



Review of the City of Hobart Rating and Valuation Strategy

Discussion Paper

January 2023

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1. About this Paper

The City of Hobart is undertaking a review of its Rating and Valuation Strategy (the Review). The City requires a sustainable Rating and Valuation Strategy (Strategy) to ensure that programs, services and infrastructure needs of the community are met now but also into the future to avoid burdening future generations of ratepayers with large rate increases. It's also important that the City has sufficient revenue to ensure it can meet the Community Vision and the strategic objectives outlined in the Capital City Strategic Plan 2019-2029. Rates comprise 65% of the City's total revenue.

The Strategy will determine how the City of Hobart will raise rate revenue from properties within the municipal area using the rating options available to it under the *Local Government Act 1993* (LG Act).

Up until 2022-23 the City of Hobart had a simple rating strategy, utilising the Assessed Annual Value (AAV) valuation base and applying the same rate in the dollar to all properties to calculate the amount of rates to be levied on individual properties.

In 2021 the Valuer-General completed a revaluation of all properties in the Hobart municipal area. The changes to property valuations was unprecedented with large increases experienced particularly for residential properties. This was driven by population growth, private rental vacancy rates being low, COVID impacts and limited housing supply. This caused a significant shift in the rate burden from commercial to residential properties. Council approved the introduction of a differential rating system and limiting rate increases through rates capping to avoid disparity in the distribution of rate collections resulting from the municipal revaluation. The 2022-23 rating strategy using rates capping is not sustainable for future years.

All councils are different and have characteristics specific to locality. As a result, it is dependent upon the individual council to determine the most appropriate Strategy for its own municipal area.

It is important that the community is engaged on any change to the City's Strategy and understands how any changes will impact and benefit them.

The purpose of this paper is to set out the key issues and themes to be reviewed and background information to support the Review.

1.1 Purpose of the Review

The purpose of the review is to:

- Determine the most appropriate Strategy for the City, which will fund the provision of programs and services for the community and the infrastructure required of a growing capital city now and into the future.
- Ensure that the money raised through rates in conjunction with other revenue sources will ensure the long-term financial sustainability of the Council.
- Determine a fair and equitable method of raising revenue from rates.
- Determine how different properties should share the amount of rates to be paid.
- Ensure that Council has sufficient measures in place to support those suffering from financial hardship, including small business.
- Ensure that the City is an attractive place to do business and stimulates development activity and economic activity.

1.2 What the Review will include

The Review will consider and include the following:

- Rating principles and that the proposed Strategy will meet these principles, including:
 - What should be funded from a user pays model through fees and charges and rating to fund public services and benefits.
 - Whether the rate burden falls appropriately across different types of ratepayers.
 - Whether it is practical and cost effective for Council to administer.
 - Whether it is transparent, simple to understand and comply with.
 - Does it maximise economic efficiency e.g., does it encourage development in the City.
 - Is it sustainable and able to generate a reliable revenue source for Council now and into the future and is it flexible in changing conditions?
 - Does it support those with least capacity to pay?
- Developer contributions / user pays model of delivering infrastructure including land value capture and betterment.
- Models for capturing growth in the rate base to be used to fund future infrastructure required of a growing Capital City.
- The choice of which valuation base should be used for rating purposes (of the three available under the *Local Government Act 1993 (Tas)* (LG Act)).
- The determination of which rating system will be used i.e., pure rating on property valuations versus differential rates for land uses or property classes.
- The determination of what rating categories should be used and what differential rates (if any) should apply to those categories.
- Rating incentives to encourage the development of vacant land, discourage land holding. Other incentives to address long term unoccupied properties.
- Implementing the differential rating strategy agreed by Council for short stay visitor accommodation.

- Service rates and charges including funding models for waste management services.
- Payment due dates and payment options, including discounts for early payments, debt management and late payment fees.
- Rebates, remissions and discounts including Council's contribution to the State Government pensioner remission scheme.
- Whether support measures for those with least capacity to pay are sufficient.

1.3 How the Review will be undertaken

The Review will be undertaken in several stages and there will be opportunities for the community to provide feedback and support Council's decision making. A community engagement strategy has been developed.

Through a public expressions of interest process the City of Hobart will establish a Community Advisory Group comprising Elected Member representation and representatives from community and business groups. The Community Advisory Group will consider rating principles and threshold rating decisions including a rating and valuation strategy that will feed into an Options Paper to support Council's decision making.

Rates modelling will be undertaken to demonstrate the impacts of proposed changes to the City's strategy and consider several options for the future rating of the City including impacts on individual ratepayers. The options paper will be provided for community feedback to support Council's decision making.

Following consideration of community feedback, a draft City of Hobart Rating and Valuation Strategy will be prepared for community consultation.

1.4 Timeline

The review will commence in late 2022 and take 15 months to complete. The intention is that the new City of Hobart Rating and Valuation Strategy will take effect from 1 July 2024 for the 2024-25 rating year.

However, it is intended that immediate policy decisions are considered for the 2023-24 rating year including differential rating for short stay visitor accommodation.

2. Introduction

2.1 What is a Rating and Valuation Strategy?

A rating and valuation strategy is the method by which Council considers decisions about how rates will be raised from properties in the municipal area. The rating strategy does not influence the amount of money to be raised by Council, which is considered in the City's Long Term Financial Management Plan and annual budget. It instead determines how rates and charges will be equitably distributed amongst the City's ratepayers.

The rating strategy comprises the valuation base for each property and the actual rating instruments allowed under the LG Act to calculate the property owners' liability for rates.

In setting its rates and charges Council has the challenge of balancing the need to fund existing services, the continual demand for increased services, the need to maintain and renew essential infrastructure and the desire to keep increases to rates and charges to a minimum.

Council uses the revenue collected from rates and charges to fund the provision of more than 300 programs and services to the community and provide the infrastructure required and expected of a modern, well serviced Capital City.

Council requires sufficient revenue to meet its program and service delivery needs and fund its infrastructure needs both now and into the future.

A balance should be struck between rating to fund public services and benefits versus private services to specific groups or individuals which are often better funded through user fees and charges. Some services are a mixture of both and decisions how they are funded become more challenging.

Generally, the City provides services that either provide a public or a private benefit to the community. Generally, public services are those from which users cannot be excluded and collecting a fee would be difficult, such as parks and roads and are therefore charged through Council rates. Private goods or services are those that the community can choose to use or not, such as applications for planning and building approvals. In general, the City provides private services on a fee-for-service basis, either fully or partly.

2.2 Why is a Rating and Valuation Strategy important?

A Strategy is important to ensure the City's future financial, services and infrastructure sustainability. Furthermore, it's important that revenue decisions support the City's financial strategies for the delivery of future infrastructure and services identified in the City's Long-term Financial Management Plan and Strategic Asset Management Plan.

A rating strategy is important because rates and charges are the main revenue source for local government, comprising approximately 65% of the City of Hobart's annual income. The development of strategies in respect of the rating system is therefore very important to both Council and its community. In setting rates, Council considers its strategic directions, budget considerations, the current economic climate, other external factors and likely impacts upon the community.

2.3 Legislative Framework Councils Operate Within

It's important to note that council rates are a form of taxation rather than a fee for service. Section 86A of the LG Act states that:

- (a) rates constitute taxation for the purposes of local government, rather than a fee for a service; and
- (b) the value of rateable land is an indicator of the capacity of the ratepayer...to pay rates.

The LG Act inherently contemplates that the higher the value of the property the higher the rates to be paid.

Key Taxation Principles

As council rates are a form of taxation and therefore the City's rating strategy should align with the following principles of taxation:

- Equity –by considering the different levels of capacity to pay within the local community.
- Benefit – by recognising that Council services benefit the community as a whole.
- Simplicity – by using a rating system that is simple and cost effective to administer.
- Sustainability – by making revenue decisions that support the financial strategies for the delivery of infrastructure and services identified in Council's Long-term Financial Management Plan and Asset Management Plans.
- Effectiveness / efficiency – by meeting the financial, social, economic and environmental, and other strategic objectives outlined in Council's Strategic Plan.

- Transparency – by being open in the processes involved in the making of rates and charges.
- Timeliness – by ensuring all ratepayers are given adequate notice of their liability to pay rates and charges.
- Flexibility – by responding where possible to unforeseen changes in the economy.
- Compliance – by complying with the requirements and intent of relevant legislation.

As outlined above, ultimately it's important that the Strategy is designed to meet the needs of the City and its communities.

Rating Tools

Part 9 of the LG Act provides councils with the framework for making their rates and charges resolutions. This framework provides a range of rating tools and approaches that provide councils with the flexibility to develop a rating strategy that is tailored to the needs of their municipal area while promoting key taxation principles.

The rating tools and approaches include:

Rating Tool	Description	Usage
Differential Rating	Gives Council the ability to charge a different price (rate in \$) to different groups of ratepayers in the municipality. Typically based on use of the land, locality and property type but other factors can apply.	In accordance with section 107 of the LG Act
Average area rating	Gives Council the ability to apply a flat rate to all properties in a particular area/locality.	In accordance with section 109A of the LG Act
Capping	Gives Council the ability to limit the amount of a rate increase in any given year	In accordance with section 88A of the LG Act
Minimums	Gives Council the ability to set a minimum amount that up to 35% (as legislated) of all properties should pay. Provides a mechanism where lower valued properties do not pay less than a minimum amount. Can have minimums for the general rate, and service rates.	In accordance with section 90 and 93 LG Act. Minimums can be varied under section 107.
Fixed Charge	Gives Council the ability to levy a component of General Rates that is a fixed charge of up to 50% of total General Rates revenue. It allows for a base contribution towards General Rates from all properties.	In accordance with section 91 of the LG Act

Valuation Base

Under section 89A of the LG Act Council has the choice of three bases of value of land:

- Land Value (LV) – the value of the property excluding all visible improvements such as buildings, structure, fixtures, roads, etc.

- Capital Value (CV) - the total value of the property, excluding plant and machinery and includes the land value; or
- Assessed Annual Value (AAV) - the estimated yearly rental value of the property, excluding GST, council rates and land tax, but is not to be less than 4% of the capital value of the property.

Property Valuations

Properties are revalued every six-years by the Valuer-General. Tasmania's six-year revaluation cycle is the longest in Australia. AAVs are indexed every two years according to adjustment factors published by the Valuer-General.

When property indexation or a revaluation occurs, the values of individual properties changes and often properties in different localities and different land uses don't change uniformly, causing what's known as a shift in the rate burden.

No Windfall Gain

There is a common misconception that if a property's valuation rises then the City receives a "windfall gain" of additional income. This is not the case; the City only collects the amount of rates revenue it requires from its budget each year. It doesn't collect additional money when property values increase. If a property revaluation results in increased values overall, then the City's rate in the dollar used to calculate the rate for each property would decrease.

When properties are revalued, some properties increase in value more than others, resulting in a redistribution of the rate burden across all properties in the municipal area. As an example, if residential property values grow faster than commercial property values, it may mean that the total amount of rates collected from residential properties is greater than the total amount to be collected from commercial properties. However, the total amount collected overall is the amount required from rates income in the City's budget.

The amount of rate income required for the City to fund programs, services and infrastructure is adjusted each year as part of the budget process considering adjustments for supplementary rate income.

2.4 City of Hobart Rating and Valuation Strategy

The City of Hobart utilises the Assessed Annual Value (AAV) method to raise rates revenue. The City has both the largest rate revenue of any council in Tasmania and up until 2022-23 had the simplest rating structure where it applied the same rate in the dollar to all properties no matter what the land was used for or where it was located

and unlike some other Tasmanian councils, had not sought to utilise most rating tools available in the LG Act.

Prior to 2022-23 Council had adopted the policy position that the AAV valuation should determine rates payable and Council should not intervene to manipulate the rate burden.

Council raises rate revenue from General Rates, Stormwater Removal Service Rates (up until 2022-23), Waste Management Service Charges, Food Organics and Garden Organics Collection Service Charges and the Landfill Rehabilitation Service Charge and has historically levied rates on an annual basis offering ratepayers the option of paying annually or in quarterly instalments.

2.5 City of Hobart Rating and Valuation Strategy 2022-23 Only

In 2021 the Valuer-General completed a revaluation of all properties in the Hobart municipal area. The changes to property valuations was unprecedented with large increases experienced particularly for residential properties. This was driven by population growth, private rental vacancy rates being low, COVID impacts and limited housing supply. This caused a shift in the rate burden from commercial to residential properties. Council approved the introduction of a differential rating system and limiting rate increases using rates capping for 2022-23 to help manage disparity in the distribution of rate collections resulting from the municipal revaluation.

The 2022-23 rating strategy using rates capping is not sustainable for future years. The consequence of the strategy is that 2022-23 general rates are capped at 2021-22 levels for most properties with a percentage increase applied. Rates are therefore not being calculated on the basis of a property's valuation but effectively preserved at 2021-22 (pre property valuation levels).

2.6 How Rates and Charges are Usually Calculated

Rates and charges are calculated each year during Council's budget process. The budget process involves Council setting its priorities and expenditure levels to enable the key strategic objectives outlined in Council's Annual Plan to be implemented.

Through the budget process Council also specifies its capital requirements to renew infrastructure assets, plant and equipment and create new essential infrastructure for the City; as well as the community programs and services it will provide in the next financial year; and how much these will cost.

A Council budget also estimates the revenue to be collected from other sources such as parking fines, Commonwealth and State grants, distributions from Council's ownership interest in TasWater, rents, interest income and parking and other fees and charges. Using these estimates Council determines the amount of revenue it needs to collect in rates revenue to meet its financial responsibilities for the coming year.

Council uses property values as the basis for calculating how much each property owner pays in rates. Property values are not calculated by Council; they are provided to Council by the Office of the Valuer-General.

After identifying how much it needs to collect in rates and charges, Council calculates the total amount required to fund waste management services, food organics and garden organics collection services, stormwater services, the State Government fire levy and landfill rehabilitation services leaving the balance required from General Rates.

Generally, the rate in the dollar is calculated by dividing the amount of money Council needs to raise to provide programs and services by the total \$AAV of all rateable properties in the Hobart municipal area.

The rate in the dollar is then multiplied by the value of a property, using the Assessed Annual Value, to establish the amount to be paid by each property owner.

Example:

The total AAV of rateable properties within the municipality is \$600,000,000 and Council needs to collect \$44,000,000 in rates. The rate in the dollar is 7.33 cents ($44,000,000 \div 600,000,000$). The annual rates payable on a property with an AAV of 18,800 would be \$1,378.04.

plus, any service rates and charges applicable to the property e.g., waste, stormwater removal and the State Government fire levy.

Council sets its budget annually to ensure it raises the budgeted amount required. As outlined above, property valuations do not determine the rates income of a Council, and as a result, Councils do not gain windfalls from valuation increases and an increase in property values does not cause a rate rise.

2.7 Support for Customers and Ratepayers with Least Capacity to Pay

The City provides a number support measures for those in the community with least capacity to pay. These include the following:

Charitable Rates Exemptions

Under section 87 of the LG Act, certain land is exempt from the General Rate (and Separate Rates and Averaged Area Rates) where they are held or owned for specific purposes outlined in the LG Act e.g.: charitable purposes, Aboriginal land, certain land owned by the Crown, council owned, etc.

Pensioner Discounts

Pensioners eligible for assistance under the *Local Government (Rates and Charges Remission) Act 1991* may receive a rebate as follows, noting that limits apply:

- State Government - 30% (maximum limits apply, for 2022-23 capped at \$345.00 for pensioners also a customer of TasWater \$507.00 for pensioners not a customer of TasWater)
- State Fire Commission - 20% (off the Fire Service Rate)
- The City of Hobart - \$10

Rate Remissions

Pursuant to section 129 of the LG Act, a ratepayer may apply to the Council for remission of all or part of any rates paid or payable or any penalty imposed or interest charged under section 128 of the LG Act.

Financial Hardship Assistance

The City has a Financial Hardship Assistance Policy to provide support meeting rate payment obligations for those ratepayers experiencing financial hardship. The Policy provides a range of support measures including the deferral of rates, payment arrangements and penalty and interest remissions.

3. Property Market and Economic Conditions

3.1 Property Market

Over the last 2 years in particular Hobart has experienced some of the largest residential home value growth in Australia. There are several reasons why:

- There are not enough properties available on the market to buy so prices are increasing due to there being more demand for properties in Hobart than supply. Construction and new builds are not keeping pace with the demand for properties.
- People moving to Tasmania from other states and territories seeking a lifestyle change.
- International migration has increased the demand for rental properties. High house sale prices are reducing the amount of rental stock in Tasmania as returns from housing investments decline.

3.2 Economic Conditions

According to data from KPMG Economics¹, in the 12 months to December 2021, the price rise of residential properties per capital city was:

City	Price rise (12-month period)
Hobart	27.7 per cent
Sydney	25.8 per cent
Brisbane	25.1 per cent
Canberra	24.5 per cent
Adelaide	21.4 per cent
Darwin	16.7 per cent
Melbourne	16.3 per cent
Perth	14.5 per cent

Residential property prices are influenced by a range of factors, including population growth, building activity and interest rates. A key influence across all of these has been the COVID-19 pandemic.

COVID-19 border closures have restricted travel, impacting migration and overall population growth. The Australian population is projected to increase to 28.43 million by June 2030, or 1.11 million less than it could have been without COVID-19. The impact of COVID-19 with regards to population projection will not be uniform, with Tasmania the least impacted by population loss due to COVID-19.

¹ KPMG Economics (2021), 'The impact of COVID-19 on Australia's Residential Property Market'

During the June quarter 2020, residential property prices contracted in all capital cities except Canberra, with nominal declines of around 3 per cent. Several policy responses were implemented by the Commonwealth Government and Reserve Bank of Australia to mitigate the economic impacts of the COVID-19 pandemic. Measures included direct support to the residential construction sector through the HomeBuilder program, a lowered cash rate and low interest rate, all contributing to consumer confidence.

The HomeBuilder initiative launched in June 2020. A joint media release by the Australian Government in April 2021 stated that more than 121,000 Australians had applied for the grant, which was expected to support around \$30 billion of residential construction projects.

Despite this initiative, the expected difference in dwelling stock in states (except for QLD and WA) is lower than it would have been without COVID-19. Predictions indicate that Tasmania's dwelling stock will be around 1,000 lower than it would have been without COVID-19.

Record low mortgage interest rates below 2 per cent have contributed to the price rise of residential properties, with lower repayments potentially enabling prospective purchasers to increase their borrowing limit.

A report titled 'The Tasmanian Housing Market: update 2020-21 from the Housing and Community Research Unit, University of Tasmania, dated June 2021, found the following in respect to the Tasmanian housing market (focus on residential properties):

- Tasmania's housing market continues to be under extreme pressure. Despite some localised fluctuations linked to the effects of COVID-19 restrictions, house prices and rents remain high, while the private rental vacancy rate remains very low.
- There are significant affordability challenges across the state due to continuing low wage growth and relatively static income support payments. The temporary alleviation from the coronavirus supplement to selected income support payments has now ended and many income support recipients are again living below the poverty line.
- Border closures associated with COVID-19 have disrupted migration to Tasmania, cutting off its main source of population increase. Due to a range of government policies designed to stimulate the construction industry and the broader economy in the wake of COVID-19, new construction levels are relatively high, and it is likely that there will be a short-term absolute over-supply of new housing relative to new demand. Whether this will translate into increased affordability is not clear, because

it depends on where the new houses are being built and what kind of properties they are.

- The short-stay accommodation sector was significantly affected by the virtual closure of the tourism industry during parts of 2020. There are now signs that the sector is becoming active once more. Despite anecdotal evidence that some short stay properties returned to the private rental market during the pandemic, it is unclear how many did so or whether this trend will persist.
- Need for social housing remains high, as does need for assistance from Specialist Homelessness Services. This indicates that despite new government investment in the social housing and crisis housing systems, demand still exceeds the available supply.

4. Valuation Base

As outlined in section 2.3 above, Council has the option of three valuation bases for rating purposes. Council has always used Assessed Annual Value (AAV) but it has the option to change to using Capital Value or Land Value.

The valuation base that Council uses to raise rates has an impact on how the rate burden is distributed amongst property owners.

If the City moved to using Capital Value, the portion of rates each land use pays would change as outlined in table 3 below (noting this is based on 2021-22 property valuations e.g., pre-municipal revaluation).

Table 3: Shift in Rate Burden from move from AAV to CV

Land Use Category	% Rates Burden	% Rates Burden	Shift in Rate Burden \$
	AAV	CV	
Commercial	31.6%	19.6%	-9,003,226
Industrial	1.4%	1.0%	-292,894
Primary Production	0.0%	0.0%	2,620
Public Enterprise	6.8%	6.0%	-611,705
Quarry & Mining	0.0%	0.0%	112
Residential	59.3%	72.3%	9,718,058
Sport & Recreation	0.1%	0.2%	13,291
Vacant	0.7%	1.0%	173,773

If the City moved to using Land Value, the portion of rates each land use pays would change as outlined in table 4 below.

Table 4: Shift in Rate Burden from move from AAV to LV

Land Use Category	% Rates Burden	% Rates Burden	Shift in Rate Burden \$
	AAV	LV	
Commercial	31.6%	16.8%	-11,174,670
Industrial	1.4%	1.4%	-15,597
Primary Production	0.0%	0.0%	15,184
Public Enterprise	6.8%	2.3%	-3,370,149
Quarry & Mining	0.0%	0.0%	648
Residential	59.3%	77.3%	13,254,585
Sport & Recreation	0.1%	0.2%	3,557
Vacant	0.7%	2.1%	1,005,975

While a change in the rate burden can cause rates to increase or decrease for some property owners, councils have tools available under the LG Act to manage the impact of changing valuation bases either permanently or over time to transition to rating purely on the basis of property valuations. This is discussed further in section 5 of this Paper.

4.1 Comparison of AAV, CV and LV

Between 2009 and 2013 the State Government in conjunction with local government reviewed municipal rating and valuation. Access Economics was engaged to evaluate the different valuation bases. Access Economics found the following:

Assessed Annual Value (AAV)

AAV as a tax base has been found to perform least effectively against the principles of taxation, outlined in section 2.3 above. It is the most expensive to administer, least understandable by either ratepayers or councils, least equitable when comparing individuals on and off the 4% Rule and the least sustainable due to its volatility.

For most properties, the term 'AAV' no longer refers to the rental value of the property, but rather confusingly refers to an arbitrary measure of 4% of the CV of the property. The requirement that AAV cannot be less than 4% of the CV has resulted in a significant number of properties across the municipal area where the deemed AAV is higher than it would otherwise be.

However, AAV has always been used by Council and as such has a level of acceptability and familiarity with it. It's not 'broken' and could continue to be utilised by council. Prior rates modelling has shown that moving away from AAV would cause a significant shift in the rate burden with some ratepayers paying more and some paying less.

Example

Scenario: assuming the City needs to raise \$74.916M from general and stormwater rate and the City continues to use AAV as the valuation base from which to calculate rates, the outcome for the average residential and commercial property owner would be as follows:

Average residential property 2021-22 rates	\$1,834.68
Average commercial property 2021-22 rates	\$11,856.42

Land Value (LV)

LV was found to be the most economically efficient tax base, most administratively efficient and strongest performer in equity (in terms of the benefit principle). It does not, however, perform well against the principles of equity as significant differences in the improved value of the property would not be reflected in the rates burden i.e., rating on LV would result in similar levels of rates being levied on a one-bedroomed dwelling on a large block of land as are applied to a six-bedroom, two bathroom, two garage home on a similar block of land.

Example

Scenario: assuming the City needs to raise the same \$74.916M from general and stormwater rate and the City shifts from using AAV as its valuation base to using LV as the valuation base from which to calculate rates, the outcome for the average residential and commercial property owner would be as follows:

Average residential property 2021-22 rates	\$2,552.00
Average commercial property 2021-22 rates	\$6,521.87

In comparison to the scenario using AAV, the average residential ratepayer would pay \$717.32 more in rates. Whereas the average commercial ratepayer would pay \$5,334.55 less in rates. This shows the considerable shift in the rate burden that occurs when the valuation base is changed to LV, as outlined above.

Should consideration be given to moving valuation bases, the City has tools available under the LG Act to manage the impact so ratepayers don't experience large increases in rates in any given year.

Capital Value (CV)

CV demonstrates the strongest performance of the three bases against the principles of taxation. It is easiest to understand, most equitable (particularly in terms of capacity to pay) and is the least volatile in a property market where property value is growing at a different rate to rental values.

Example

Scenario: assuming the City needs to raise the same \$74.916M from general and stormwater rate and the City shifts from using AAV as its valuation base to using CV as the valuation base from which to calculate rates, the outcome for the average residential and commercial property owner would be as follows:

Average residential property 2021-22 rates	\$2,239.39
Average commercial property 2021-22 rates	\$7,486.15

In comparison to the scenario using AAV, the average residential ratepayer would pay \$404.72 more in rates. Whereas the average commercial ratepayer would pay \$4,370.28 less in rates. This shows the considerable shift in the rate burden that occurs when the valuation base is changed to CV, as outlined above. It is notable that the shift is not as great as a shift to LV.

Should consideration be given to moving valuation bases, the City has tools available under the LG Act to manage the impact so ratepayers don't experience large increases in rates in any given year.

Points for Discussion with Advisory Group

What are the benefits of Council continuing to use AAV as the valuation base for rating purposes?

Options to move away from using the AAV valuation base?

Benefits to rating using the Capital Value of a property.

Benefits to rating using the Land Value of a property.

5. Rating System

5.1 Property Revaluations

Property revaluations have the potential to create significant volatility in rates for property owners, particularly if a shift in the rate burden occurs. In 2009 a city revaluation by the Valuer-General was undertaken in the Hobart municipality. The previous revaluation was conducted in 2001 and between then and 2009 the property boom resulted in valuations (land, capital and AAV) rising significantly, particularly in some localities. The property revaluation resulted in an overall 43% increase in municipal AAV from the 2007 indexed AAVs. Residential AAV increased on average by 49%, with Commercial and Industrial increasing, on average, by 38%.

The effect of this was an overall shift in the rate burden to residential. While approximately 20,000 ratepayers experienced rate decreases, approximately 3,560 ratepayers experienced rate increases and due to the redistributive effects of the property revaluation the outcomes for individual ratepayers varied considerably.

2015 was the last time the Hobart municipal area experienced a property revaluation. At that time residential valuations grew fast than commercial causing a shift in the rate burden towards residential properties.

The 2021 property revaluation has caused a further shift in the rate burden towards residential due to the factors outlined in section 4 above. This caused a greater shift in the rate burden towards residential than either the 2009 or 2015 property revaluation. Residential property owners would pay considerably more of the rate burden than they did in 2021-22 leading to sharp rate increases for many.

Council approved the introduction of a differential rating system and limiting rate increases through rates capping to help manage disparity in the distribution of rate collections resulting from the municipal revaluation. The 2022-23 rating strategy using rates capping is not sustainable for future years.

5.2 Pure vs Mitigated Rating System

The City currently has a pure or uniform rating system. It applies the same rate in the dollar to all properties irrespective of land use, locality or property type. The amount of rates a property owner pays is calculated by multiplying the AAV of the property by the same rate in the dollar every property owner pays (plus flat service charges).

The City's current rating system presumes that the value of the property alone determines the amount of rates to be paid. Therefore, when property values increase or decrease so potentially do the amount of rates to be paid. As outlined in section 5.1 above, shifts can be 'dramatic' and cause the cost of rates to increase considerably in one year.

A mitigated rating system enables council to use the rating tools available in the LG Act for several reasons, including because the City wishes to move valuation bases or manage shifts in the rate burden for all ratepayers caused by property indexation or revaluations. This could be permanent or as part of a transition strategy to move to a pure rating system over time.

Using the rating tools would allow Council to manage the consequence of change so that ratepayers don't experience large increases in the cost of rates in any particular year.

Example

Property A and B are rated using the AAV valuation base and a single rate in the dollar (pure rating system). Property A is a residential property and Property B is a commercial property. There is a 25% shift in the rate base towards residential because residential property prices have increased more than commercial property prices. Using a pure rating system the Property A would experience a \$587.60 increase in rates in one year, whereas Property B would experience a decrease.

If Council decides to mitigate the outcome of a 25% shift in the rate base towards residential to avoid the sharp increase in rates in one year, then it could introduce differential rates where the Council charges a lower rate in the dollar for Property A and a higher rate in the dollar for Property B.

The council may also use rating tools to distribute the rate burden for other reasons, discussed in section 6 below.

Discussion Points

Should council continue with a pure rating system?

That is allowing property values alone determine rates paid by ratepayers even where property values change considerable due to a property boom, which may result in large rate increases for some ratepayers?

Should council in principle have a strategy of managing shifts in the rate burden to

ensure property owners don't receive large increases or decreases in rates from the prior year?

6. Equitable Sharing of the Rate Burden

6.1 Objectives

In distributing the rating burden across the different categories of ratepayers in the Hobart municipal area, Council is looking to achieve the following objectives:

- Having a rating structure that provides fairness and equity for the whole City of Hobart.
- Having a rating structure that is sustainable for Council and affordable for the community.

As outlined in section 2.3 of this report, there are several rating tools that councils can use to distribute the rating burden across ratepayers. While in the next section of this report the focus is on differential rates, this is not the only tool available to Council to manage the rating system. Each tool assists councils to manage rates payable by individual ratepayers and what share of the rates each property owner should pay.

6.2 Differential Rates

Differential rating is where the general rate, service rates or service charges are varied under Section 107 of the LG Act on the basis of the use or predominant use of the land, the non-use of the land, the locality of the land, any planning zone or any other prescribed factor.

In early 2014, the *Local Government (General) Regulations 2005* were amended to also allow councils to vary the general rate by the Valuer-General land use code i.e., property type. This amendment increases the categories of land use that a council can differentially rate by providing more detailed land use categories.

6.3 Reasons to Distribute the Rate Burden

Differential rates and other rating tools allow councils to address strategic objectives for funding and service delivery and provide flexibility for local rating issues, as well as manage property value fluctuations between different categories of land. A differential rate is generally levied where a council determines it would be inequitable and unfair to levy a single general rate on all land in a council's area.

A council may choose to distribute the rate burden for a number of reasons:

- To ensure all ratepayers make a reasonable contribution towards the ongoing maintenance and provision of services, programs and facilities throughout the municipal area, irrespective of property value.

- It may consider that land zoned and used for commercial and industrial purposes has higher costs of ongoing maintenance and provision of services, programs and facilities located in these zones as well as additional costs not attributed to other land uses such as economic development initiatives, tourism, marketing and transport.
- To encourage the development of vacant land in the best interests of the community and discourage land holding, particularly where there are housing shortages or homelessness – this is explored further in section 6.3 below.
- To levy additional rates from property types to recover the increased resourcing costs directly and indirectly linked to the operation of these properties e.g., late night venues.
- To ensure the owners of residential land used for commercial purposes contribute to the provision of services and facilities that may be associated with such commercial use e.g., short stay accommodation.

Advantages of a Differential Rating System

- Provides flexibility to distribute the rate burden between different property types and land uses and to link rates to capacity to pay.
- Allows a council to reflect the investment required to establish infrastructure to meet the needs of specific groups of ratepayers e.g., services to support tourism commercial and industrial sectors.
- Enables a council to encourage or discourage particular types of development e.g., development of vacant land, discourage conversion of residential housing to short stay visitor accommodation.
- Allows councils to consider the specifics of certain land uses where a single rate in the dollar would not result in a fair outcome.

Disadvantages of a Differential Rating System

- It can be difficult to understand and ratepayers may feel it's unfair they pay a different rate in the dollar than other ratepayers.
- It can be challenging to justify a differential and that can lead to objections and complaints from ratepayers.
- It's more difficult to administer particularly where properties shift between property classes.

6.4 Vacant Land and Short Stay Visitor Accommodation

At present, Council uses a single rate, that is, the same rate in the dollar applied to all properties no matter what the land is being used for or where it is located. As a result, properties classified as Vacant enjoy lower rates due to having lower valuations. The Assessed Annual Value (AAV) of the property is always 4% of the Land Value due to the 4% Minimum Rule and because there are no capital improvements on the land. Vacant

properties do not pay the Waste Management Service Charge nor contribute to the Landfill Rehabilitation Levy. There is, therefore, little incentive from a rating perspective for these properties to be developed or improved.

However, the Hobart municipality has several properties that are unoccupied and considered derelict. There are a number of councils who use a strategy of differentially rating unoccupied land to ensure that derelict and unoccupied properties are responsibly managed and developed by property owners. The differential rate is directly aimed at those property owners who allow their sites to become untidy or deteriorate, become unsafe and pose a risk to public safety or adversely affect public amenity. This differential rating strategy for vacant land has had the effect of encouraging property owners to manage and develop their vacant and unoccupied land.

At its meeting in July 2022 in response to a Notice of Motion, Council resolved the following:

- Council considers differential rating for properties used for short stay visitor accommodation and vacant – residential land during its broader review of the City of Hobart Rating and Valuation Strategy in 2022-23.
- To both ensure housing stock is retained and to stimulate residential development, the Council commit to finding incentives, especially to build on vacant residential land, and to consider potentially significantly higher rates for short stay accommodation in residential areas.
- A differential rating strategy or other appropriate measures be considered to address long-term unoccupied properties as part of the broader review of the City of Hobart and Valuation Strategy in 2022-23.

Discussion Points

Do you have any suggestions, including those presented above, for how the City's rate burden should be distributed amongst property owners?

7. Rate Base Growth

Under the *Valuation of Land Act 2001*, supplementary valuations are undertaken by the Valuer-General when properties change, are developed or are improved. This could include a new building on vacant land, buildings are demolished or altered/improved. Also, it can occur when properties are subdivided, amalgamated, parts sold off or rezoned.

A supplementary valuation can cause the property to increase or decrease in value. When a property increases in value, this leads to growth in the City's rate base, meaning that the combined total of all property values in the municipal area has increased.

However, when new properties are built there is increased demand for council services and infrastructure required from that growth. It is therefore important that Council's revenue and rating decisions support the City's financial strategies for the delivery of future infrastructure and services. This would be in conjunction with the City's Long-term Financial Management Plan and Strategic Asset Management Plan.

It is anticipated that Greater Hobart will experience continued population growth with an additional 60,000 people over the next 30 years. Additional infrastructure and services will be required to support this growth.

Given the above it is important that in its Strategy the City considers options to adequately capture growth in its rate base and uses the revenue from that growth to fund the increased demand for council's services and infrastructure resulting from that growth.

8. Capacity to Pay and Support Measures

As outlined in section 2.5 above, the Council provides various support measures for those with least capacity to pay rates, including support under its Financial Hardship Assistance Policy and rates discounts under the State Government pensioner remission scheme.

There are approximately 3000 property owners in the Hobart municipal area who are pensioners.

Rates discounts for pensioners are legislated under the *Local Government (Rates and Charges Remission) Act 1991* and include the following, noting that limits apply:

- State Government - 30% (maximum limits apply, for 2022-23 capped at \$345.00 for pensioners also a customer of TasWater \$507.00 for pensioners not a customer of TasWater)
- State Fire Commission - 20% (off the Fire Service Rate)

The City provides an additional \$10 discount off rates to eligible pensioners, which includes certain independent retirees. This is in addition to the State Government pensioner discount scheme, outlined above, which is open to eligible pensioners.

The discount costs the City \$30,000 per annum, which is funded from general rates. The discount has remained at \$10 since at least 1996, has lost its value, is rarely applied for and is costly to administer. No other Tasmanian council provides a rates discount other than the State Government scheme. However, interstate some councils provide additional monetary support and rates discounts to pensioners.

As part of its rating strategy review the City is considering the adequacy of support measures for pensioners in the Hobart municipal area. Any increase in support measures for pensioners would require to be funded from rates, either requiring an increase in rates for all ratepayers or a reduction in another program or service that the City provides to all ratepayers.

Discussion Points

Should the council consider providing discounted rates for eligible residents?

Appendix A

The Hobart Municipal Area

Hobart has eight land use categories being: commercial, industrial, primary production (farming), public enterprise, quarry & mining, residential, sport & recreation and vacant land. Table 1 below shows examples of the types of properties that have a land use category of commercial, industrial, public enterprise and sport & recreation. The other land use categories are as the title describes.

Table 1: Property Types by Land Use

Commercial	Industrial	Public Enterprise	Sport & Recreation
Carpark	Oil Depot	Aged Care Facility	Jetty
Hotel	Workshop	Ambulance Depot	Slipway
Bakery	Factory	School	Boatyard
Bank	Cascade Brewery	Anglesea Barracks	Recreation Area
Cafe	Bus Depot	Botanical Gardens	Reserve
Cinema	Warehouse	Cathedral	Park
Dental Surgery	Garage	Church	Sportsground
Office	Princes Wharf No. 1	Post Office	Playground
Shop	Transport Depot	Magistrates Court	Tennis Court
Bed & Breakfast	Car Yard	Museum	Pavilion
Motel	Shed	Police Station	Grandstand
Laundrette	Foundry	Government House	Swimming Pool
ATM	Joinery	Hospital	Toilet Block

Table 2 below shows the number of properties within each land use category and what portion of the current AAV rate burden each land use category pays. Most properties in the Hobart municipality are residential.

Table 2: AAV Outcome for Hobart

Land Use	No. of Properties	% Total Properties	Total AAV \$	% Municipal AAV	Total Rates \$	% Rates Burden
Residential	21,626	87.75%	582,913,635	53.33%	55,569,243	58.13%
Primary Production	2	0.01%	107,200	0.01%	9,348	0.01%
Public Enterprise	262	1.06%	146,812,153	13.43%	8,225,702	8.60%
Commercial	1,929	7.83%	342,788,645	31.36%	30,116,183	31.50%
Sport & Recreation	97	0.39%	3,110,881	0.28%	118,868	0.12%
Vacant Land	587	2.38%	7,512,467	0.69%	648,578	0.68%
Industrial	142	0.58%	9,703,160	0.89%	908,433	0.95%

*Excludes properties that don't pay rates e.g., Council owned

As can be seen from table 2 commercial, industrial and public enterprise pay proportionally more of the rate burden than other sectors. This is because rental returns for these properties exceed the 4% minimum return of a residential property. In some cases, the rental returns of commercial and industrial properties can be 7%, 8%, 9% or more. Prior to the 2022-23 property revaluation, the residential sector comprises 88% of municipal properties but pays 58% of the rate burden and contributes 53% of total municipal AAV.