

# Review of the Local Government Rating System

## The method for setting rates

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## Outline

- ▼ Indicative review timetable
- ▼ How councils currently set rates
- ▼ Tax principles
- ▼ Analysis of:
  - ▼ Valuation method
  - ▼ Base and minimum amounts
  - ▼ Rating categories
- ▼ Other issues

## Indicative Review Timetable

Milestone	Indicative Timeframe
Terms of reference released	18 December 2015
Release Issues Paper	13 April 2016
<b>Hold public hearing</b>	<b>26 April 2016</b>
Receive submissions to Issues Paper	13 May 2016
Provide Interim Report	18 June 2016
Release Draft Report	August 2016
Hold Public Hearing(s)	September 2016
Receive submissions to Draft Report	September 2016
Final Report	December 2016

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## How councils set rates

### Rate structure



- Two options for rates
1. % of land value (subject to minimum amount)
  2. % of land value PLUS base amount

### Rate categories



- Councils may levy different rates for:
- Residential
  - Business
  - Farmland
  - Mining

### High density property



Land value is split between apartments

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## Tax principles

- ▼ Efficiency
- ▼ Equity
- ▼ Simplicity
- ▼ Sustainability
- ▼ Competitive neutrality

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## Valuation method

Method	Used in:
Unimproved land value (UV)	• NSW, QLD, NT
Annual rental value (ARV)	• Perth
<b>Choice</b> between UV, capital improved value (CIV), and ARV	• SA and VIC mainly use CIV, Tas mainly uses ARV

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## Comparison of UV and CIV

Tax principle	Better approach	Comments
Efficiency	<b>Inconclusive</b>	<ul style="list-style-type: none"> <li>Minimises capital distortions - UV</li> <li>Benefits received - CIV</li> </ul>
Equity	<b>CIV</b>	<ul style="list-style-type: none"> <li>CIV correlates better to ability to pay</li> </ul>
Simplicity	<b>UV</b>	<ul style="list-style-type: none"> <li>Change could be costly</li> </ul>
Sustainability	<b>CIV</b>	<ul style="list-style-type: none"> <li>CIV is a broader tax base</li> <li>CIV increasing over time</li> </ul>

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## Base and minimum amounts

Tax principle	Meets principle?	Comments
Efficiency	✓	<ul style="list-style-type: none"> <li>If reflects fixed costs</li> </ul>
Equity	✗	<ul style="list-style-type: none"> <li>May not reflect ability to pay or benefits received</li> <li>Regressive</li> </ul>
Simplicity	✓	

▼ Case for further flexibility?

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## Rating categories

### ▼ Increasing rating categories:

Tax principle	Meets principle?	Comments
Efficiency	✓	• If tailored to benefits received
Equity	✓	• If reflects ability to pay
Simplicity	✗	• Increase complexity of system

### ▼ Other states typically have more categories

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## Other considerations

- ▼ Rating burden across communities
- ▼ Rate pegging and special variations
- ▼ Encouraging urban renewal
- ▼ How councils manage overdue rates

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## Potential questions for discussion

- ▼ What valuation method should be used?
- ▼ What changes could be made to improve the use of base and minimum amounts?
- ▼ What changes could be made to rating categories?

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