

# Rating Proposal Options

February 2012

# Issues to discuss

- Rating proposal for **conditionally** rated land
  - *Must be submitted to Minister by 16<sup>th</sup> February 2012*
- Rating proposal for **general** rates and for **waste collection** charges (statutory charges)
  - *For **budget** only as these are set in June 2012*

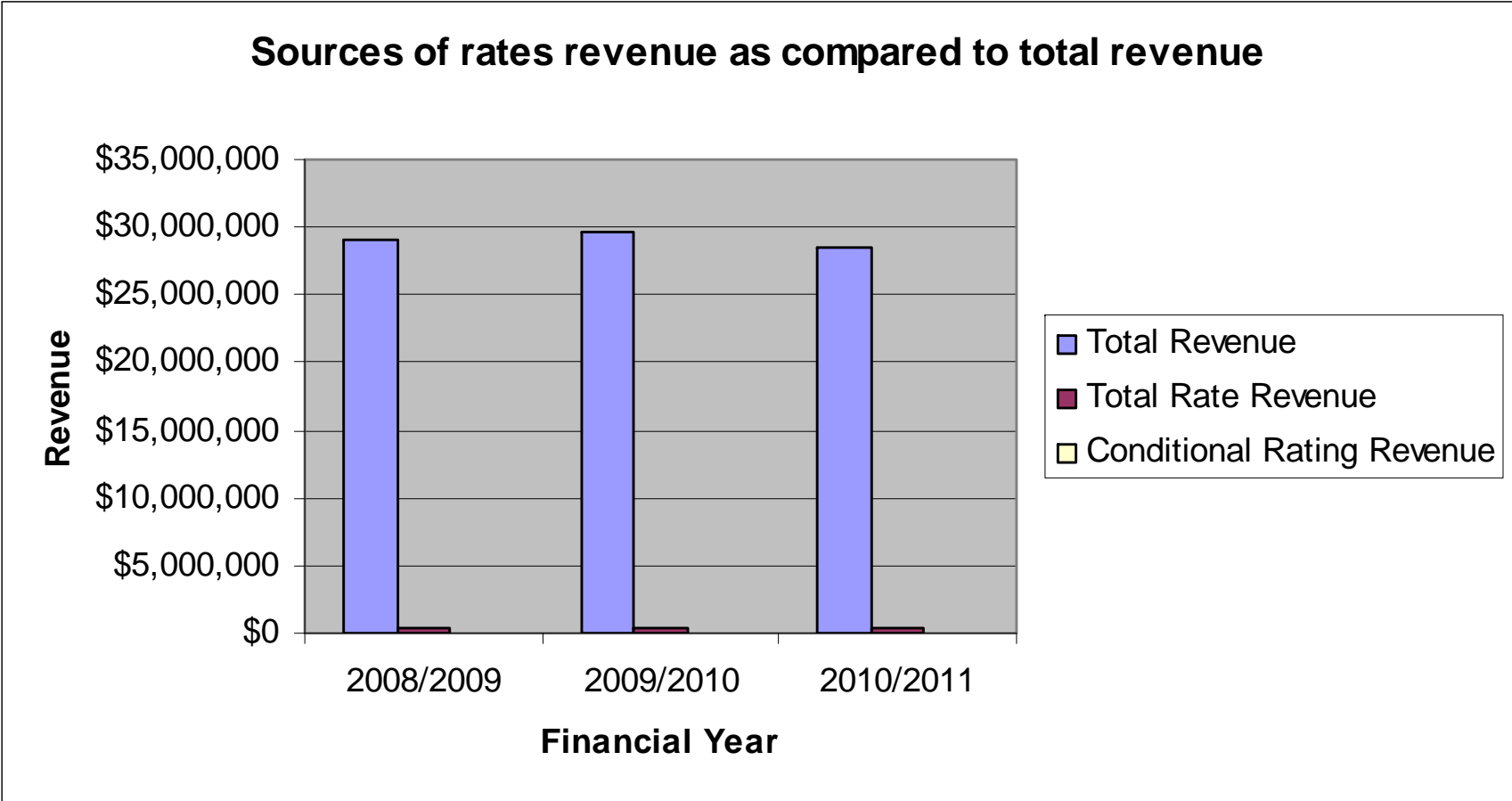
# Revenue and rating history

- At the Council's inception in 2008, the Minister established the conditional rating charges
- The NT Government established the general rating charges
- The Ministerial Guidelines established index for conditional rates at Darwin CPI (approximately 3%)
- General rates increased at the same index

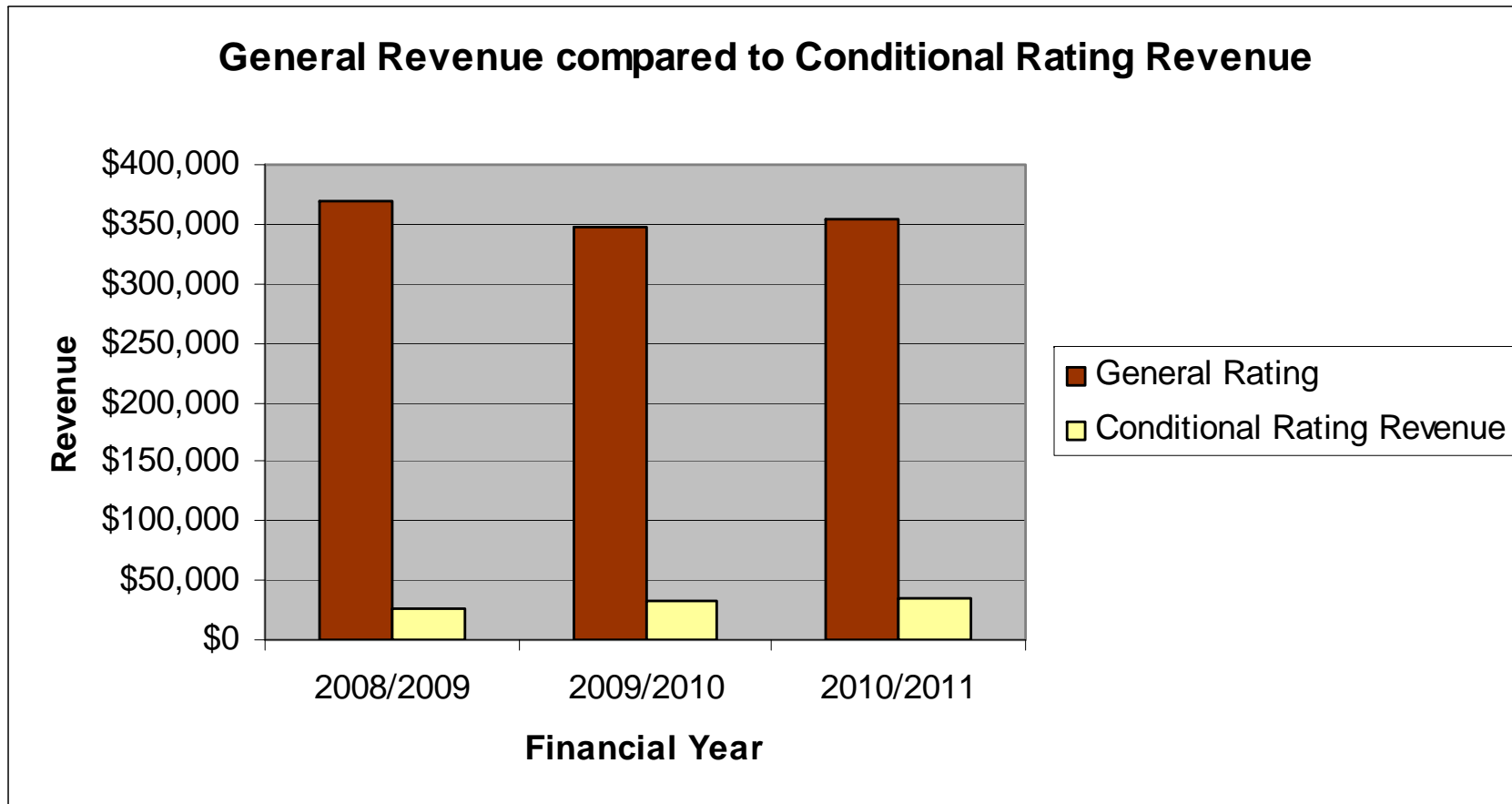
# Revenue over past three years

	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>
Total Revenue	\$29,128,838	\$29,695,451	\$28,569,888
Total Rate Revenue	\$397,023	\$378,580	\$389,940
Conditional Rating Revenue	\$27,172	\$31,870	\$35,711
Rates as % of Revenue	1.36	1.27	1.36

# Sources of revenue against total revenue



# Conditional rating revenue against general rates revenue



# Council's rates distribution (2011/2012)

Rating Category	# Properties	Average Rate Charged	Total Rates	Average UCV	Total UCV
Residential	552	656.20	362,250		
Commercial Agriculture	14	328.00	4,592	27,214	381,000
Commercial/Business	10	777.00	7,770	25,700	257,000
Mining*	11	1,049.32	11,542	184,216	2,026,376
Pastoral*	29	663.28	19,235	956,472	27,737,700

\* Conditionally rated

# Observations about rate revenue

- Rate revenue is insufficient to cover core local government expenses
- Waste collection charges do not cover waste collection expenses
- Introduction of new lease arrangements may increase expenses to local governments



# GENERAL RATES & CHARGES

# Options to consider – general rates and charges

- Recovery of waste management costs
- Application of Local Government Cost Index
- Recovery of anticipated leases expenses
- Application of CPI

# Waste Collection

- Waste service to 562 properties
- Currently charge **\$164.05** per annum per residential dwelling
- Waste management cost the Shire \$617,004 – off set by \$262,592 of other revenue.
- Cost to the Council **\$354,412.**

- Option 1: Existing service levels
  - Evenly divide waste expense between serviced properties.
  - $\$354,412 \div 562 = \$630$  per property
  - Charge additional bins as \$315 per bin
- Option 2: Reduce service levels
  - Reduce collections to once per week (currently average between 2 and 3)
  - Reduce budget to \$118,137
  - Evenly distribute new waste expense across serviced properties
  - $\$118,187 \div 562 = \$210.21$  per property
  - Charge additional bins at \$105 per bin

# Recommend:

- Existing service levels be maintained and waste charges be increased to \$630 per property with additional bins being charged at \$315 per bin

# Which Inflationary Index to Apply

- Local Government Cost Index (LGCI)
  - The LGCI attempts to better reflect the cost increases experienced by the Council
  - Applies inflationary index based on expenditure type, for example Wage Price Index for NT is applied to that proportion of Council expenditure that is expended on wages
  - LGCI was calculated by LGANT for 2011 at 4.24%
- Consumer Price Index (CPI)
  - The CPI is calculated on a metropolitan households' bundle of goods – not necessarily reflective of the what Council spends its money on
  - CPI calculated at 2.8%

# Recommend:

- **Local Government Cost Index be applied in preference to the CPI**
- However, may choose to apply CPI to maintain consistency.
  - if CPI is applied the difference in revenue is \$ 178.03 (on commercial agricultural and business).

# Recovery of leases expenses

- Council will need to pay lease payments on land occupied by the Council
- The Northern Territory Government has already committed to paying between 5% UCV and 10% UCV for properties occupied by their agencies.
- Don't know true cost as:
  - the land valuations are not available for the majority of the land within the Shire;
  - the ability of the Council to pass the lease costs onto the Agencies is unclear; and
  - the extent to which the Council will be required to pay leasing payments on common usage areas (such as parks) is unclear.
- Based on the following assumptions, it is anticipated that the Council will be required to pay leasing costs of at least **\$250,000**:
  - nominal UCV applied to all properties of \$20,000;
  - public open spaces and community use buildings (such as ablution blocks) excluded; and
  - a residential rate of 5% and a commercial rate of 10% applied to the respective properties.





To recover this cost from overall rate base would require a **64%** increase in the overall rates take (increase the total rate revenue from \$ 389,940 to \$639,940). Based on the current rating regime this would require:

<i>Rating Category</i>	<i>Applied 2011/2012</i>	<i>Target Rates to Cover Leasing Costs</i>	<i>Rates Required to Cover Leasing Costs</i>
Residential	Fixed charge of \$656.25	\$579,600	Fixed charge of <b>\$1,050</b>
Commercial or business	0.311% UCV with minimum \$777.00	\$12,432	<b>5.02%</b> UCV with minimum of <b>\$777</b> or <b>4.15%</b> UCV with minimum of <b>\$1,000</b>
Mining Leases (conditionally rated)	0.311% with minimum \$777.00	\$18,467	<b>0.699%</b> with minimum <b>\$777</b> or <b>0.611%</b> with minimum of <b>\$1,000</b>
Commercial Agricultural Properties	0.0656% UCV with minimum \$328.00.	\$7,347	<b>4.807%</b> UCV with minimum <b>\$328</b> or <b>.07%</b> UCV with <b>\$525</b> minimum
Pastoral Leases (conditionally rated)	0.0656% UCV with minimum \$328.00.	\$30,776	<b>0.11%</b> UCV with minimum <b>\$328</b>

# Recommend:

- It is recommended that the minimum charge for residential rated properties be increased to \$1,050 per property to assist with the recovery of anticipated leasing expenses.
- Commercial Agricultural and Businesses are not increased for this purpose.

# CONDITIONAL RATES

# Options to consider – conditional

- Rates equity based on UCV
- Rates equity based on weighted UCV
- Application of Local Government Cost Index
- Application of CPI

# Principals of Taxation

- Rates are a kind of tax
- Taxes are NOT fee for service
- Need to find equitable method of applying tax:
  - Equity means those who can pay more do pay more
- UCV is the Council's only available tool to determine "wealth"

# Rates based on UCV equity

Rating Category	Average UCV	Total UCV	Percentage of total UCV
Residential	\$ 25,000	\$ 13,800,000	31%
Commercial Agriculture	27,214	381,000	1%
Commercial and Business	25,700	257,000	1%
Mining / Extractive Lease*	184,216	2,026,376	5%
Pastoral Lease*	956,472	27,737,700	63%
		58,002,076	



# Implications:

- Pastoralists would need to contribute 62.8% of total rates take.
- Keeping residential contribution the same, pastoralist contribution would be \$760,059.95.
  - Increase to the differential rate to approximately 2.74% UCV.
- Mining tenements should contribute approximately \$ 28,000.
  - Increase differential rate to 0.463% UCV.

# Rates based on weighted UCV equity

	# Prop	Average UCV	Total UCV	Weighting based on #properties to total properties	Adjusted UCV	Rates contribution based on weighted UCV	Total target rates
Residential	552	25,000	13,800,000	0.896	12366233	90.13%	380,851.27
Commercial Agriculture	14	27,214	381,000	0.023	8659	0.06%	266.68
Commercial and Business	10	25,700	257,000	0.016	4172	0.03%	128.49
Mining / Extractive Lease*	11	184,216	2,026,376	0.018	36185	0.26%	1,114.42
Pastoral Lease*	29	956,472	27,737,700	0.047	1305833	9.52%	40,216.63
			44,202,076		13721083.5		422,577.49

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# Implications

- Based on a weighted UCV contribution of 9.52% of UCV the pastoralists should contribute approximately **\$ 40,216.63**.
- This would require the contribution of the pastoralists to increase to approximately **0.142% UCV** based on a \$500 minimum.
- Could be phased in over four years with 25% increment each year.

# Application of LGCI

- The indexing of total rate revenue by the LGCI allows Council's to better match the true cost increases experienced by the local authority whilst conducting its day to day options. The application of the LGCI should be considered as a minimum increment *all other factors remaining equal*. However, given that:
  - any changes to the current conditional rating regime require explicit approval from the Minister, and
  - the difference between applying the LGCI of 4.24% and the estimated December quarter Darwin CPI figure of 2.8% equates to a difference of \$1341.48,
- It is NOT recommended that the LGCI be applied at this time.

# Application of CPI

- Ministerial Guidelines have required this to-date.
- Does NOT require further justification to the Minister.
- This is recommendation being proposed for 2012/2013 rating period.

# Recommendations – general rates and charges

- **For budget development purposes**
  - General rates be increased to recover anticipated leases expenses (to \$1,050 per residence);
  - Waste charges increased to recover waste collection expenses (to \$630 per residence);
  - Commercial agricultural and business rates be increased by Local Government Cost Index (4.28%)

# Recommendation – conditional rates proposal to Minister

- Conditional rates be increased by CPI as per existing Ministerial Guidelines (anticipated to be 2.8%)

# Thank you