

Independent Pricing and Regulatory Tribunal

# 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
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Terms of reference released	18 December 2015
Release Issues Paper	13 April 2016
Hold public hearing	26 April 2016
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

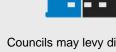
## How councils set rates

Rate structure

Rate categories

**High density property** 







Two options for rates

- 1. % of land value (subject to minimum amount)
- 2. % of land value PLUS Farmland base amount

rates for:

- Residential
- Business
- Mining

Councils may levy different Land value is split between apartments

### Tax principles

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

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

Comparison of UV and CIV				
Tax principle	Better approach	Comments		
Efficiency	Inconclusive	Minimises capital distortions - UV     Benefits received - CIV		
Equity	CIV	CIV correlates better to ability to pay		
Simplicity	UV	Change could be costly		
Sustainability	CIV	<ul><li>CIV is a broader tax base</li><li>CIV increasing over time</li></ul>		

Tax principle	Meets principle?	Comments
Efficiency	✓	If reflects fixed costs
Equity	×	<ul> <li>May not reflect ability to pay or benefits received</li> <li>Regressive</li> </ul>
Simplicity	✓	Ü

Rating categories				
▼ Increasing rating categories:				
Tax principle	Meets principle?	Comments		
Efficiency	<b>√</b>	If tailored to benefits received		
Equity	✓	If reflects ability to pay		
Simplicity	×	Increase complexity of system		
Other states	s typically have	e more categories		

### Other considerations

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

### 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?

