations annually (instead of triennially) does not represent a dramatic shift in philosophy as the basis for valuing properties (GRV), remains the same. For re-valuations in 2008/09, the City of Joondalup was charged over \$500,000.00 in triennial valuing fees. If the City were to proceed with yearly valuations, the increased costs, (ie: \$500,000.00 x 3), would likely be passed onto ratepayers possibly mitigating any potential benefits.

5.6 Using the Unimproved Value as the Basis for Property Valuations:

As discussed previously, the UV refers to the site value of the land as if it were vacant with no improvements. The UV of a property is determined by reference to the land market at the date of valuation. In Western Australia, the UV is generally only used in rural and fringe urban areas where the value of land in its 'natural state' can be easily determined. The UV of a property is based on the value of the vacant, unimproved site itself and hence is directly related to a property's inherent potential.

Several States and Territories in Australia use the UV as the basis for determining property values, including Queensland, New South Wales, and the Australian Capital Territory. Other States in Australia, including South Australia, Victoria, Northern Territory and Western Australia have the (limited) capacity to utilise UVs, although most use them only in non-metropolitan areas. Within the constraints of existing Western Australian legislation, it would not be possible to use the UV for valuing land that is used predominantly for non-rural purposes without the approval of the relevant Minister. If the City wished to proceed with using the UV as the basis for all property valuations, it is almost certain that some amendment to existing legislation would need to be sought.

- **Advantages:**
 - Ratepayers who own small or strata blocks could pay substantially less if property valuations were based on the UV.
 - Using the UV as the basis for property valuations could encourage property owners to improve their property, (particularly if it is vacant), as improvements would not necessarily increase the property's value for the purposes of rating.
 - The UV of a property would be relatively simple to establish in areas that are rapidly changing from rural to urban, or areas where recent land sales provide evidence of vacant, unimproved land.
 - Under the *Rates and Charges (Rebates and Deferments) Act 1992*, the rebate or deferment that is currently available for Seniors and Pensioners, (who hold a concession card), could still be applied to this method of rating.
- **Disadvantages:**
 - The UV is only loosely associated with a ratepayer's ability to pay. It does not take into account the capacity of the ratepayer to produce a revenue off the property, or any other form of wealth (such as salary or wage income).
 - UVs are calculated annually, which would be more expensive to administer than the current system, a cost which would likely be passed on to

ratepayers.

- UVs could be difficult to determine in areas that are older and more built-up, or areas where there is no sales evidence of vacant, unimproved land.
- Property valuations based on UVs could be difficult for ratepayers to interpret, and could result in a higher level of disputes and objections.
- In order to generate the income required to be raised from Rates Charges, a portion of the rate burden would likely be distributed to other ratepayers, (ie: while some ratepayers would be charged less, other ratepayers would be charged proportionately more).
- Scope to apply this system of rating only partially exists within current Western Australian legislation and it would be necessary for the City to seek a legislative amendment, a process which can be protracted.

As an alternative method of rating, using the UV as the basis for property valuations is not considered a practicable method for the City of Joondalup. Being a highly developed region, the UV would not appropriately reflect the nature of the land. Furthermore, the City contains very few examples of recent land sales of vacant, unimproved land, and as such, it would be extremely difficult for the Valuer General to provide meaningful property valuations.

5.7 Using the Capital Improved Value as the Basis for Property Valuations:

The Capital Improved Value (CIV) of a property refers to the expected sum of money that might be realised if the land and any existing dwelling or improvements were offered for sale at a particular time. Conducting property valuations using the CIV can provide for more equitable valuations as it fully reflects the capital value of improvements relative to the market. Using a CIV base can reduce the 'compression effect' that is often associated with using GRVs. This effect is caused by the rental market having a market ceiling, which frequently results in properties with much higher capital value being valued at the same level as properties with a much lower capital value.

The CIV is used as the basis for property valuations in several states across Australia, including South Australia, Victoria, Tasmania and the Northern Territory. Current legislation in Western Australia does not provide for the use of CIVs. However, at the 2008 Annual General Meeting of the Western Australian Local Government Association (WALGA), a motion by the Shire of Gingin Delegate was carried by the Association to:

“acknowledge the merits of introducing a single basis of rating for those local governments experiencing rapidly escalating property values and make political representations to the State Government with a view to having the *Local Government Act 1995*, amended to accommodate the discretionary application of a single basis of rating across land used for rural and non-rural purposes.”

- *Advantages:*
 - A CIV base could be applied equally to all properties, including residential, multi-residential, commercial, industrial and vacant properties.
 - The CIV is derived from the income that could be raised if the property were offered for sale and therefore has some relation to the ability of the

- ratepayer to pay.
- Using the CIV as the basis for property valuations could be easier for ratepayers to understand and evaluate.
- Under the *Rates and Charges (Rebates and Deferments) Act 1992*, the rebate or deferment that is currently available for Seniors and Pensioners, (who hold a concession card), could still be applied to this method of rating.
- **Disadvantages:**
 - It could be considerably difficult to calculate the CIV for rural properties, commercial properties, industrial properties, or for properties in areas with high rentals and/or few sales.
 - Evidence from the Eastern States suggests that property valuations based on CIVs result in a higher level of disputes and objections.
 - Managing a CIV base would require a comprehensive data set with accurate building area data. As such, this system of valuing properties would be considerably more expensive to implement and administer than the current system, a cost which would likely be passed on to ratepayers.
 - In order to generate the income required to be raised from Rates Charges, a portion of the rate burden would likely be distributed to other ratepayers, (ie: while some ratepayers would be charged less, other ratepayers would be charged proportionately more).
 - Scope to apply this system of rating does not exist within current Western Australian legislation and it would be necessary for the City to seek a legislative amendment, a process which can be a protracted.

As an alternative method of rating, using the CIV as the basis for property valuations does offer potential for change. However, it is questionable whether this method would produce significantly fairer or more equitable results than the current method used in Western Australian. Moreover, the high cost of implementing and administering this method of rating may offset any tangible benefits to ratepayers.

5.8 Phasing-in Property Valuations:

The 'phasing-in' of property valuations can lessen the impact of significant increases in Rates Charges. Under Section 6.31 of the *Local Government Act 1995*, local governments in Western Australia have the ability to phase-in property valuations over a 3-year period where, in the opinion of the local government, the valuation increase would have an adverse impact on the Rates Charges levied. In the first year of a new valuation assessment, the ratepayer would pay the former valuation plus $\frac{1}{3}$ of the difference between the former valuation and the new valuation. In the second year, the ratepayer would pay the former valuation plus $\frac{2}{3}$ of the difference, and in the third year, the new valuation would be applied.

It is not necessary to phase-in property valuations in years where triennial re-valuations have resulted in a smooth increase (or decrease) across a local government. However, should property values in a particular area increase significantly more than other areas, the phase-in option can allow for less dramatic increases in the Rates Charges for those properties. The phase-in option therefore

can be advantageous to those ratepayers whose property re-valuations have increased at a higher-than-average rate. However, it should be noted that the phasing-in of property valuations will have the effect of redistributing the rate burden to those ratepayers whose property values have not increased so dramatically.

This method of rating has been utilised in the past by several metropolitan local governments in Western Australia. However, it is understood from the Department of Local Government and Regional Development, that no local governments in Western Australia currently utilise the option of phased valuations.

- *Advantages:*

- The impact of significant increases in Rates Charges would be lessened for those ratepayers who own properties in areas that have greatly increased in value in the 3 year period since the last valuation.
- Under the *Rates and Charges (Rebates and Deferments) Act 1992*, the rebate or deferment that is currently available for Seniors and Pensioners, (who hold a concession card), could still be applied to this method of rating.
- Phasing-in property valuations continues to utilise the current system of property valuations based on the GRV. The GRV is derived from the income that could be raised if the property were offered for lease and therefore has some relation to the ability of the ratepayer to pay.
- Scope already exists for phased-valuations within current Western Australian legislation and it would not be necessary for the City to seek a legislative amendment, a process which can be protracted.

- *Disadvantages:*

- Instead of Rates Charges increasing by a larger amount in the first year and then remaining constant for 2 years, increases would be distributed over a 3 year period for those ratepayers who own properties in areas that have greatly increased in value in the 3 year period since the last valuation. Hence, these ratepayers would experience an increase in Rates Charges *each year*, instead of an increase in the first year, followed by relatively stable number in the following two years.
- In order to generate the income required to be raised from Rates Charges, a significant portion of the rate burden would be distributed to other ratepayers during the phase-in period, (ie: properties with decreasing Rates Charges would have this decrease phased-in over the 3 year period (instead of being applied immediately) in proportion to the phasing-in of the increasing Rates Charges).

Although this method of rating is allowable under current Western Australian legislation, its merits are debateable. Phasing-in property valuations does lessen the impact of significant increases in Rates Charges for some ratepayers. However, it is arguably less fair and equitable for those ratepayers who are required to bear a rate impost which, if the phasing-in option weren't invoked, rightly belongs to those ratepayers whose property values have increased to a greater extent.

6.0 Conclusion:

The role of local government in Western Australia has significantly expanded in recent decades. In addition to traditional roles in planning and infrastructure, local governments have assumed increasing responsibility for the provision of social and community services. Many local governments are now involved in services relating to transport, health, alcohol, drug abuse, children, youths, aged care, safety, law enforcement, sport, recreation, art, culture, heritage, wildlife conservation and environmental management. Ultimately, local government rating is an essential level of taxation that provides local governments with the necessary income to fund programs and services in line with community expectations. This report has examined various systems of rating used around Australia, all of which strive to distribute this revenue requirement between ratepayers as fairly and as equitably as possible.

Nationally and internationally, numerous studies, reports and enquiries have been undertaken to determine an *ideal* system of rating, however, results have been widely divergent, and often contradictory. The Keall Report and the Land Value Taxation Campaign for example, have both advocated the use of the GRV. The UV has been recommended by the New South Wales Committee of Enquiry into Land Tenures, the Brisbane City Council Committee of Enquiry into Valuation and Rating, and in studies by Tideman, Anderson, Lafayette and Putland. Use of the CIV has been recommended by the McCusker Report, the Victorian Office of Local Government and the New Zealand Local Government Rates Enquiry Panel. Others, including Murdoch University eLaw and the Rates Working Group have suggested a form of two-component rating. Numerous alternatives, including a flat-rate charge and various phase-in and rate-capping models have also been suggested.

It is apparent therefore, that there is little consensus amongst policy-makers on the most acceptable theoretical approach to local government rating. Nevertheless, there are several objectives that are common to all. *Ideally*, a rating system should be:

- effective and simple to administer;
- easy to understand and explain;
- transparent; and
- fair and equitable.

Arguably the most important aspect of local government rating is the extent to which the system is *fair* and *equitable*. From the research conducted however, it is apparent that philosophical notions of ‘fairness’ and ‘equity’ can often be difficult to realise and are frequently influenced by contradictory moral, ethical and political beliefs. It is not surprising therefore, that this review of the various studies, reports and enquiries into local government rating reveal such opposing views.

The purpose of this report has been to explore alternative methods of local government rating to determine the most fair and equitable system. In concluding however, it is clear that *no* method of rating is without criticism. The preceding research is provided to Council, so that the current method of rating used by the City of Joondalup may be critically considered and compared with methods used elsewhere in Australia.

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7.1 WA Legislation Referred to in this Report:

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- *Health Act 1911*
- *Local Government Act 1995*
- *Local Government (Miscellaneous Provisions) Act 1960*
- *Local Government (Financial Management) Regulations 1996*
- *Rates and Charges (Rebates and Deferments) Act 1992*
- *Valuation of Land Act 1978*
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