

Enabling Priorities

**2023/24 Business Plan and Budget
Rating Approach and Process**

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City of Adelaide

2023/24 Business Plan and Budget

Rating Approach and Process

21 March 2023

Workshop Focus

- Rating background and policy
- Rating methodology and process
- Rating-related financials
- Rating considerations

COUNCIL ROLE:

- Define preferred rates approach

Agenda

1. Background and Policy
2. Rating methodology
3. Rating financials
4. Considerations
5. Next steps

Purpose

- To provide Council Members with a good understanding of the City of Adelaide's current approach to rating.
- To seek Council Member feedback on perceived issues, matters requiring more clarification and where rating for the City of Adelaide could possibly head.
- After this session, it is intended that Council Members have the facts at their disposal when responding to ratepayers, businesses and residents when approached about rates.

Key Questions

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Rate Revenue Required

What are Council Members' views on approaches to generating the required rate revenue to balance the budget?

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Special Discretionary Rebate

What are Council Members' views on the 10% capping?

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Separate Rates

What are Council Members' views on separate rates to fund projects/activities?

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Vacant Land

What are Council Members' views on increasing the rate in the dollar on Vacant Land to encourage development?

Journey to date

Context	<input checked="" type="checkbox"/>	Onboarding training on Strategy, Finance and Assets
	<input checked="" type="checkbox"/>	Priorities, opportunities, ways of working
	<input checked="" type="checkbox"/>	How we plan and budget guide and online research library
	<input checked="" type="checkbox"/>	Functional Directory and Program Guides
Building Planning Knowledge	<input checked="" type="checkbox"/>	Legislative requirements
	<input checked="" type="checkbox"/>	Capital, Asset Management and Integrated Planning
	<input checked="" type="checkbox"/>	Service Planning
	<input checked="" type="checkbox"/>	Financial Planning
Building Budget Knowledge	<input checked="" type="checkbox"/>	Organisational Finance update (history and current state)
	<input checked="" type="checkbox"/>	Discretionary responsibilities – understanding short and long term abilities
	<input checked="" type="checkbox"/>	Operating, Capital, Revenue/Income, Expenditure breakdown
	<input checked="" type="checkbox"/>	Fees and Charges, Rates, Borrowings – utilising financial levers
Building the 2023/24 Business Plan and Budget	<input checked="" type="checkbox"/>	Principles and Parameters
	March	Consider Projects – Capital, Strategic and Service changes
	March	Budget scenario building - proposed rates, fees and charges
	April	Feedback from Audit and Risk Committee and proposed budget
	April	Draft budget – proposed expenditure (priorities, capital and strategic projects and services) for consultation
	April	Draft budget – proposed income (rates, fees and charges) for consultation
	May	Community Consultation and feedback
	June	Adoption of Final 2023/24 Business Plan and Budget

Glossary of terms

AAV – annual assessed rental value of the property

Ad Valorem tax – is a tax based on the assessed value of an item such as property

Differential Rate – calculated on a rate in the dollar basis according to the use of the land

Exemption – to free from an obligation or liability to which others are subject to

General Rate – rate that applies to rateable land

Landscape Levy - State tax being recovered via council rate process

Prescribed service – treatment or provision of water, collection, treatment, disposal or recycling of waste

Rebate – an amount paid by way of reduction, return, or refund on what has already been paid or contributed

Remission – the cancellation of a debt, charge or penalty

Separate Rate – an amount levied on ratepayers in addition to general rates

Legislation

The ability to charge rates is pursuant to Chapter 10 of the *Local Government Act 1999 (SA)* ('the Act')

- *Section 147 – Rateability of Land*
 - *Specifies all land is rateable, except land with a specific exemption.*
 - *Provides a list of exemption criteria.*
- *Section 151 – Basis of Rating*

Council may adopt one of three valuation methodologies to value properties in its area:

 - Capital value: the value of land, buildings and other improvements
 - Site value: the value of land and any improvements, but excluding the value of any buildings
 - Annual value: the value of the rental potential of the property

- *Sections 159 to 165 – Rebate of Rates*
 - Provides for the ability for a mandatory rebate of rates to be applied upon application.
 - Specifies Rebates for specific scenarios,
 - Health Services
 - Community Services
 - Religious Purposes
 - Public Cemeteries
 - Royal Zoological Society of SA
 - Educational purposes
- *Sections 166 - Discretionary Rebate of Rates*
 - Allows the ability for rebates to be applied upon application at Councils discretion for a range of circumstances.
 - The consideration and application of discretionary rebates is captured in our Rate Rebate Policy and includes the use of a rebate matrix to ensure consistency of application.

Rating Policy

City of Adelaide's Rating Policy outlines Council's approach to rating its community.

S123 of 'the Act' requires Council to have a rating policy that must be prepared and adopted as part of the Business Plan and Budget each financial year in conjunction with the declaration of rates. The general principles outlined in 'the Act':

- rates constitute a system of taxation for local government purposes
- rating policies should make reasonable provision with respect to strategies to provide relief from rates (where appropriate), and any such strategies should avoid narrow or unreasonably restrictive criteria and should not require ratepayers to meet onerous application requirements
- the council should, in making any decision, take into account the financial effects of the decision on future generations
- differential rates

Policy Objectives

- Equity for our communities
- Benefit to our communities
- Economic and property development
- Taxation principles

Taxation Principles

The City of Adelaide's rating policy aims to balance the five main principles of taxation:

- **Benefits received** – ratepayers who receive more benefits (services provided, or resources consumed) should pay a higher share of tax
- **Capacity to Pay** – a person who has less capacity to pay should pay less, and persons of similar means should pay similar amounts
- **Administrative simplicity** – minimise costs involved in applying and collecting the tax; how difficult it is to avoid
- **Economic efficiency** – whether or not the tax changes economic behaviour
- **Policy consistency** – taxes should be internally consistent, and based on transparent, predictable rules that are understood and accepted by ratepayers.

'Rates are
a system of
taxation'

Exemptions (s147 LG Act)

Properties can be identified as exempt from council rates in certain circumstances:

- **Crown Land** – public properties used or held by the Crown for a public purpose
- **University Land** – properties occupied by a University
- **Recreation grounds** - properties satisfying the criteria set out in the *Recreation Grounds Rates and Taxes Exemption Act 1981*
- **Council Land** – properties occupied or held by the Council
- **Emergency Services** – properties occupied or held by an emergency services organisation under the *Fire and Emergency Services Act 2005*
- **Another Act** – properties specifically exempted from council rates by virtue of another Act (either Commonwealth or State).

With 25.6% of rates income forfeited through exemptions and rebates, the responsibility for contributing rates income to fund essential local government services is disproportionately allocated across the community.

Where exempt properties become rateable part way through the financial year, rates will be calculated and recovered.

Exemptions 2022/23

Exemptions	AAV	Rates
Instrument of Crown Public Purpose Sec 147(2)(b)	\$ 69,373,042	\$ 9,767,724
Occupied by University Sec 147(2)(c)	\$ 55,400,600	\$ 7,800,404
Occupied or held by Council Sec 147(2)(f)	\$ 48,613,605	\$ 6,844,796
Crown Land used for public purpose Sec 147(2)(b)	\$ 36,042,519	\$ 5,074,787
Unalienated Crown Land Sec 147(2)(a)	\$ 16,330,800	\$ 2,299,377
By Virtue of another Act Sec 147(2)(h)	\$ 11,516,715	\$ 1,620,372
LG Act not binding on Crown Sec 302	\$ 5,230,000	\$ 736,384
Recreation Grounds Rates & Taxes Act Sec 147(2)(d)	\$ 3,675,505	\$ 517,511
Common property incidental use Sec 147(5)(a)(b)(c)	\$ 867,350	\$ 121,791
Total	\$ 247,050,136	\$ 34,783,147

Exemptions represent 22.55% of the rate base

Rebates (s159 LG Act)

Properties may be entitled to a rebate under the following circumstances:

- **Health Services** – hospital or health centre incorporated under the *SA Health Commission Act 1976* will be rebated at 100 per cent
- **Community Services** – a community service organisation will be rebated at 75 per cent
- **Religious purposes** - church or property used for public worship will be rebated at 100 per cent
- **Public cemeteries** – will be rebated at 100 per cent
- **Royal Zoological Society of SA** – will be rebated at 100 per cent
- **Educational purposes** – properties occupied by a government school, or accommodation provided by Universities for students will be rebated at 75 per cent
- **Discretionary rebate** – a Council may grant a rebate up to and including 100 per cent upon application. The five-year free rates scheme is an example

Rebates 2022-23

Rebate Description	Value
Hospital/Health	\$ 1,496,895
Community Services	\$ 1,437,720
Discretionary	\$ 1,297,530
Education	\$ 1,124,047
Religious	\$ 1,068,695
Zoo	\$ 408,065
Total	\$ 6,832,952

Special Discretionary Rebate

As per S166(l)(ii) of the *Local Government Act 1999 (SA)*

‘where the rebate is considered to be appropriate to provide relief against what would amount to a substantial change in rates due to a change to the basis on which land is valued, rapid changes in valuations, or anomalies in valuations’

The Special Discretionary Rebate is currently 10% and applies to both residential and non-residential properties.

The table shows the cumulative effect of the special discretionary rebate over the past seven years.

Year	Value of Rebate	% of Base Valuation
2016-17	\$722,908	0.3%
2017-18	\$3,173,358	3.2%
2018-19	\$1,912,766	0.6%
2019-20	\$3,266,736	4.7%
2020-21	\$1,297,614	0.1%
2021-22	\$1,008,378	0.8%
2022-23	\$438,504	0.7%
TOTAL	\$11,820,264	

Key rating strategies

- Valuation methodology based on Annual Assessed Value (AAV)
- Different rates for different land use categories (Differential rating)
- Special Rates – Rundle Mall Management Levy and Rural Landscape Levy
- Rate relief
 - Rebates (**State mandatory & council discretionary**)
 - Special Discretionary Rebate (rebate to mitigate bill shock but spreads cost across other ratepayers).
 - Postponement and remission of rates
 - Financial Hardship

Rating on occupation

The Adelaide City Council practices occupation based rating under Section 148 of the *Local Government Act 1999 (SA)* (“the Act”).

Under Section 148(1) of the Act, “rates may be assessed against any piece or section of land subject to separate ownership or occupation”

148—Land against which rates may be assessed

- (1) Rates may be assessed against—
 - (a) any piece or section of land subject to separate ownership or occupation; or
 - (b) any aggregation of contiguous land subject to the same ownership or occupation.
- (2) However, decisions about—
 - (a) the division of land for the purposes of subsection (1); or
 - (b) the aggregation of land for the purposes of subsection (1),

must be made fairly and in accordance with principles and practices that apply on a uniform basis across the area of the council.

Annual Assessed Value vs Capital Value

The City of Adelaide uses annual value. The main reasons for choosing annual value are:

- The majority of residential and non-residential properties in the City are leased (ie. not owner occupied)
- The availability of a significant amount of annual market rental information makes the annual value method more efficient to administer
- Annual value is understood by the majority of ratepayers
- This method is considered consistent with the equity, ability to pay, efficiency and simplicity principles of taxation.

Methodology	High level explanation
Capital Value (Land + improvements)	The capital amount land <u>including improvements</u> might reasonably be expected to realise upon sale.
Annual Value (Rental potential)	Three quarters of the gross annual rental of a property or 5% of the capital value if a rental value cannot be determined.

Mass Valuation vs Individual Valuation

Mass valuation

Properties similar in nature, due to locality, land size, property type, year built and use, are grouped into sub-market groups. Valuations are largely dependent on these aspects.

Research and analysis is utilised to indicate how the market has performed relative to each of those sub-market groups. The result of such analysis is the adoption of an index which is applied to every property within that particular group.

Individual valuation

A valuation specific to an actual property and includes factors such as:

- Location
- Year built
- Land use
- Building style and condition
- Street rating

Rates revenue & Growth

Rates income is primarily dependent upon:

- The rate in the dollar
- The increase/decrease in the valuation of the property base (based on the AAV)
- Growth from new developments and/or capital improvements.

The rate in the dollar has been frozen for the past nine consecutive years (\$20 million revenue impact), so increases in rates income has been driven growth.

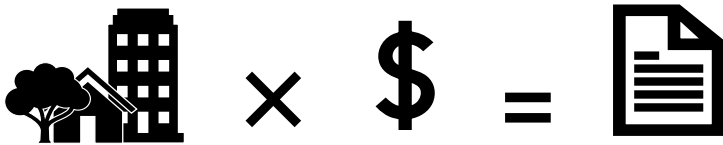
Growth occurs through the increase in property valuations driven by a capital improvement and can include:

- New Development – New building
- An addition to a property – Extension, swimming pool
- Alteration – Refurbishment, renovation

Rating Process

Current Process

1. Current RID x current AAVs = Rates Charged



For example:

\$18,000 X 0.1149 = \$2,068

**Annual
Assessed
Value**

*based on the
property land use*



**Rate
in the
dollar**

*as set
by Council*



**Your
General
Rates**

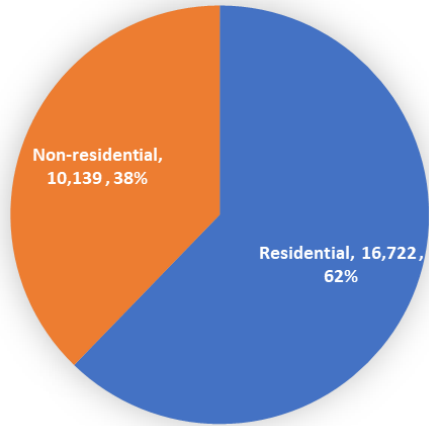
*excluding
any levies*

Potential change in approach

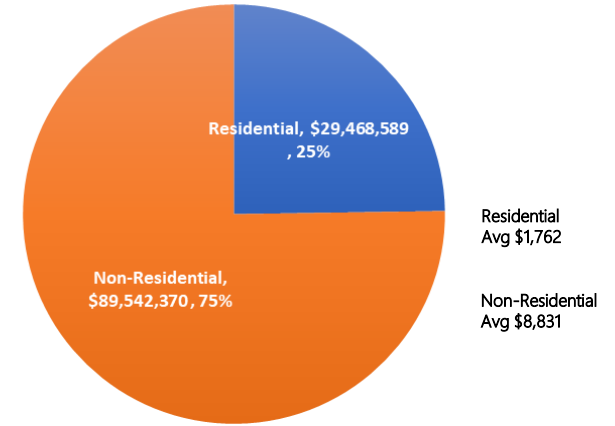
1. Rating base update
2. Draft budget
3. Determine \$ of rate revenue required (to achieve budget targets)
4. Updated AAVs x adjusted RID

Rating Numbers

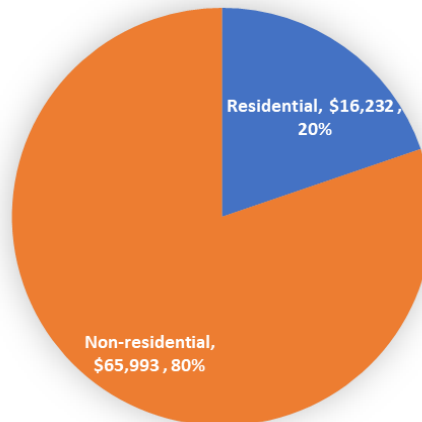
Rateable Properties 2022-23



General Rates Raised 2022-23



Average Valuation (AAV) 2022-23



Key questions

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Next Steps

March Priorities and Projects 21-Mar	March Rates, Fees and Charges 21-Mar	March Principles and Parameters 21-Mar	March Projects and Budget Scenarios 28-Mar	April Fees and Charges and Draft Document 18-Apr / 26-Apr	June Community Engagement 13-Jun	June Final Document 20-Jun / 27-Jun
CEO Briefing Discuss	Committee - Workshop Discuss	Committee - Report Adopt	CEO Briefing	Committee / Council	Council Decision	Committee / Council
Training Focus	Training Focus	Training Focus	Training Focus	Training Focus	Training Focus	Training Focus
<ul style="list-style-type: none"> Prioritisation Framework Project categories 	<ul style="list-style-type: none"> Review previous workshops on Rates, Fees and Charges 	N/A	<ul style="list-style-type: none"> Review previous workshops on how we build a budget Understanding Services 	<ul style="list-style-type: none"> Community Engagement 	N/A	N/A
Workshop Focus	Workshop Focus	Meeting Focus	Workshop Focus	Meeting Focus	Meeting Focus	Meeting Focus
<ul style="list-style-type: none"> Introduction to project categories and prioritisation framework Introduction to Capital Works Schedule 	<ul style="list-style-type: none"> Council feedback on proposed rates approach Council feedback on proposed fees and charges approach 	Council adoption on proposed Principles and Parameters for Draft Business Plan and Budget	<ul style="list-style-type: none"> Introduction to Strategic Projects and Service Changes Council feedback on business plan and budget scenarios 	Council feedback on: <ul style="list-style-type: none"> Draft Business Plan and Budget, including Service Plans, Projects and Priorities Draft subsidiary Business Plan and Budgets Community engagement Plan Input on Draft non-statutory Fees and Charges Schedule 	<ul style="list-style-type: none"> Consider community feedback 	Council feedback on: <ul style="list-style-type: none"> 2023/24 Business Plan and Budget Subsidiary Business Plans and Budgets Updated Long Term Financial Plan
Council Member role	Council Member role	Council Member role	Council Member role	Council Member role	Council Member role	Council Member role
<ul style="list-style-type: none"> Provide input into Draft projects 	<ul style="list-style-type: none"> Define preferred rates approach Define preferred fees and charges approach 	<ul style="list-style-type: none"> Adopt Principles and Parameters to inform the Draft Business Plan and Budget build 	<ul style="list-style-type: none"> Provide input into Draft projects Define preferred Budget Scenarios and Levels of Service to build Draft Business Plan and Budget 	<ul style="list-style-type: none"> Adopt the Draft 2023/24 BP&B for community engagement Adopt the Draft 2023/24 non-statutory Fees and Charges Endorse the proposed community engagement activities 	<ul style="list-style-type: none"> Receive community submissions and participate in a Public Hearing 	<ul style="list-style-type: none"> Adopt the Final 2023/24 Business Plan and Budget, Long Term Financial Plan, Subsidiary Business Plans and Budgets, Borrowings, Valuations and Declaration of Rates