Report by

Cairns Residents Reference Group (Rates)

on

Cairns City Council's

Rates Structure

Monday 20 February 2006

This Report was adopted by the

Cairns Residents Reference Group (Rates)

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ATTACHMENTS

1.0 EXECUTIVE SUMMARY

The **Cairns Residents Reference Group (Rates) – CRRGR** was formed on 6 August 2005, as a result of the aggressive increase in excess of 200% for some Northern Beaches residents General Rates, with the expressed mandate from those effected residents to review Council's current approach to the structure of its rates system and to make recommendations as to how it can be improved. The CRRGR examined the current approach taken by Cairns City Council and also other comparable Council's.

The CRRGR recognised that the issue of rating structure is more complex than most people realise and there is probably no such thing as a perfect system. This is due to the statutory requirement for Council's to use the UCV's as the basis of the general rate. Nevertheless, the Council has available to it a number of tools that allows it to ameliorate the impact of that impediment.

The CRRGR has prepared a number of general principles that the Council should follow when setting its rates. These general principles cover issues such as fairness, equity and transparency. In relation to the general rates, the key recommendations are: -

(i) Council continue to lobby the State Government to move away from UCV's as the only basis for general rates.

(ii) Council establish differential rate categories for commercial and residential properties so that, at the very least, it can monitor changes in valuation and resulting levels of contribution to the rate levied from those different properties.

(iii) Council apply a higher differential rate to strata units to take account of the "dilution effect" of strata units on valuations applying to the parent parcel of land.

(iv) Council ameliorate the extremes in different levels of contribution by residential ratepayers where, because of the extreme range of residential valuations, some residential ratepayers are paying over 20 times more than others.

The CRRGR was not able to reach agreement on all issues, reflecting the contentious nature of rating systems. Nevertheless, the CRRGR has also highlighted a range of issues that the Council may wish to consider further and has, wherever possible, set out the arguments for and against those issues.

2.0 **BACKGROUND**

Rating systems can be contentious issues in a community. Which sections of the community should be contributing more or less to the costs of running the local Council that provides services to ratepayers and residents? On what basis should a Council decide how to apportion the costs of providing services to its community? How can a rates system, which is, after all a type of tax system, be made fairer for everyone in the community?

It has been some years since Cairns City Council had reviewed its rates system and following the Public Meeting conducted at James Cook University of Saturday 6 August 2005, it decided it was time to review its approach.

2.1. Purpose of CRRGR

The purpose of the CRRGR was: -

Aims / Objectives:

1. Review the Council's current rates structure.
2. Make recommendations to the Council about any reforms necessary to the Council's rates structure after examining all available options.

Roles / Responsibilities:

1. To act as community representatives to review the Council's rates structure noting that the review must ultimately be cost neutral to the Council in regards to the total rates raised.
2. To review the Council's current rates structure trends.
3. Review options available under the Local Government Act 1993
4. Review approaches taken by other local governments to rating systems.
5. Prepare recommendations to the Council on the most equitable rating structure taking into account issues such as fairness to all ratepayers, ease of management, simplicity and legality.

2.2. Membership

Nomination for memberships of the Rates Group was called for at the James Cook University public meeting and approximately 20 nominations were received. To have a "mix" of views from the community, the following were appointed as community members of the CRRGR:

Con Bambacas	Sue Mudge	John Mayo
Bob Rendall	John Taylor	Selwyn Johnston
Rita Thomason	Sharon Probert	John Babet
Graeme Mudge	Sam O’Neill	Eugenie Navarre

The CRRGR had two withdrawals and one resignation of membership. Withdrawals by John Babet and Eugenie Navarre due to differing approaches to principles in general, and John Taylor resigned regrettable due to his temporary relocation to Victoria for family reasons. None of those members was replaced.

3.0 REVIEW PROCESS

The Rates Group adopted a five-stage review process at its first meeting. Those stages were:

STAGE 1. Information Gathering

STAGE 2. Analysis

STAGE 3. Defining the problems / Identifying the issues

STAGE 4. Considering options / Solutions

STAGE 5. Recommendations to Council

In practice, stages 2 and 3 became merged.

The Rates Group also undertook two workshops. The first workshop occurred as part of stage 3 where problems and issues were identified. The second workshop, held as part of stage 4:

a) Generally, the Rates Group reached unanimous or at least majority agreement on a significant number of issues.

b) During the process, each member of the Rates Group also had the opportunity to put forward his or her issues and suggestions. Common areas of concern and other issues were identified as part of that process.

Early in the process, the Rates Group also agreed that the intention was that the group would not become overly focused on the tools that Council's can use in a rates system (eg. averaging, capping etc). Rather, the Rates Group would focus on what the outcomes should be and leave the method of achieving those objectives to the Council's technical advisors, in accordance with the Local Government Act 1993.

BACKGROUND INFORMATION

The Rates Group commenced its review by gathering information about Council's current rates structure and then subsequently examined a range of other relevant Council's.

3.1. Cairns Current Rates System

The Rates Group has examined the Council's current rates structure. That structure will not be fully restated here, as it is well known to the Council already. However, the Rates Group noted the following key issues: -

- The Council has three categories of general rate with the differentiators being based on location.
- The Council is bound to use the UCV to calculate general rates
- The "dilution factor" for strata units (where the valuation for the parent parcel of land is divided by the unit entitlement for each unit) necessitates a higher rate in the dollar for those properties.
- Cairns has a relatively low minimum general rate resulting in approximately **40%** of rateable properties paying the minimum general rate. The remaining **60%** of properties pay above the minimum rate and accordingly, pay at the rate in the dollar.

- The 45 % of properties that pay the minimum rate or slightly higher [up to $600] contribute 32% of rates while those with rates up to $1,000 comprise approximately 86% of properties and pay 70% of total revenue. The top 14% of properties provide the remaining 30%+ of revenue.

- There is a wide range of valuations in Cairns, more so than other Council areas. This results in outcomes where the highest value residential properties pay up to 20 times or more than the minimum general rate.

- It was noted that different parts of the City have had movements in valuations at different times and also that different segments (eg. commercial/residential) move at different times.

- Over the last few years, most of the valuation increases have occurred in the residential properties, particularly in the coastal sector.

- Accordingly, the residential component of rateable properties has been paying a growing proportion of the total rate burden.

- It was noted that under the current system, some property's rates could fall. This can occur when the valuation doesn't increase (or increases less than the City average) and those properties are paying at the rate in the dollar. This has occurred in practice.

- Although the Council rates the owner of the property, the burden of paying the rates and charges often falls onto the tenants of commercial properties who have conditions in their lease requiring them to pay for all outgoings. Therefore, the Council need to be conscious of this fact when contemplating new or higher rates for commercial properties there may be a need to consult with business operators as well as owners where any consultation is undertaken.

3.2. <u>What other Council's are doing</u>

In order the gather further information, the Rates Group examined what other Council's are doing. Information was obtained from Douglas, Townsville, Thuringowa, Brisbane, Maroochy, Gold Coast, Caloundra, Caboolture, and Redcliffe Shires. Again, without setting forth every detail about each of these other Council's rates, the Rates Group noted the following:

- A detailed comparison of all rates and charges across ALL the Council's shows that for all types of properties and at all valuation levels, Cairns has the HIGHEST rates.

- All Council's approach their rates systems differently but there are several common themes and trends appearing.

- Most other Council's differentiated rateable properties based on use. The most common differentiator on the basis of use was residential/commercial.

- Although not formally documented by the Council's, the assumptions underlying other Council's approaches seemed to be based on high impacts on infrastructure/ services. This is highlighted by some Council's that had differential rates for extractive industries (presumably higher rates reflecting impact of trucks on roads) and shopping centres (presumably higher rates reflecting impact of traffic generation)

- Overall, almost all other Council's had lower rates in the dollar and lower minimums for commercial properties than for residential properties.

- Very few Council's use location as a differentiator for general rates. Some (eg. Gold Coast City Council in relation to the Surfers Paradise area) have higher rates in specific areas to reflect higher levels of service.

- Those Queensland Councils which have had to deal with huge disparities between their minimum single-residential rate and the highest amounts payable, or which have valuation changes resulting in sudden and excessively big percentage rate rises, have in most cases assisted continuing owner-occupiers by rebating the rate above a given percentage rise [generally 5%]. This provides targeted relief to owner-occupiers for as long as they say in that property. This is the situation, which applies to the largest number of affected ratepayers in the state, including the whole Brisbane Metropolitan area and Townsville / Thuringowa as well as other coastal areas. It is applied on the same basis as the pensioner rebate; i.e. owners are required to make application in the first place for the rebate and it ceases when there is a change in ownership (and obviously if the ‘capped’ rises eventually catch up to the amount otherwise payable);

- The general trend in other Council's – such as Douglas, Gold Coast and those on the Sunshine Coast -- is towards a greater number of different categories of general rate (eg. Maroochy has 19 categories; Gold Coast has 15 categories). The thinking behind this seems to be that a greater number of categories reflect a fairer way of defining different categories of ratepayers and tracking their contribution towards the rate load.

- There is also a trend to banding of valuations (i.e. different rates applying to different values in the same group of property) eg residential properties with a UCV of between $100,000 and $200,000 paying a certain rate in the dollar, residential properties with a UCV of between $200,000 and $300,000 paying a different rate in the dollar. This is the situation in those Councils referred to in the immediately preceding point.

- The Rates Group ran some modelling on what other Council's do with different general rates for different types of properties. Examples showing the way in which different Council's apply different rating burdens to different properties are contained in attachment 3 (examples used are Douglas Shire and Maroochy Shire).

Just because other shires take a particular approach doesn't mean that Cairns should follow suit. However, an examination of other Council's approaches has been useful to the Rates Group in looking at trends and different approaches.

4.0 PROBLEMS WITH RATING SYSTEM

Rating issues are always more complex then they first appear and that there is probably no such thing as a perfect rates system.

And so it has proved.

After months of review and debate, the Rates Group agrees that the best that any Council can do is to try and ameliorate the impact of having to use UCV's as the basis of a rating system. While the Council has tools available to it that can help with that, at the heart of the problem is the fact that the UCV is not necessarily a good basis for a rates system. The Rates Group is aware that Queensland is the only State that uses this and that the State Government is looking at alternatives.

> *RECOMMENDATION 1 –That Council lobby the State Government to remove UCV's as the only basis upon which Councils can levy general rates.*

Another problem that the Rates Group has grappled with is the complexity of any rates system. The more tools that a Council applies to offset the impacts of the UCV, the more complex the system becomes. To that extent, there is probably a trade off between the concepts of simplicity and fairness. A simple system may not necessarily be fair but a fair system may need to be reasonably complex. At the end of the day, whatever system is developed, it should be able to be understood by the people it affects, i.e. the ratepayers. In other words, it needs to be relatively transparent and able to be explained to ratepayers. In analysing the rates system, the Rates Group found that many commonly held perceptions about rates systems. Similarly, the concept of the "zero sum game" (i.e. if one group of ratepayers' rates go down then others must go up) is not fully understood within the community. The Council would benefit if its own community better understood the rates system.

> *RECOMMENDATION 2 – That Council provide to its community a better explanation as to how the rates system works so that the community is better informed as to how and why the rates system is structured the way it is. This information could be provided in the form of a brochure included with the Rate Notice.*

The Cairns area has been in the middle of a property boom and valuations are likely to move substantially for different areas and different types of properties. It is for this reason that the Rates Group has not made specific recommendations nor modelled a specific rates structure.

The Rates Group believes that it is important that the Council get a better understanding of the impact of movements in valuations across the City based on the general rate as set out later in this report. Every year that the Council is re-valued, the potential is that the mix within different groups of ratepayers will change again. This means that the Council should undertake a review of valuation movements every time a new valuation for the City is issued.

> *RECOMMENDATION 3 –That Council undertake an historical analysis of valuation movements as soon as the next valuation is released (expected to be 2007) for the purpose of better understanding the impact of valuation movements on the Council's rating profile for different groups of rateable properties. Further, the Council should undertake another review each time a City-wide valuation is issued.*

5.0 **CONSIDERED BY THE GROUP**

This section is in two parts – general principles and specific issues.

5.1. General Principles

No matter what rates system the Council adopts, it should meet some general principles. The general principles recommended by the Rates Group are as follows:

- Transparency – a rates system should be, on the face of it, able to be understood by ratepayers so that they can make judgments as to the fairness and equity of any rates system. The general principle of transparency also relates to the recommendation of the Rates Group that the basis of the rates system be explained to ratepayers.

- Inexpensive to administer – there is no point in having an overly complex rates system that consumes considerable Council resources to administer.

- Simplicity – where possible, the rates system should be kept as simple as possible but not at the expense of fairness. At its most basic, a simple rates system would be a set rate in the dollar for each and every property in the City. However, this would not be fair. There is always a trade-off between simplicity and fairness.

- Efficiency, fairness and equity – unlike taxation systems used by the Commonwealth and State Governments, the rates system allows a better connection to be made between the service provided and the payment for it. Where this connection is clear, it is more likely to enhance economic efficiency by linking the provision of a service with the payment for it. However, that is not always possible and the Council has to make choices about who should pay. Therefore, the Council should take in to account equity between different groups of ratepayers, their contribution towards the pool of funds collected by the Council and their demand on Council services. It goes without saying that any rates system needs to be fair between different groups of ratepayers.

- Flexibility – one of the difficulties facing Council is that a reliance on the general rate means that movements in valuations can affect the proportion being paid by different groups of ratepayers. The Council therefore needs to establish a system that enables it to respond to changes over time in valuation movements and to monitor the impact of these changes.

RECOMMENDATION 4- That Council adopt the following general principles when framing its rates structure:

- *Transparency*
- *Simplicity*
- *Inexpensive Administration*
- *Efficiency, Fairness and Equity*
- *Flexibility*

5.2. Specific Issues

The Rates Group considered a range of specific issues beyond the general principles outlined above. For the sake of convenience, these specific issues have been grouped into 5 areas where there is commonality in the issues i.e.:

a) Categorising different groups of ratepayers
b) General rate issues
c) Concessions
d) Other levies and charges
e) Other issues

A. CATEGORISING DIFFERENT GROUPS OF RATEPAYERS

5.2.1. More Differential Rate Categories

The Rates Group recommends that the Council establish additional rate categories within the general rate. This enables the Council to better monitor movements in the proportion of contribution towards the total rate pool being collected from different sections of the community. At the very least, the Rates Group is recommending that the Council establish differential rate categories for within both residential and non-residential properties. The Rates Group believes that this will enable the Council to monitor movements in the respective proportion of contributions by different sectors of the community. The Rates Group generally accepted that some groups of ratepayers (e.g. commercial properties) should pay a higher contribution or proportion than other types of properties.

RECOMMENDATION 5 – That Council establish additional differential rate categories based on residential/non-residential for the purpose of monitoring the different components or contributions being made by different types of properties.

5.2.2. The use of location as a factor for determining Differential Rates

The Rates Group considered whether location was an appropriate factor to consider when determining what different groups of ratepayers should be identified. In other words, should a residential ratepayer in one part of the City pay different rates to a residential ratepayer in another part of the City?

The Rates Group considered arguments for and against. Argument that were considered for having such an approach was that having differential rate groups based on location allows the Council to better monitor different movements in valuations across the City and further, different ratepayers had different capacity to physically access services depending on their location. However, at the end of the day, the Rates Group considered that the location of the property is already inherent in the valuation that it receives (i.e. more remote properties already receive lower valuations which affect their rates) Also, segmentation of the City on a location basis could reduce the Council's flexibility in allocating funds to different parts of the City.

After considering this issue, the Rates Group decided that the use of location as a factor to differentiate the rates to be paid by different groups of ratepayer was not appropriate.

Given that the Rates Group is not suggesting any changes to the current approach by the Council, there is no specific recommendation in relation to this issue.

5.2.3. Strata Units & Body Corporate Properties

The Rates Group suggest that Council review categories for strata units and body corporate properties. The Rates Group is not specifically recommending what that factor should be but in line with its general principle of flexibility, suggests that the Council monitor the relationship between units, residential estates and valuations and adjust the factor as required.

> *RECOMMENDATION 6 – That Council consider strata units and residential estates as a separate differential rate category.*

B. GENERAL RATE ISSUES

5.2.4. Relationship between General Rates and Special Rates

The Rates Group considered the issue of when Council should fund projects from the general rate or when it should apply special rates or charges to undertake a particular service. The Rates Group believes that in many cases, it was obvious that a particular service is solely for the benefit of a specified area and as such, that area should be wholly levied under a special rate or charge. The Rates Group considers that Council should, in each instance, decide:

(i) Whether or not it is appropriate to apply a proportion of general rate funding and a proportion of special rates to a particular project.

(ii) If so, then the Council should undertake sufficient research to justify the apportionment between the general rate and the revenue raised from the special rates and charges based on the particular service / activity being funded.

Generally, the Rates Group felt that the use of special rates and charges is something that the Council should use more of where it is possible to create a reasonably clear connection between the service being provided and the special rate. In doing so, the Council should be considering which ratepayers are beneficiaries of the work being undertaken and apportion the cost accordingly using transparent methodology in relation to the apportionment.

However, this should not just be a one-way review to see if general rate costs should be shifted to special rates. Where appropriate, the Rates Group also felt that the Council should be looking at any instances where some of the costs were more appropriately to be treated as general rate costs rather than special rate costs.

While not making any direct recommendations on these issues, the Rates Group considered several examples. Firstly, the beach levy was discussed and there was some empathy for the position that not all of the cost should be borne by specific ratepayers because there is probably an element of that cost that benefits all ratepayers in the City. Without making any specific recommendations as to the level of apportionment, the Rates Group believes that the Council should revisit at that issue and apply the criteria discussed above. Also, the Rates Group considered briefly the proposal the Council was examining regarding the funding of streetscape projects with upgrades of existing streetscapes being met from properties that gain the benefit of the upgrade paying for that service. The Rates Group agreed with the general approach that the Council was taking in that regard.

RECOMMENDATION 7 – That in relation to the relationship between general rates and special charges, Council should:

(a) Consider more actively the option of applying some of its costs currently met from the general rate to special rates and charges where it is possible to create a clear connection between the service being provided and the special benefit accruing to specific areas or groups of ratepayer.

(b) Consider which ratepayers are beneficiaries of work being undertaken and apportion the cost accordingly using transparent methodology in relation to any apportionment.

(c) Undertake sufficient research to justify the apportionment between the general rate and revenue raised from special rates and charges based on the particular service/activity being funded.

5.2.5. Taking pressure off the General Rate

The Rates Group noted that almost three-quarters of the Council's revenue come from "rate notice" type sources. In other words, for every $100 the Council spends, it has to raise $75 through the various rates and charges appearing on the rate notice. If the Council can find alternative revenue streams, this will take pressure off the overall rate burden on ratepayers. The Rates Group suggests that the Council continue to explore opportunities but should not take an open slather approach to private enterprise activities. Instead, it should focus on maximising commercial opportunities in areas related to Council's core business and where it has expertise in a particular field.

RECOMMENDATION 8 – That Council examine ways to further enhance its non-rate notice revenue to take pressure off the revenue to be derived from its ratepayers provided that such commercial approaches are related to Council's core business areas where it currently holds sufficient expertise to maximise commercial returns.

5.2.6. Range of valuations in Residential Properties

One of the major difficulties identified by the Rates Group is the enormous spread of valuations within the City for residential properties (see attachment 2). As previously identified, residential properties with high valuations can pay 20 times or more compared to other residential properties that are on the minimum rate. The Rates Group is recommending that the Council move, over time, to equalise more fairly the contribution being made by different residential properties. In practice, this will more fairly equalise the range of contributions being made by residential properties.

The Rates Group is not making any specific recommendation to Council on the method to achieve this. It is aware that there are several ways that this could be done (eg banding of valuations, achieving some type of factor between the highest value property and the minimum general rate etc). The tools to be used are not as important as the outcome to be achieved i.e. reducing the disproportionate levels of contribution by different residential ratepayers.

One critical question that then arises is how widely or narrowly to define residential properties. Residential properties all have a common element of being used for accommodation purposes. However, some are owner / occupiers while other have various degrees of commercial transactions involved eg long term tenancies, home based businesses, short term tenancies (eg tourism use) etc. The intention of the Rates Group is that the principle of equalisation should only apply to residential properties where there is a community of interest i.e. owner / occupiers only.

The Rates Group recognises that such a system have minor additional administrative costs for Council in assessing and monitoring which residential property would fall into that category, though the same procedure as for pension rebates could readily be adapted for relevant owner-occupiers. The Council is requested to consider the benefit to be gained from implementing equalisation for owner / occupiers compared to the additional cost of administering such as system.

> *RECOMMENDATION 9 – That Council look at phasing in equalisation within the residential rating component of the general rate so that the extreme range of contributions being made by different residential ratepayers is reduced*

5.2.7. Minimum General Rates

The Rates Group examined two aspects of the minimum general rates. Firstly, was there a need to have a minimum general rate and if so, was it at the right level. Secondly, how should the minimum general rate be dealt with in relation to different categories of properties (eg residential / non residential)?

The Rates Group has spent a considerable amount of time debating the minimum general rate. The Rates Group supports the Council's approach to having minimum general rates because it reflects the minimum impact that any ratepayer will have on the demand for Council services. While there was complete agreement that there is a need for a minimum general rate but there were arguments about whether or not it is too high or too low. For the purpose of clarifying the issues, the question about whether or not the minimum general rate is too high or too low was separated into residential properties and non-residential properties.

In relation to residential properties, the Rates Group considered arguments for and against increasing the minimum general rate. On the one hand the top 14% of ratepayers pays over 30% of the general rate, while those 45% on the minimum rate (or up to $600) contribute just 32%. It was felt that the minimum rate should be increased to achieve better parity between the levels of contribution by different residential ratepayers who have similar abilities to access Council services. A higher minimum general rate reflects common ability to use services. On the other hand, it affects the capacity to pay for lower income earners. It is also seen in the community as an unjustifiable revenue raiser that takes away the impact of valuation on the determination of rates paid. It was also seen as not popular with the majority of the community who pay the minimum general rate.

In relation to non-residential properties, the Rates Group's view was that there was no need to try and achieve parity between the minimum general rate for residential property and non-residential property. It may be quite appropriate for the Council to have different minimum general rates for those different categories. In relation to non-residential properties, the Rates Group's view was that there should be a broader range of rates, i.e. the minimum general rate should probably be lower but the rate in the dollar for larger non-residential properties should be higher. Some commercial properties have a lower impact on services than others but high-end commercial properties may have a greater impact. In other words, commercial properties probably have a broader range of impact on Council services based on their activities compared to residential properties. At one end of the scale, micro businesses have a relatively low impact but at the other end of the scale, major shopping centres etc. have a much higher impact.

RECOMMENDATION 10 – that in relation to the minimum general rate, the Rates Group recommends to Council that:

(a) *Council maintain its approach to having minimum general rates because it is a fair reflection of the minimum impact that different ratepayers have on the demand for Council services.*

(b) *The Council should continue to have different minimum general rates for residential properties and commercial properties, as there is no reason why those different rate categories must have the same minimum general rate*

(c) *The minimum general rate for commercial properties should arguably be higher given that there is relief available for commercial properties due to tax deductibility.*

6.0 **CONCESSIONS**

6.1. Deferred Payment Scheme

The Council has a deferral of rates scheme whereby a person who meets Council's qualifications (generally long term pensioners) can apply to defer the payment of the rates indefinitely. Rates are then paid at the time the property is sold or when the rates are settled as part of the winding up of the estate. Council currently charges interest on the deferred rates at the same rate that it charges interest on all overdue rates, i.e. 11%. The Rates Group was strongly of the opinion that this was unfair on the very people that the deferral of rates scheme was trying to assist. The Rates Group believes that this interest rate could be one of the reasons why there has not been significant take up of the deferral of rates scheme.

> *RECOMMENDATION 11 – That Council immediately amend the interest rate under its deferral of rates scheme so that interest on deferred payments should be the same as either the current bank bill rate or the rate that Council borrows at. Council should also publicise this change and encourage any pensioners who are able to take advantage of the scheme to do so.*

6.2. Pensioners

The Rates Group had no difficulty with the fact that the Council provides concessions for pensioners. The question arises as to how far the Council should go in limiting the impact of rates on pensioners. The Rates Group noted that the Council already has a cap on the total increase that pensioners may face but that this may be simply capping an already high rate amount. Therefore, the Rates Group debated whether or not it was either desirable or possible to place an upper limit on what a pensioner will pay for their rates. The arguments for such an approach was that compassion is shown for segment of community that needs assistance and there is less ability to pay. On the other hand, the benefit of capital gain for pensioners is being subsidised by other ratepayers.

The view of the Rates Group was that this was something that the Council should consider further to find out if it was possible. However, in doing so, the Council should look at what financial impact would be imposed on the balance of ratepayers.

The Rates Group considered two other aspects in relation to pensioners, i.e.

(i) The Council should consider whether or not to extend its current concessions to pensioners and apply the concession to holders of [State] Seniors Cards or at least to [Commonwealth] Seniors Health Care Cards.

(ii) Whether or not the Council should introduce a system that a ratepayer gets a discount if there is only one pensioner living at the property. The context in which this was raised was that there are many instances whereupon the death of a spouse, two pensions suddenly become one and the one surviving pensioner does not have the same demand on Council services. After considering the issue, the Rates Group agreed that the Council should be requested to examine whether a higher level of pensioner remission should be applied where the pensioner provides a Statutory Declaration to the Council that they reside alone in the property.

RECOMMENDATION 12 - that in relation to pensioners, Council:

(a) *Investigate whether or not it is feasible to introduce a higher level of remission for pensioners residing alone in a property;*

(b) *Review the possibility of extending the Pensioner Concession to self-funded retirees who hold the Seniors Card [or Commonwealth Seniors Health Card]*

(c) *Consider both the financial impact on the balance of ratepayers in any such review and also the practicalities of administration in both instances.*

6.3. <u>The rates system should not be used to achieve social welfare outcomes</u>

The discussion on this issue centred around whether the rates system should be purely a tax system to raise revenue (and that the revenue then be used for expenditure on what the Council saw fit) or alternatively, whether the Council should build in a whole range of concessions etc. on top of the existing system that means that the rates system becomes a tool to achieve social outcomes. The arguments for that were considered and that we need to show we are a compassionate community and that it meets a community need. On the other hand, welfare issues are more properly addressed at the State and Commonwealth levels.

The Rates Group did not believe that the rates system should be used for expenditure to achieve social welfare outcomes. There was also general agreement that the Council should not be using the general rate for welfare issues that were primarily the responsibility of the State or Commonwealth Governments as this was simply another example of cost shifting.

7.0. OTHER LEVIES AND CHARGES

7.1. Water Pricing

The Rates Group examined the structure of Council's water tariff. The Council currently has an access charge and a water consumption charge. The water consumption charge is a lineal approach, i.e. a constant price per kilolitre for consumption. The Rates Group was concerned that the Council needs to do more to encourage water conservation and that pricing was one alternative open to it to do so. Although the Rates Group is aware that the Council has previously looked at this issue, it would like the Council to re-examine the concept of stepped charges whereby the price per kilolitre increases the more water is consumed. The Rates Group would also ask that the Council examine whether it is possible to have more information regarding water consumption and the need to conserve water on its rates notice so that ratepayers can make a clear connection between the impact of consumption and its affect on their rates bill.

> *RECOMMENDATION 14 – That Council examine ways in which it can use pricing to reduce water consumption and again examine the proposal to have higher water pricing for higher consumption. Further, the Council look at ways in which it can put better information about water consumption on to the rate notice so that the ratepayers can better ascertain their consumption and be encouraged to conserve water.*

8.0 **OTHER ISSUES**

8.1. Some General Issues

The Rates Group discussed a number of other issues that, while there is no specific recommendation to the Council, it wishes to draw the Council's attention to them.

Firstly, the Rates Group was surprised to learn that it is possible for some ratepayers' rates to actually decrease from year to year. This can occur where a ratepayer with a property paying rates based on the rate in the dollar finds that their valuation does not increase (or alternatively does not increase by the City average). The Rates Group investigated whether or not it was possible to put in place mechanisms to ensure that this never occurs but the legality of the current rates system does not allow a blanket prohibition on this. Nevertheless, the Rates Group wish to draw this to the attention of the Council and suggest that the Council include in its review after the issue of the new valuation whether or not there are significant reductions in rates paid by various ratepayers.

Secondly, the Council should note that throughout the recommendations contained in this report, there is no mention of averaging, capping, banding etc. This is deliberate. The Local Government Act 1993 sets out a range of tools available to Councils to use that enables it to create a rates structure. The Rates Group wants the Council to realise that the fact that it has not made specific recommendations about any of these tools does not mean that the Council should not use them. It simply wishes to give advice to the Council about the overall outcomes that should be achieved and then leave it to the Councils' technical advisers as to which tools to apply to achieve those outcomes.

Thirdly, as an overall issue, the Rates Group believes that the Council needs to better understand the cycle of valuations that is occurring in the Cairns Region. It is quite probable that the movement in different groups of properties in Cairns occurs at different times and different rates to other Local Government areas. As such, the Council should be monitoring valuation movements over time so that it better understands the system it is trying to manage.

9.0 **SUMMARY OF RECOMMENDATIONS**

RECOMMENDATION 1 - That Council lobby the State Government to remove UCV's as the only basis upon which Councils can levy general rates.

RECOMMENDATION 2 - That Council provide to its community a better explanation as to how the rates system works so that the community is better informed as to how and why the rates system is structured the way it is. This information could be provided in the form of a brochure included with the Rate Notice.

RECOMMENDATION 3 - That Council undertake an historical analysis of valuation movements as soon as the next valuation is released (expected to be 2007) for the purpose of better understanding the impact of valuation movements on the Council's rating profile for different groups of rateable properties. Further, the Council should undertake another review each time a City-wide valuation is issued

RECOMMENDATION 4- That Council adopt the following general principles when framing its rates structure:

- *Transparency*
- *Simplicity*
- *Inexpensive Administration*
- *Efficiency, Fairness and Equity*
- *Flexibility*

RECOMMENDATION 5 – That Council establish additional differential rate categories based on residential/non-residential for the purpose of monitoring the different components or contributions being made by different types of properties.

RECOMMENDATION 6 – That Council consider strata units and residential estates as a separate differential rate category.

RECOMMENDATION 7 – That in relation to the relationship between general rates and special charges, Council should:

a) Consider more actively the option of applying some of its costs currently met from the general rate to special rates and charges where it is possible to create a clear connection between the service being provided and the special benefit accruing to specific areas or groups of ratepayer.
b) Consider which ratepayers are beneficiaries of work being undertaken and apportion the cost accordingly using transparent methodology in relation to any apportionment.
c) *Undertake sufficient research to justify the apportionment between the general rate and revenue raised from special rates and charges based on the particular service/activity being funded.*

RECOMMENDATION 8 - That Council examine ways to further enhance its non-rate notice revenue to take pressure off the revenue to be derived from its ratepayers provided that such commercial approaches are related to Council's core business areas where it currently holds sufficient expertise to maximise commercial returns.

RECOMMENDATION 9 - That Council look at phasing in equalisation within the residential rating component of the general rate so that the extreme range of contributions being made by different residential ratepayers is reduce.

RECOMMENDATION 10 – that in relation to the minimum general rate, the Rates Group recommends to Council that: -

(a) *Council maintain its approach to having minimum general rates because it is a fair reflection of the minimum impact that different ratepayers have on the demand for Council services.*
(b) *The current minimum general rate for residential properties is probably too low*
(c) *The Council should be considering having different minimum general rates for residential properties and commercial properties, as there is no reason why those different rate categories must have the same minimum general rate.*
(d) *The minimum general rate for commercial properties should arguably be lower given that there should be a broader range of rates for commercial properties (noting that the rate in the dollar for larger commercial properties should probably be higher).*

RECOMMENDATION 11 - That Council immediately amend the interest rate under its deferral of rates scheme so that interest on deferred payments should be the same as either the current bank bill rate or the rate that Council borrows at. Council should also publicise this change and encourage any pensioners who are able to take advantage of the scheme to do so.

RECOMMENDATION 12 - that in relation to pensioners, Council: -
(a) *Investigate whether or not it is feasible to introduce a higher level of remission for pensioners residing alone in a property;*
(b) *Review its current requirements that the Council remission allowed for pensioners only applies to pensioners receiving the full pension;*
(c) *Consider both the financial impact on the balance of ratepayers in any such review and also the practicalities of administration in both instances.*

RECOMMENDATION 13 – That Council re-examine the structure of the tourism levy to determine whether or not there is a better option than the current system to reflect the direct/indirect benefit from the tourism levy.

RECOMMENDATION 14 – That Council examine ways in which it can use pricing to reduce water consumption and again examine the proposal to have higher water pricing for higher consumption. Further, the Council look at ways in which it can put better information about water consumption on to the rate notice so that the ratepayers can better ascertain their consumption and be encouraged to conserve water.

ATTACHMENT 1.

Glossary of Terms

General Rate – The principal source of funding for Council services, facilities and activities, excluding the provision of utility charges such as water, sewerage and garbage. The general rate is calculated by multiplying the unimproved capital value of the property by a set rate in the dollar.

CRRGR – Cairns Residents Reference Group (Rates)

Dilution Effect - Dilution effect arises when valuations are applied to strata units (both residential and non-residential). Individual strata units do not receive a separate UCV from the State Government. Instead, the whole parcel of land on which the units are situated receives a valuation and then that valuation is divided by each individual unit entitlement to achieve an individual valuation for each strata unit. The net affect of that is that the total valuation for the parent parcel is diluted for each individual unit.

Land Use Codes – Codes used by the Department of Natural Resources and Mines to identify the use being made of land for the purposes of determining UCV's.

Separate Charge – A set dollar amount levied on all properties for a particular service or activity.

Separate Rate – An amount levied on all properties to fund a particular service or activity, and calculated in a manner similar to the general rate.

Special Charge – Similar to a special rate, except the amount levied bears no relationship to the unimproved capital value, but is instead a set dollar amount per property.

Special Rate – An amount levied on certain properties to pay for a specific service or activity that is beneficial to the property. As with general rates, a special rate is based on the unimproved capital value of the land.

UCV - Unimproved Capital Value

Zero sum game - The Council decides the total amount of rates to be collected. As such, the rates structure is designed to decide how different groups of ratepayer contribute proportionately to the total pool of rates to be collected. By definition, therefore, if the total pool of rates to be collected is to stay the same, if one ratepayer or group of ratepayers pays less, then another must pay more for the same pool of funds to be collected.

ATTACHMENT 2.