

Fact Sheet 10: How are council rates calculated?

What are rates?

Council rates can generally be described as a tax on the wealth of property owners, where their wealth is measured by the value of their land (excluding improvements such as a house).

However, in New South Wales it would be more accurate to say that **rates are a function of a property owner's share of the total value of land within the local government area.**

Generally, the greater your share of total land wealth within your council area, the higher your rates; although this **depends on the type of rating system chosen by the council.**

How many rating systems can councils choose from?

Under the NSW Local Government Act, **there are only two systems for imposing rates.** Councils must choose between:

1. a **"minimum rates" system** – Under this system a council must impose a uniform rate per dollar of land value **but** with "a minimum". This is so that those with the lowest values do not end up paying very small amounts compared to others.
- or
2. a **"base rates" system** – Under this system a council may impose a "base" amount that is the same dollar value for everyone **but** they must then add additional rate per dollar of land value. In this system, the total rates raised by the council from the "base" component cannot exceed 50% of the total rates raised in the area.

Rates applied under either system may vary per dollar of land value depending on the category of land. **There are only three categories of land to which rates can be applied: residential, business and farmland.** Generally councils apply lower rates per dollar of land value for residential land than they do for land occupied by businesses.

While both systems are based on the concept of imposing taxes fairly, they can in practice have quite different effects. In general:

- The minimum rates system will tend to **increase the weight of land wealth in the calculation of rates**, producing a result where, as land values increase, rates also increase proportionally.
- The base rates system will tend to **minimise the weight of land wealth in the calculation of rates**, producing a result where lower land values attract proportionally higher rates than they would in a minimum rates system and higher land values attract proportionally lower rates than they would in a minimum rates system.

Under both systems the total increase in the yield of rates that may be raised by a council is capped each year by the State Government to around CPI.

Which rating system does Waverley Council use?

Waverley Council uses the minimum rates system. In 2010, 50% of residential properties in Waverley are paying the minimum rate of \$387 for the year.

How can changes in land value in Waverley affect your rates?

Councils must set rates based on the value of each parcel of land in their area. The values are determined by the State Government's Land and Property Management Authority (LPMA).

The LPMA re-values all lands within each council area every three years. This will almost invariably result in fluctuations every three years in the relative share of total land wealth in some suburbs compared to other suburbs in the council area. This in turn will result in a proportional shift of each property owner's share of the total burden for rates. For example:

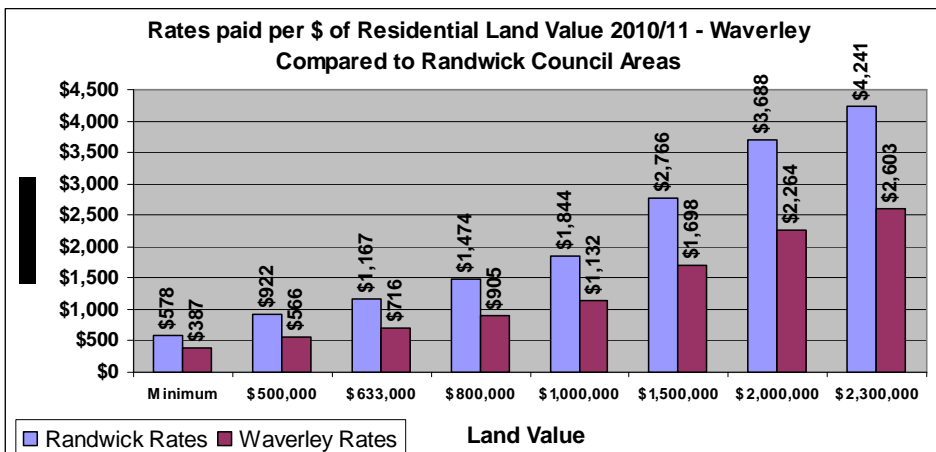
- If you live in a Waverley locality where land values have **risen more** than they have risen in other Waverley localities **you will be very likely to experience a bigger rise in rates than residents in some other areas of Waverley.**
- Conversely, if you live in a locality where values have **risen less** than they have risen in other parts of Waverley, this means **you may be likely to experience a drop in rates.**

In years where land is not being re-valued, all rates will simply increase by the uniform percentage allowed by the State Government under the rate capping system – usually around 3%.

Do the high land values in Waverley mean you pay high rates?

No. Land values in Waverley are very high compared to the rest of the state. So we might expect rates in Waverley to be very high. But the opposite is the case. **Waverley rates are comparatively low.** This is because **the permitted increase in the total yield of rates is capped every year by the State Government.** As such, it isn't true to say that rates are simply a function of land value.

Even though land values can rise very steeply as they have in Waverley over the last two decades, this doesn't translate to steep rises in rates, because of rate capping. **There are quite a number of other council areas where residents pay much more in rates, per dollar of land value, than Waverley ratepayers.** Randwick is one such area where residents pay up to 63% more in rates per dollar of land value.



For more information on how rates are calculated in Waverley, view our Operational Plan 2010/11 on our website at:

http://www.waverley.nsw.gov.au/data/assets/pdf_file/0008/2024/OperationalPlan2010_2011.pdf

Who pays more in rates – businesses or residents?

On a per property basis, **businesses pay more rates in Waverley than residents.** In fact, per dollar of land value:

- **businesses in Bondi Junction pay seven times as much as residents** throughout Waverley; and
- **businesses in the rest of Waverley (outside Bondi Junction) pay five-and-a-half times as much as residents** throughout Waverley.

Residential rates make up about 20% of Waverley Council's total annual income and business rates make up about 8% of Waverley Council's total annual income.