

2023-24 Annual Business Plan Consultation Change in Rating Structure Report



Adelaide Hills
COUNCIL



ADELAIDE HILLS COUNCIL IS
SEEKING YOUR FEEDBACK ON
PROPOSED CHANGES TO OUR
RATING STRUCTURE



Background

Councils are responsible for the delivery of a broad range of services to their communities. These services can vary as each community is unique and has different priorities.

Council receive income from a number of sources to pay for the services they provide, and the largest revenue source is rates.

The *Local Government Act 1999* allows councils to raise rates and provides a degree of flexibility in the options used by councils to do this. Councils have a responsibility to determine the best method for their communities and review this from time to time to ensure the system used is relevant.



Background continued

Adelaide Hills council rates are made up of a fixed charge and a differential rate. There is also additional separate rates such as the Stirling Business Associate separate rate and the Regional Landscape Levy, which councils collect on behalf of the SA Government that is not part of this review.

The focus of this review is in relation to differential general rates. This review is not about increasing or decreasing revenue from Council general rates, it looks at how rates are distributed across the various land use types.



Background continued

Council has reviewed its current rating structure for differential rates in comparison to other alternatives to ascertain whether the current rates allocation is equitable and continues to meet our rating principles

As a result of this review, Council has considered the impact on various land use types to allow for a staged implementation to best manage rate increases for each property.



Rates Overview

Rates are a form of property taxation, and property values together with a fixed charge determine how much each property contributes. This system of taxation means that the rates paid may not directly relate to the services used by each ratepayer.

Key elements of Adelaide Hills Council's (AHC) Current Rating Structure are as follows:

- The Council uses the capital value method of valuing properties. This method values the land and all improvements on the land. It is the most widely-used method across South Australian councils.
- Council considers this valuation method the most equitable method to spread the rates burden across the measure of wealth within the Adelaide Hills Council area. It equates to the taxation principle that people should contribute to community, social and physical infrastructure in accordance with their capacity to pay as measured by property wealth.
- Further, in determining how rates are applied, and the rate in the dollar, Council also makes specific policy choices in relation to the use of **differential rating for each land use category** and a **fixed charge** to allocate the rates burden across the community. Council considers this to be a fair and equitable method of rating for the Adelaide Hills Council.
- Council considers a fixed charge to be the most fair and equitable means of ensuring that all ratepayers contribute equally to the administration of council's services and the development and maintenance of the community's infrastructure.



Rates Context

Adelaide Hills Council (AHC) has a rating policy that 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** - minimal costs are involved in applying and collecting the tax and the tax is difficult to avoid.
- **Economic efficiency** - whether or not the tax distorts economic behavior.
- **Policy consistency** - taxes should be internally consistent, and based on transparent, predictable rules that are understood and accepted by ratepayers.

In applying these principles, any decision with respect to rating should always consider the financial effects of the decisions made today, on the future generations of tomorrow.



Rates Context continued

AHC **currently** applies two differential rates for general rates based on the following groupings:

- Residential, Primary Production, Vacant Land and Other
- Commercial and Industrial – (for 2022-23 the rate in the dollar for this group is exactly 15% higher than the residential rate in the dollar)

Due to variability in annual capital valuations provided by the independent Valuer-General, this has resulted in some land uses (and in particular, residential properties) paying a higher average rate increase and other land uses such as Commercial properties paying less than the average rate increase set by Council.

This was particularly evident in the 2022-23 rating period where there was a significant difference in valuation across the various land uses.

In addition, when considering the last 5 years capital valuations this variability of higher residential valuations and lower commercial and industrial valuation increases has occurred.



2022-23 Rates by Category Table

Land Use	No	% of Nos	Total General Rates \$000s	% of Rates	Net Differential Rates \$000s
Residential	13,658	75%	31,432	76%	21,282
Primary Production	3,008	17%	7,286	18%	5,214
Vacant Land	641	4%	921	2%	532
Other	179	1%	406	< 1%	115
Commercial (3)	634	3%	1,357	3%	886
Industrial (2)	80	< 1%	197	< 1%	142
Total	18,200		41,600		28,270

Note: Excludes CWMS, Landscape Levy & Separate Rates



Rationale for Differential Rates

In summary for the 2022-23 rating year:

- Average increase for existing ratepayers across all land uses was 4.9%,
- However, the higher valuation increase in residential valuation resulted in residential ratepayers experiencing an average above 5%
- For the Commercial & Industrial land uses those properties had a below average rate increase (below 2%) due to the impact of lower valuations in those land uses

Rating Principles

- Benefits Received
- Capacity to pay
- Administrative Simplicity
- Economic Efficiency
- Policy Consistency



Implementation of Differential Rating

Therefore, to improve rating equity, Adelaide Hills Council for 2023-24 proposes to differentiate all 9 land use classes separately as follows:

- Residential
- Commercial – Shop
- Commercial – Office
- Commercial - Other
- Industrial – Light
- Industrial - Other
- Primary Production
- Vacant Land
- Other

Rating Principles

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Commercial & Industrial Rates – Council Comparison

Surrounding Councils 2022-23

- **Barossa** Commercial 54% higher than Residential rate
Industrial Light 54% higher than Residential rate
Industrial Other 357% higher than Residential rate
- **Mitcham** Commercial & Industry 153% higher than Residential rate
- **Onkaparinga** Commercial & Industrial 92% higher than Residential rate
- **Tea Tree Gully** Commercial & Industrial 80% higher than Residential rate

Alexandrina, Burnside, Campbelltown, Mount Barker and Mid Murray do not use differential rating

Metropolitan Councils 2022-23

Out of 18 metropolitan councils, 16 use differential rating for Commercial & Industrial and 14 have a differential of > 60% higher than the Residential rate



Vacant Rates – Council Comparison

Surrounding Councils 2022-23

- **Barossa** Vacant is 89% higher than Residential rate
- **Burnside** Vacant is 150% higher than Residential rate
- **Mitcham** Vacant is 153% higher than Residential rate
- **Onkaparinga** Vacant is 33% higher than Residential rate
- **Tea Tree Gully** Vacant is 100% higher than Residential rate

Alexandrina, Campbelltown, Mid Murray and Mount Barker do not have differential rating for vacant land

Metropolitan 2022-23

Out of 18 metropolitan councils, 15 use differential rating for Vacant Land with 11 of those having a differential of > 60% higher than their Residential rate



Other Changes in Differential Rating

- Council has considered issues of consistency and comparability of other Councils and across council areas in the imposition of rates on various sectors of the business and wider community.
- Currently Council's average Residential rate is high by comparison to other Councils whereas the average Commercial, Industrial and Vacant Land rate is low.
- As a result Council proposes phasing in higher differential rates in relation to Commercial, Industrial and Vacant Land land use categories across a three-year period.
- These changes allow residential and primary production land uses to have a lower rate increase than otherwise would have occurred with no differential rate changes



Differential Rating Relativity

Proposed Rating for 2023-24

1. Average of 6.9% across all land use types, and
2. Additional differential rating increases as below:

Land use	No	Rate above residential rate			
		2022-23	2023-24	2024-25	2025-26
Commercial & Industrial Light	667	15%	^{+15%} 30%	+10% 40%	+10% 50%
Industrial – Other	47	15%	^{+20%} 35%	+20% 55%	+20% 75%
Vacant Land - Townships	373	0%	^{+10%} 10%	+10% 20%	+10% 30%

Commercial & Industrial Light Differential Rate

- Council proposes that those properties categorised as Commercial or Industrial Light will pay a higher differential rate in the dollar than residential with the increase of **35%** relative to the current differential rate to be phased in over **three** years.
- Council has considered the higher amount payable by the commercial and industrial light sectors with reference to the commercial and industrial light differential rates of other councils, costs of the economic development function as well as the services and activities that the sector does not regularly use.

Rating Principles

- Benefits Received
- Capacity to pay
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Commercial & Industrial Light Differential Rate

2022-23 Commercial and Industrial Light Rates Profile

	No	Gross Rates \$000s	Variable \$000s	Fixed \$000s	2022-23 Range	
					Lowest	Highest
Commercial Shop	252	534	352	183	277	22,951
Commercial Office	58	93	52	41	270	4,538
Commercial Other	324	731	502	229	84	18,348
Industrial Light	33	51	27	24	824	2,918
TOTAL	667	1,409	933	477		

Commercial & Industrial Light Differential Rate

Based on the proposed:

- 6.9% increase for all land uses including fixed charge
- Additional 15% increase in the differential rate for Commercial and Industrial Light Land Uses

the 2022-23 average rates payable will be as follows:

	Average Rates 2022-23	Average Rates 2023-24	% increase for 2023-24
Commercial Shop	2,120	2,489	17.4%
Commercial Office	1,598	93	15.6%
Commercial Other	2,257	731	17.7%
Industrial Light	1,538	51	15.3%

Industrial Other Differential Rate

- It is proposed that those properties categorised as Industrial Other will pay a higher differential rate in the dollar than residential with an increase of **60%** relative to the current differential rate to be phased in equally over **three** years.
- Council has considered the higher amount payable by the Industrial Other land use with reference to the industrial differential rates of other councils, costs of the economic development function, increased environmental impact as well as the higher impact of this sector on Council infrastructure.

Rating Principles

- Benefits Received
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- Economic Efficiency
- Policy Consistency

Industrial Other Differential Rate

	No	Gross Rates \$000s	Variable \$000s	Fixed \$000s	Average Rates 2022-23	Range	
						Lowest	Highest
Industrial Other	47	\$147	\$115	\$32	\$3,118	\$1,073 *	\$22,050

Based on the proposed:

- 6.9% increase for all land uses including fixed charge
- Additional 20% increase in the differential rate for Industrial Other

the 2022-23 average rates payable of \$3,118 would be increased to rates payable of \$3,843 for the 2023-24 financial year, being a 23% increase from 2022-23.

* The lowest range excludes 4 contiguous assessments which form part of larger holdings

Vacant Land (within townships) Differential Rate

- It is proposed that those properties categorised as Vacant Land **within township** zones as defined by Council will pay a higher differential rate in the dollar than residential with an increase of **30%** relative to the current differential rate to be phased in equally over **three** years.
- Council has considered the higher amount payable by Vacant Land within township zones with reference to the vacant land differential rates of other councils and discouraging ratepayers from long-term speculating (seeking future commercial gains) rather than developing the land for the benefit of the whole community.

Rating Principles

- Benefits Received
- Capacity to pay
- Administrative Simplicity
- Economic Efficiency
- Policy Consistency

Vacant Land (within townships) Differential Rate

- In defining those vacant land properties within townships Council proposes to use the 'Neighbourhood-type zone' as defined in the Administrative Definitions of the Planning and Design Code.
- Neighbourhood-type zone is the parent term for the neighbourhood and township zones that cover the built up residential areas within the Council area

Rating Principles

- Benefits Received
- Capacity to pay
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Vacant Land (within townships)

	No	Gross Rates \$000s	Variable \$000s	Fixed \$000s	Average Rates 2022-23	Range	
						Lowest	Highest
Vacant Land (townships)	373	\$539	\$309	\$231	\$1,445	\$736 *	\$4,309

Based on the proposed:

- 6.9% increase for all land uses including fixed charge
- Additional 10% increase in variable rate for Vacant Land within townships

the 2022-23 average rates payable of \$1,445 would be increased to rates payable of \$1,621 for the 2023-24 financial year, being a 12% increase on 2022-23

* The lowest range excludes contiguous assessments which form part of larger holdings

Vacant Land (outside townships) Differential Rate

- It is proposed that those properties categorised as Vacant Land outside township zones as defined by Council will pay a differential rate in the dollar similar to Residential but adjusted to take into account valuation changes between the different land uses.
- No of assessments for 2022-23 is 268
- Average Rate increase for Vacant Land (outside townships) proposed to be 6.9%

Based on the proposed 6.9% increase for Vacant Land outside townships the 2022-23 average rates payable of \$1,445 would be increased to rates payable of \$1,545 for the 2023-24 financial year, being an increase of 6.9%

Residential and Primary Production Differential Rate

- The above proposed differential rate changes allow for those properties categorised as Residential and Primary Production to pay a differential rate in the dollar to provide an Average Rate increase of 6.9%

Based on the proposed change in rating structure for Residential the 2022-23 average rates payable of \$2,301 would be increased to rates payable of \$2,460 for the 2023-24 financial year, being an increase of 6.9%

Based on the proposed change in rating structure for Primary Production the 2022-23 average rates payable of \$2,423 would be increased to rates payable of \$2,591 for the 2023-24 financial year, being an increase of 6.9%

- Without the proposed changes in differential rates for Commercial, Industrial and Vacant (within townships) land uses, the average rate increase would increase for Residential and Primary Production