

# Rating Policies

Tuesday, 9 August 2022

Council

Strategic Alignment - Enabling Priorities

**Program Contact:**

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Public

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## EXECUTIVE SUMMARY

Since 2020, Council has considered the many aspects of its rating and valuation system, including rateability, rebates and foregone rates. Applying a focus on continuous improvement, we have worked through each of these components.

In line with Chapter 10 of the *Local Government Act 1999* (SA) (the Act), Council has responsibility for establishing policies that support rates and charges on land, including assessment of rateability, the basis of rating, establishing the characteristics of rates and charges, valuations of land, provision of rebates and mechanisms regarding collection. It is important, in order to facilitate ongoing improvements in the rating system, that the correct policy structure is critical to ensure Council sets a clear intent on its approach to rating.

The Rating Policy was approved by Council at its meeting on 28 June 2022. The purpose of this report is to seek Council adoption of the supporting policies that inform the implementation of the Rating Policy.

A summary of the financial impact of these policies is also attached to this report for noting.

The Act contains various elements that require careful and responsible administration. To support this, it is important to have effective policies in place that clearly represent Council's position on each aspect of rates and charges on land.

While the Rating Policy remains the key document, a review of additional policies supporting this policy has presented an opportunity to streamline and improve the clarity of Council's approach, and as such a number of changes to policy are recommended.

The changes propose to:

- Ensure the Rating Policy captures both General and Separate Rates in the one policy, to provide clarity and transparency to the community.
- Improve the Discretionary Rebate Policy, to be renamed the Rate Rebate Policy to capture all rebates. It also goes further than restating legislation and incorporates further guidance on how rebates will apply.
- Ensure the application of rebates are more aligned to address rebates on a case by case basis, while the rating policy address rebates on a broader application.
- Update the Debt Collection policy to incorporate the use of the Hardship Guidelines and develop a clear position on the options available for hardship, and setting the tone for collections which are based on a respectful, customer centric approach.

For simple reference, summary of changes to all associated rating policies are detailed in **Attachment F**.

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## RECOMMENDATION

### THAT COUNCIL

1. Adopts the updated Rating Policy per Attachment A to Item 10.18 on the Agenda for the meeting of the Council held on 9 August 2022, to include elements of the Separate Rate Policy, noting that the recommended changes do not constitute significant change requiring public consultation.

2. Approves the revocation of the Separate Rate Policy per Attachment B to Item 10.18 on the Agenda for the meeting of the Council held on 9 August 2022, and associated guidelines on the basis that content is appropriately covered in the Rating Policy.
  3. Adopts the updated Rate Rebate Policy as per Attachment C to Item 10.18 on the Agenda for the meeting of the Council held on 9 August 2022.
  4. Adopts the updated Debt Collection Policy as per Attachment D to Item 10.18 on the Agenda for the meeting of the Council held on 9 August 2022.
  5. Notes the financial impact summary of rates and rebates per Attachment E to Item 10.18 on the Agenda for the meeting of the Council held on 9 August 2022.
  6. Notes the proposed changes included in Attachment F to Item 10.18 on the Agenda for the meeting of the Council held on 9 August 2022.
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# IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	<b>Strategic Alignment – Enabling Priorities</b> Council's ability to raise rates, provide rebates and a respectful debt collection process are all aligned to enable the delivery of its services to the community and delivery of its Strategic Plan.
Policy	This report details the policy revisions and impact of any amendments.
Consultation	The Rating Policy under Section 151 of the <i>Local Government Act 1999 (SA)</i> requires Council to consult on any significant changes to its Rating Policy. Council recently reviewed its Rating Policy on 28 June 2022 after consultation as a part of the 2022/23 Annual Business Plan and Budget. The proposed changes to the Rating Policy do not constitute significant change and as such, further public consultation is not required.
Resource	Not as a result of this report
Risk / Legal / Legislative	Chapter 10, sections 151-170 of the <i>Local Government Act 1999 (SA)</i> provide the requirements for Council to raise rates, and consider items such as rateability, basis of rating, valuations of land, provision of rebates and mechanisms for collection.
Opportunities	Administration of taxation systems such as Council rates requires diligence to maintain data integrity in a rating base that is constantly changing. As presented to Council in May 2021, the ability to experience rates foregone is evident and the opportunity to improve this can provide assurance to Council and its community that rates are being fairly administered in accordance with the Council policy and legislation which will ultimately provide assurance on the rate revenue raised by Council.
22/23 Budget Allocation	Rates revenue is budgeted at \$123.2m which is not inclusive of rebates. The budgeted allocation for rebates are as follows: Mandatory \$5.2m Discretionary \$1m
Proposed 23/24 Budget Allocation	Future years budgets are dependent on the decision of Council each year.
Life of Project, Service, Initiative or (Expectancy of) Asset	Not as a result of this report
21/22 Budget Reconsideration (if applicable)	Not as a result of this report
Ongoing Costs (eg maintenance cost)	Not as a result of this report
Other Funding Sources	Not as a result of this report

# DISCUSSION

## Rates as a Taxation System

1. Under Chapter 10 of the *Local Government Act 1999* (SA) (the Act), Council has the responsibility to ensure it has appropriate policies in place to support rates and charges on land.
2. Within these legislative parameters, there are many elements of the rates system to be considered by Council when establishing clear policy intent.
3. These elements are:
  - 3.1. Rateability: the Act determines the ability for Council to charge a rate and in some case specifically identifies areas of exemption. For example, Crown land, Universities and hospitals are all exempt from rating.
  - 3.2. Basis of rating: Council must set a rate based on land value or fixed charge.
  - 3.3. Characteristics of rates and charges: Council can set a general rate (differential where applicable), separate rates or service charges.
  - 3.4. Valuations of land: Council must select a valuation methodology that is representative of the rating base.
  - 3.5. Provision of rebates: In addition to mandatory rebates, section 166 of the Act enables Council to set the parameters for discretionary rebates.
  - 3.6. Collection of rates and fees: the Act provides general principles regarding rates collections leaving Council with the ability to set the intent regarding the approach to collections.
4. Each element of the rating system requires diligence to ensure integrity in the system and alignment with policy intent.
5. As the rating base is subject to constant change, policies are clear and equipped to manage the broader rating base and any changes.
6. To support good governance, it is important that these policies are reviewed regularly and that Council is provided information regarding each element of the rating system, to ensure the policy intent continues to be met.
7. The Local Government Associations (LGA) advocacy plan states the LGA is seeking legislation to remove the 75% mandatory rebate on council rates for community housing providers and to continue to explore and outline the impacts on the mandatory rebates on councils and their ratepayers.

## Summary of Council discussions to date

8. In November 2020, a rates presentation to Council highlighted issues regarding rateability of some properties in City of Adelaide. Specifically, it was highlighted that the City of Adelaide has the highest proportion of 'rate-exempt' properties of any Council in South Australia. In 2022/23 approximately \$34.7m of rates revenue will be foregone in respect of 'rate exempt' properties.
9. Since that presentation, discussions have occurred with the CEO, Lord Mayor and universities regarding their exemption status. Discussions were also held with other South Australian Councils and the CEO of LGA to consider a broader approach to exemptions and mandatory rebates.
10. In response to a Council decision from 15 December 2020, BRM Advisory presented to Council in May 2021 regarding opportunities to grow rate revenue without a rate increase.
11. This presentation highlighted the issue of foregone rates, which occurs when potential rates revenues are lost due to complexities in administering Council's rating policy and legislative requirements.
12. In June 2021, Council amended its Rating Policy after public consultation to include significant changes such as the reduction of the Special Discretionary Rebate from 15% to 10%.
13. The Rating Policy is required to be reviewed annually and was adopted by Council at its meeting on 28 June 2022, with no changes from the previous year.
14. At its meeting on 4 February 2022, the Audit & Risk Committee (ARC) queried the use of Annual Assessed Value (AAV) as City of Adelaide's rating methodology. At its meeting on 4 August 2022, the ARC will receive a report regarding the rating methodology review undertaken. It is anticipated, this report will be recommended to Council at its September meeting.

## Rebate and Exemption Reviews

15. The last extensive review of Council's rating methodology, including rebates and exemptions, was undertaken in 2017. At that time, the review confirmed the use of Assessed Annual Value (AAV) as the preferred rating methodology and provided assurance that all rebates were applied in accordance with policy at the time.
16. Since then, there have been several changes in the source of valuations and changes to the rating and rebate policies.
17. In February 2022, another detailed review into elements of the rating system was undertaken. This review identified significant weaknesses in the system, particularly relating to foregone rates as identified by BRM Advisory in 2021.
18. To date, the review has identified foregone rates as follows:
  - 18.1. Exemptions – approximately \$70K due to properties that have moved from being exempt to rateable due to changes in ownership/occupations
  - 18.2. Rebates – approximately \$100K due to rebates that have been reapplied in years when eligibility expired.
  - 18.3. Special discretionary Rebate – approximately \$600K due to legislation. The application of this rebate expires after 3 years and cannot continue indefinitely. The review identified that these rebates should be removed.
19. Work is currently underway to implement a process of ongoing review to ensure changes can be made when necessary, lessening the need for an extensive review every few years. This includes the adoption of appropriate internal controls to ensure foregone rates are mitigated.
20. A summary of the exemptions and rebates are included in **Attachment E** to provide Council transparency on the implications of legislative requirements and its Rating Policy and associated policies.

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## ATTACHMENTS

**Attachment A** – Rating Policy

**Attachment B** – Separate Rate Policy

**Attachment C** – Rate Rebate Policy

**Attachment D** – Debt Collection Policy

**Attachment E** – Summary of Rebates

**Attachment F** – Summary of Policy Changes

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