



## **DIRECTOR CORPORATE AND COMMUNITY SERVICES REPORT**

2 February 2010

<b>DCCS3</b>	<b>2009 GENERAL VALUATION OF KEMPSEY SHIRE AND REVIEW OF RATE STRUCTURE</b>
<b>FILE: 484</b>	<b>WMS (NRN) (Folio *)</b>

### **SUMMARY:**

Reporting on new land values that take effect for the 2010/2011 Rating Year.

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The Valuer General supplied new valuations with a base date of 1 July 2009. The valuations become effective for rating purposes from 1 July 2010 for the 2010/2011 Rating Year.

A map detailing the valuation changes will be available at the council meeting. The map will detail the changes by way of colour coded % variations from the 2006 valuations.

Tables comparing the valuation variances are attached by:

- Location [\(Appendix C – Page CCS3\)](#)
- Location and rate code [\(Appendix D – Page CCS4\)](#)
- Rate code and location [\(Appendix E – Page CCS12\)](#)
- Rate code [\(Appendix F – Page CCS16\)](#)

The overall 2009 land value has decreased from the 2006 land value by approximately 20 million dollars.

2006 Base date \$2,385,974,290  
2009 Base date \$2,366,467,010

Generally the variances, within the different areas of the Shire, are only minor in terms of percentages. 6 localities experienced increases greater than 10%.

Comara has the largest increase, 27 Farmland assessments had an average increase of 46.06%, Toorooka 25 Farmland assessments had an average increase of 24.04%. Generally, land in the Macleay upper river catchment area experienced the largest overall % increase in value.

7 localities experience decreases greater than 10%.

Austral Eden has the largest % decrease, -16.30% overall being 46 Farmland properties -17.62%, 17 Residential properties -8.37%, followed by Dondingalong -14.97% (300 assessments) and Hampden Hall -14.04% (27 assessments).

## **Principals of rating**

The Department of Local Government in its publication *Council Rating and Revenue Raising Manual* provides the following note on local rating concept:

"Every inhabitant of a district should be made to contribute according to his ability; and everyone who receives from the local expenditure should be made to contribute in proportion to the benefit he receives.

Thus the fairness or appropriateness of rates may be considered in the light of these two criteria:

1. The extent to which those who receive the benefits of Council's services also pay for those services – the so called "benefit principle"
2. The extent to which those who pay for Council's services have the ability to pay for those services – the so called "ability to pay principle"."

Council in setting its rates structure attempts to obtain an equitable balance for its ratepayers in addressing the forgoing principles.

The use of the base rate (benefits principle) provides the basis by which the cost of common services enjoyed by all ratepayers are shared equally whilst the ad valorem based upon the value of land can be said to "approximate" ability to pay.

The Rating Manual goes on to state:

"Whilst the Local Government Act makes provision for base amounts, the overriding characteristic of local government rating is that the assessments that are produced will be primarily and predominantly determined via the ad valorem method whereby the incidence of any rate burden is split differentially according to the value of ratable property.

At best, the value of land can be said to approximate ability to pay. The value of land (particularly land which is not income producing) is often no indication of the means of the owner."

## **LOCAL GOVERNMENT ACT RATING REQUIREMENTS**

A brief overview of the principle requirements in respect of the levying of the ordinary rates are set out below:

- Council must make and levy an ordinary rate for each year on all ratable land in its area.
- Council must categorise each parcel of ratable land as being farmland, residential, mining or business. Council may determine sub categories for one or more categories of ratable land.
- A rate may consist of:
  1. An ad valorem amount (i.e. cents in the dollar times land value)
  2. A base amount to which an ad valorem amount is added.
  3. An ad valorem rate subject to a minimum amount

(The **base amount** may be the same or different for a category or sub category of an ordinary rate, the yield from the base amount must not exceed 50 per cent of the total yield for each category or sub category).

- **Farmland** properties were formally required to have a lower ad valorem component than that applying to any other category. This requirement was removed effective 1 July 2005 and a new transitional arrangement legislated which limited the amount that may be levied as an ordinary rate to no more than 20% above that amount levied in the previous year. The transitional provision ceases to apply from 1/7/2010.

## **RATE PEGGING**

The rate pegging legislation defines the maximum rate revenue that Council can raise in a particular year. The notional rate yield base for the 2009/10 has been calculated at \$11,335,000.

It is a fundamental principle of rating that the land value in conjunction with the adopted rating model of Council is the means by which the total allowable rate yield is distributed amongst ratepayers. Changes in land valuations as a consequence of a revaluation does not allow Council to increase its total allowable rate yield, however, it may impact upon the distribution of the charge between individual ratepayers and rating categories.

## **HISTORY OF COUNCIL RATING STRUCTURE SINCE 1994**

In response to changes in rating incorporated in the Local Government Act 1993, Council rating structure for the period 1995 to 2003 was developed based upon the following principles:

- Land was categorized as residential, farmland and business in accordance with the requirements of the Act.
- Uniform rate applied within the respective rating categories.
- Rates for properties categorized as residential or farmland were subject to a base rate plus an ad valorem rate.
- Business category was rated based solely upon an ad valorem rate (i.e. no base rate component)
- The level of revenue from each category was generally maintained at the respective yield percentage obtained prior to the 1995 year.

The model was slightly modified in 2003 following Council's approval for an extraordinary increase in its general income (ordinary rate) for the 2003/04 year.

The special increase of 4.67% was granted so as to meet costs associated with environmental projects; the approval was for the five year period ending 2007/08, extended in 2008/2009 to 2017/2018. The special variation was applied as an increase in the base charge of \$28 per assessment effective 1 July 2003.

**The general valuation dated 1 July 2003** which became effective from 1 July 2004 saw a dramatic increase in the land values of properties located in the coastal towns and villages.

In response to the valuation changes Council introduced a new rating model which provided for:

- Introduction of differential rating based upon the following land categories:

Residential	Crescent Head, South West Rocks/Arakoon, Hat Head, and Other
Business	Kempsey CBD, Crescent Head, South West Rocks/Arakoon, Hat Head, Mining, and Other
Farmland	

- Differential base rates and ad valorem rates based upon land categories were introduced
- Environmental Levy continued to be applied in the form of a uniform base rate to all ratable properties.

**The general valuation dated 1 July 2006** which became effective from 1 July 2007 saw increases in the land values of properties located in the hinterland and generally those properties that are west of the Pacific Highway.

In response to the valuation changes, Council introduced a new rating model which provided for:

- Removal of the differential rating, however, the rating categories continued to use the following sub categories:  
Residential – Crescent Head, South West Rocks/Arakoon, Hat Head, and Other.  
Business – Kempsey CBD, Crescent Head, South West Rocks/Arakoon, Hat Head, Mining, and Other  
Farmland
- Uniform base rate was adopted and ad valorem rates based upon land sub categories were discontinued.
- Environmental Levy continued to be applied in the form of a uniform base rate to all ratable properties.

## **GENERAL VALUATION 1/7/2009 AND THE IMPACT ON COUNCIL RATE STRUCTURE**

The following comments are provided in respect of the rate structure for 2010/2011. It is recommended that council adopt the same rating model as applied in the 2009/2010 rate year. The model provides uniform base amounts for each category, uniform ad valorem for Farmland and Residential categories with a traditional higher ad valorem for the Business category using the 2009 land values.

Attached are calculations of the notional rate yield of \$11,335,000 for the 2010/2011 year using 2009 land values at ([Appendix G – Page CCS17](#)). The base charges are identical to those used in the current year whilst the ad valorem rate has been adjusted to reflect the 2009 land valuation. These base and ad valorem rates will vary slightly as the rate pegging limit has not been included and additional valuation changes will occur prior to 30 June 2010.

Rate revenue generated from the respective prime rating categories has been generally maintained at a consistent level since 1995. The models adopted in 2004 and 2007 saw an increase in the Residential yield of 3% with a corresponding reduction in the yield from Farmland properties. A table detailing the respective percentages is set out below, and the proposed 2010 rate model % for the categories is included:

<i>Category</i>	<i>1994/95</i>	<i>2003/04</i>	<i>2006/07</i>	<b>2010/11</b>
Residential	68.30%	71%	74%	<b>72.84%</b>
Business	9.65%	11%	11%	<b>11.11%</b>
Farmland	22.05%	18%	15%	<b>16.06%</b>

**RECOMMENDATION IMPLICATIONS:**

- **Environmental**

*Nil*

- **Social**

*Nil*

- **Financial**

*Council can only increase the rate income by the rate pegging limit, barring a successful special rate increase application. The 2009 land value changes will result in a minor redistribution the rate liability of ratepayers within each category, based on the land value attributable to their property*

- **Policy or Statutory**

*Statutory*

- **Director's Review**

*The recommendation is supported.*

**RECOMMENDATION:**

**That council maintains the current rate structure of uniform base amounts for each category, uniform ad valorem for Farmland and Residential categories with a traditional higher ad valorem for the Business category using the 2009 land values.**