



Government  
Services

# Valuation Averaging Mechanism

Local Government Rates – Discussion Paper

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# 1. Executive Summary

Local government rates in Victoria are based on the most recent property valuations undertaken by the Victorian Valuer-General. Valuations have been undertaken annually in Victoria since 2018. Every ratepayer receives their property's new valuation as part of their rate notice and the valuation may be appealed.

A recommendation of the 2020 Local Government Rating System Review was to consider the merits of a valuation averaging mechanism for local government rates. This was to address circumstances when a large movement in individual property values led to large changes in rates – making it difficult for some ratepayers to plan accordingly. An optional valuation averaging system for rates applies in Queensland.

The introduction of a range of different types of Valuation Averaging Mechanisms (VAM) into the Victorian rating system will not directly result in an equivalent change in rates and charges for all ratepayers, and many of the scenarios presented – all based on valuation and rating data from a deidentified Victorian council – will result in an increase in rates for many properties even when an averaged valuation of multiple years is lower than the current year. The impacts on rates of a VAM are highly diffused and would affect individual properties unevenly.

The levying of rates and charges with a VAM becomes highly complicated by councils levying rates via differential rates and/or a municipal charge (used by a majority of councils) as opposed to a simple uniform rate. Where councils alter the calculation of rates and charges through differential rates in the dollar and fixed charges, the effect of the VAM is further dissipated.

The complexities of a VAM are further increased by the requirement for supplementary valuations, along with the administrative complexities for councils and considerations for equity. Finally, the contents of a rate notice may become highly confusing for many ratepayers with the addition of a VAM which will apply to some, but not all of the rates, levies and charges currently displayed on a rate notice. To conclude, the potential benefits of a VAM are diffused and limited, whereas there are many complications and downsides. Moreover, the existing rating tools available to councils allow for targeted ways to address challenges resulting from large year to year movements in property values.

## 2. Introduction

Across Australia, local government rates are primarily based on property values. In Victoria, the State Government's valuation authority, the Victorian Valuer-General, conducts valuations of properties across the state every year. Councils use the most up to date valuations when setting their rates for the forthcoming financial year, though they set their own methodologies regarding how these are used through the application of uniform rates, differential rates, and municipal charges.

The Victorian Government committed to a review of the local government rating system to ensure local government rates are fair and equitable for all the community. A Ministerial Panel was appointed in 2019 to lead the rating system review in consultation with the community, ratepayers, and councils. The Ministerial Panel's final report, and the Government's response, were published on 21 December 2020.

The Local Government Rating System Review Final Report<sup>1</sup> discussed some ratepayers' experiences with large movements in property valuations due to recent sales and the subsequent increases in rates. Ratepayers expressed concerns that their rates, where impacted by large increases in property value, had increased to such a level in a short period that they were unable to budget accordingly.

The report proposed –

**Recommendation 7:** That the Victorian Government examine the merits of a valuation averaging mechanism to reduce the impact of large changes in valuations on rates.

The Government's Response<sup>2</sup> supported this recommendation in full, stating that "...this reform has the potential to address the uncertainty caused by rate volatility arising from large movements in valuation year on year."

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<sup>1</sup> [Local Government Rating System Review, Final Report](#) (page 38-47)

<sup>2</sup> [Victorian Government Response to the Local Government Rating System Report](#)

<sup>4</sup> DGS Report Template DGS Report Template DGS Report Template DGS Report Template

## 2.1 Purpose of this Paper

This paper discusses the merits of a Valuation Averaging Mechanism (VAM) for local government rates as well as considerations for design and implementation.

The Local Government Rating Review focused specifically on the principles of fairness and equity, referring respectively to how people experience the rating system (as administered by councils) and how they judge the impact of the system on themselves and their communities. To minimise unintended consequences and costs, a number of commonly used principles guide good tax system design. Those most relevant to local government rating include **efficiency, equity, simplicity, and sustainability**:

- **Efficiency:** Taxes should not significantly distort decisions around property ownership, usage, and development. For example, stamp duty, as a one-off tax on a transaction, is often considered inefficient because it may prevent property buyers from locating close to work, family, suppliers, or customers.
- **Equity:** A tax burden should fall across different types of ratepayers according to:
  - *Vertical equity:* Taxpayers with greater capacity to pay should pay more taxes; and
  - *Horizontal equity:* Taxpayers in similar circumstances should be treated in a similar way.
- **Simplicity:** A system should be practical and cost-effective to administer and enforce. The system should also be simple to understand and comply with; and
- **Sustainability:** A system should generate reliable revenues for public expenditure on an ongoing basis. Taxes should be durable and flexible in changing economic conditions.

## 2.2 Scope of this Paper

This discussion paper will examine the concept of a VAM in accordance with the above principles. This paper will do the following:

- Determine the scale and extent of the issue of large rate movements arising from property valuation shifts year on year;
- Consider some general design principles for a possible VAM and draw on existing models found in other Australian jurisdictions; and
- Identify the key challenges of a VAM both in its design and implementation.

The paper also provides consultation questions for the reader to consider the merits of a VAM against good taxation principles and in the context of the current Victorian local government rating system.

When considering the effects of introducing a VAM for the purpose of addressing potential rating volatility, its implementation must not affect the State Government's collection of Land Tax and the Fire Services Property Levy. Given that the primary goal of a VAM is to smooth rating volatility experienced by some ratepayers, the following is considered Out of Scope:

- Any alterations that will affect the calculation or collection of the Fire Services Property Levy; and
- Any alterations that will affect the calculation or collection of Land Tax;

Additionally, the Valuer-General of Victoria is responsible under the *Valuation of Land Act 1960* for providing up to date valuation information that must be issued to each property and has no legislative responsibility to provide averaged figures to councils.

### 3. Background

When the Valuer-General of Victoria (VGV) values a property under the *Valuation of Land Act 1960*, their objective is to determine the likely market value of a property if it were to be offered for sale. A valuation depends on indicators such as the property's structure, age, level of maintenance, location and comparable market sales and rental information of similar properties in the area.

Valuations have previously been provided in two and four year cycles, however since 2018, property valuations have been undertaken annually in Victoria.

#### **Milestones in Victoria's Property Valuation History**

1979/1980 – Metro properties are valued every 4 years, Rural properties every 6 years.

2000/2001 – All properties are valued every 2 years.

2008/2009 – Water Rights were removed when determining property valuations

2019/2020 – All properties are valued annually.

The annual revaluation process is undertaken by private sector valuers contracted by the Valuer-General Victoria along with professional valuers employed by the Victorian Government. The valuations are subject to audit by the VGV, and valuers are professionally liable for their work. The valuation information is used by other government agencies, and most prominently by local governments for the purposes of levying rates.

## 3.1 Determining the Scale of the Issue

An individual property's value is based on the amount it could be expected to realise in a hypothetical sale. An increase in value of a property indicates greater market demand for similar properties and the increased stored wealth (the property's valuation) is likely to be realised if the subject property was also offered for sale. Consultation during the *Local Government Rating System Review* saw numerous claims by ratepayers that large increases in property valuation result in large increases to rates and charges due, preventing them from adequately budgeting for the bill and causing financial disruption to the affected ratepayer.

While recommending consideration of the merits of a VAM, the *Local Government Rating System Final Report* noted that its primary purpose would be to reduce the impact of large changes in valuations to rates and charges, addressing uncertainty caused by potential rate volatility arising from large movements in valuations. The report also discussed that decisions regarding valuation averaging must consider the implications for equity for the whole municipality.

This paper will examine property valuation data in a range of municipalities to determine if large shifts in values are widespread and to what extent consequential movements in rates may be considered 'volatile'.



## 4. Valuation Movements and Rate ‘Volatility’

Councils budget for a specific level of rates and charges each financial year which is then levied to individual occupancies by multiplying its valuation by the rate/s in the dollar determined by Council (detailed in [Section 6](#)). Councils determine their required rate revenue during their budget process, then use property valuations as a means to distribute rates across properties in their municipality.

Any alteration to property valuations does **not** affect the total amount collected in rates, only the **distribution** of rates between rateable occupancies in a municipality.

Critically, valuation movements are not uniform, either across Victoria or within municipalities. Rates for all properties move annually, as a result of the new valuation applied. Therefore, all rates are subject to movement as a consequence.

Ratepayers may identify an increase in their property’s valuation with increased rates, however it is possible for an occupancy to experience an increase in valuation, but a decrease in rates payable from the previous year. Changes in rates due to valuation movements are dependent on the distribution of valuation movements of all properties in a municipality. When there are fewer occupancies that experience a large increase (or decrease) in valuation, the increase (or decrease) in rates payable for each occupancy is more pronounced.

*Where a **low** number of occupancies experience a large decrease (or increase) in valuation, these will enjoy a greater proportion of rate reduction (or increase).*

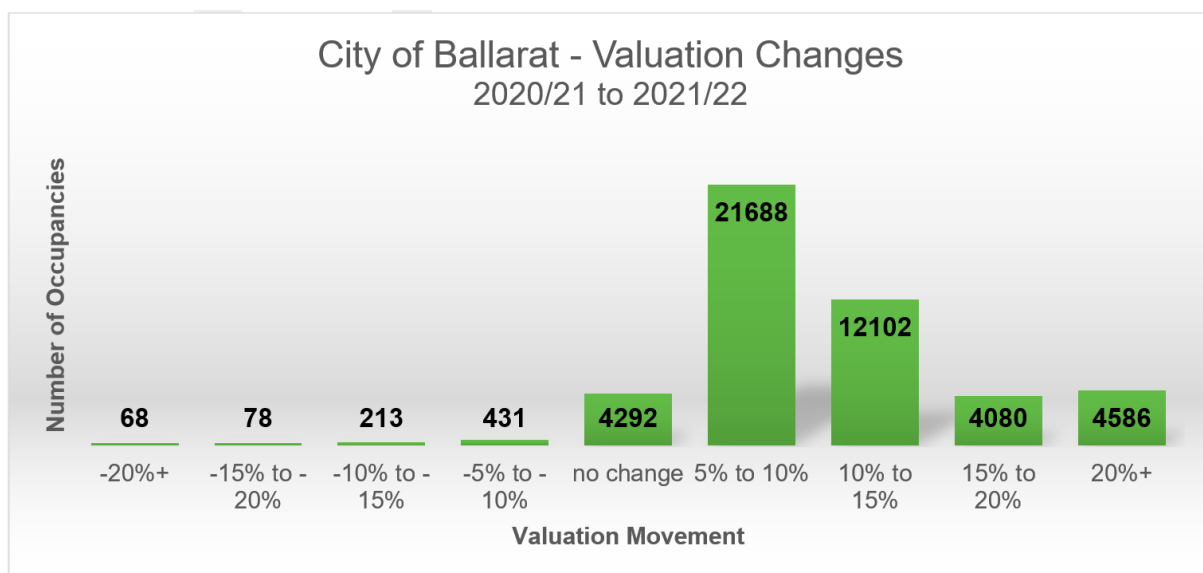
*Where a **high** number of properties experience a large increase (or decrease) in valuation, these will enjoy a **lesser** (or greater) proportion of rate increase.*

The Local Government Rating System Review heard from some ratepayers that their valuations were ‘volatile’. Yet what is considered ‘volatility’ is highly subjective. In order to determine what may be reasonably considered a “volatile increase in rates”, or a large or significant movement in rates as a result of valuation changes, valuation data at the municipal level provides insight.

## 4.1 Case Study – City of Ballarat

For every financial year, the VGV has data identifying how many ratepayers experienced valuation movements across the state. In order to assess what “rate volatility” may look like and how many ratepayers may be affected, the City of Ballarat is used as a case study. This is because the City of Ballarat has a range of different occupancies, including residential, commercial, industrial, and farm/rural properties.

The City of Ballarat experienced a \$2.6 billion dollar increase in total property value across the municipality between 2020/2021 and 2021/22. When determining the correlation between valuation movements and rates payable, the example provided does not increase the budgeted rate base between years. Increasing budgeted rates, as well as applying differential rating and municipal charges, allow councils to apply adjustments which complicate and distort the direct effect of a valuation change across the municipality. The effect of these rating instruments significantly distorts rate outcomes resulting from valuation movements and they are discussed later in this paper.



	<b>-20% or less</b>	<b>-15% to -20%</b>	<b>-10% to -15%</b>	<b>-5% to -10%</b>	<b>No change</b>	<b>+5% to +10%</b>	<b>+10% to +15%</b>	<b>+15% to +20%</b>	<b>+20% or greater</b>
% of occupancies affected	0.1%	0.1%	0.4%	0.7%	7.4%	37.5%	20.9%	7.1%	7.9%

Though 73.4% of occupancies have experienced an increase in valuations, only properties experiencing a valuation increase of *greater* than 11.58% (the average valuation change across the municipality) will experience an increase in rates payable. This is due to the distribution of rates and that the majority of the properties in the City of Ballarat have experienced a movement in valuation of 5% to 15% in the time period.

**Average Valuation Change:** 11.58%

% Change (Valuation)	Old Valuation	New Valuation	2020/21 Rates	2021/22 Rates	% Change (Rates)
-20%	\$1,000,000	\$800,000	\$4,806.83	\$3,446.53	-28.3%
+20%	\$1,000,000	\$1,200,000	\$4,806.83	\$5,169.80	+7.55%

In assessing what may be considered “rate volatility”, the bracket that provide for a valuation increase (or decrease) of 20% or greater, provide data to analyse the most extreme examples of valuation change and its effects on rates and charges.

In this scenario, an occupancy that increases in value by 20% sees rates payable increased by 7.55%, and a 30% increase in valuation results in a 16.51% increase in uniform rates. In this scenario, the rates payable increases as the occupancy’s valuation rises, however in every case the percentage increase in its valuation is higher than the increase in rate levied.

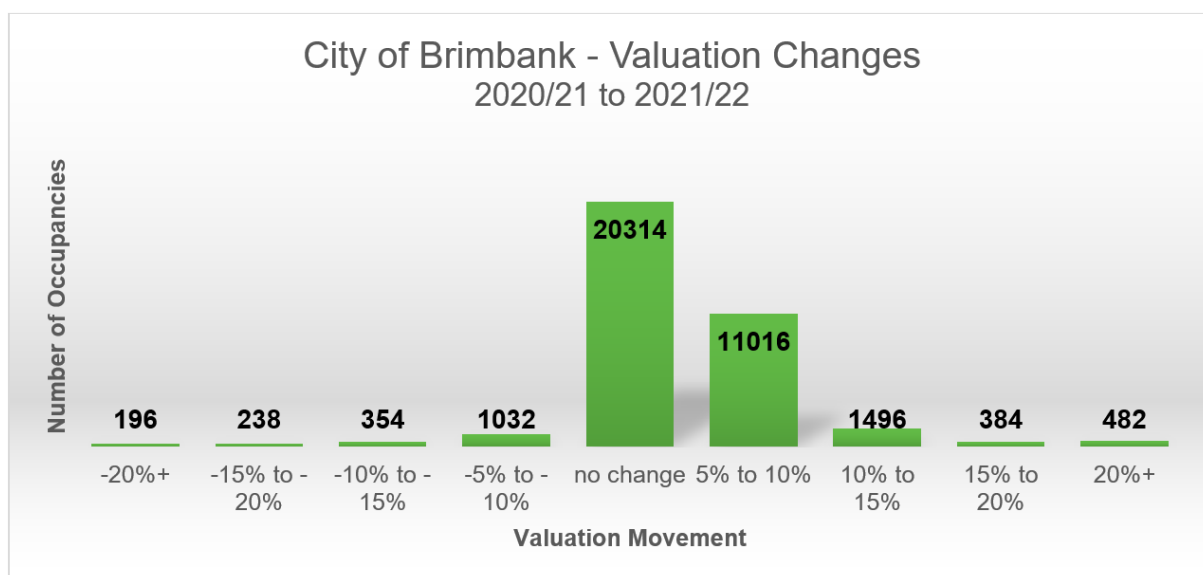
Consequently, an occupancy that decreases in valuation by 20% sees rates payable decrease by -28.30%, and a 30% decrease in valuation results in a 37.26% decrease in rates. The rates levied on the occupancy will decrease as the valuation lowers, and in every case the percentage decrease in the valuation is lower than the decrease in rates levied (due to fewer properties in this bracket benefiting from decreased valuations).

Further detail regarding the City of Ballarat’s data is provided in **Appendix One – Data Modelling**.

## 4.2 Case Study – Other Municipalities

Changes in valuation are not uniform across the state, with each municipality experiencing different sales and rental outcomes (which drive changes in property valuation) resulting in varied valuation movements. Where there is a larger number of properties experiencing a high (or low) valuation change, the proportionate change to rates levied is lower in comparison.

## 4.2.1 The City of Brimbank



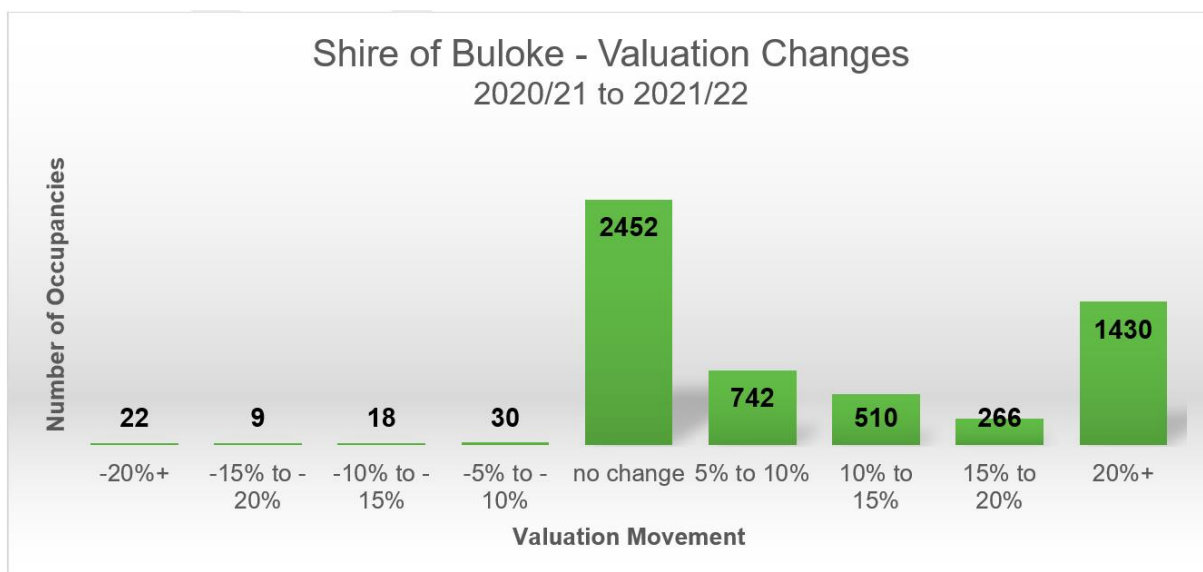
	-20% or less	-15% to -20%	-10% to -15%	-5% to -10%	No change	+5% to +10%	+10% to +15%	+15% to +20%	+20% or greater
% of occupancies affected	0.2%	0.3%	0.4%	1.3%	25.2%	13.7%	1.9%	0.5%	0.6%

The City of Brimbank example shows the effects on rates when a large percentage of properties are clustered in the middle of the range with only a small average movement. Though 16.6% of occupancies have experienced an increase in value, only properties experiencing a valuation increase of greater than 2.06% (the average valuation change across the municipality) will experience an increase in rates payable.

**Average Valuation Change:** 2.06%

% Change (Valuation)	Old Valuation	New Valuation	Old Rates	New Rates	% Change (Rates)
-20%	\$1,000,000	\$800,000	\$2,650.61	\$2,077.67	-21.62%
+20%	\$1,000,000	\$1,200,000	\$2,650.61	\$3,116.50	+17.58%

## 4.2.1 The Shire of Buloke



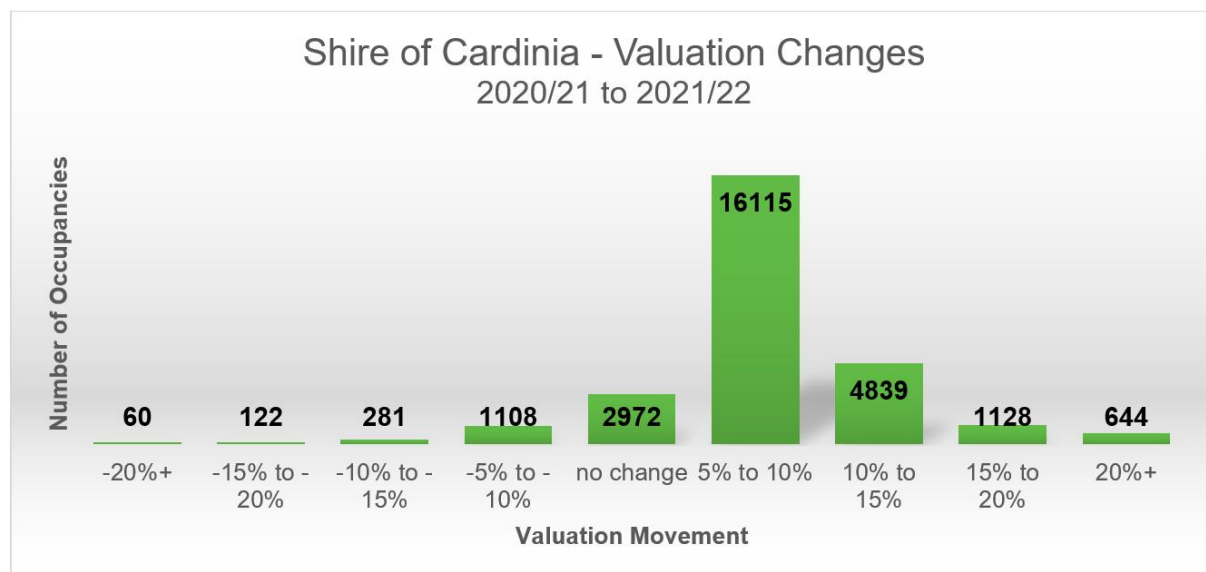
	-20% or less	-15% to -20%	-10% to -15%	-5% to -10%	No change	+5% to +10%	+10% to +15%	+15% to +20%	+20% or greater
% of occupancies affected	0.3%	0.1%	0.3%	0.5%	36.9%	11.2%	7.7%	4.0%	21.5%

The Shire of Buloke had a larger percentage of properties experience >15% increases in value compared to the previous case study. Though 44.3% of occupancies have experienced an increase in valuations, only properties experiencing a valuation increase of greater than 16.70% (the average valuation change across the municipality) will experience an increase in rates payable. 19% of Buloke Shire properties that increased in value between 5% and 15% will experience no impact on their rates. Moreover, properties that experienced a large decline in value will experience a relatively larger decrease in rates.

**Average Valuation Change:** 16.70%

% Change (Valuation)	Old Valuation	New Valuation	Old Rates	New Rates	% Change (Rates)
-20%	\$1,000,000	\$800,000	\$6,998.72	\$4,797.87	-31.45%
+20%	\$1,000,000	\$1,200,000	\$6,998.72	\$7,196.80	+2.83%

## 4.2.2 The Shire of Cardinia



	-20% or less	-15% to -20%	-10% to -15%	-5% to -10%	No change	+5% to +10%	+10% to +15%	+15% to +20%	+20% or greater
% of occupancies affected	0.3%	0.1%	0.3%	0.5%	36.9%	11.2%	7.7%	4.0%	21.5%

Though 46% of occupancies in the Shire of Cardinia have experienced an increase in valuations, only properties experiencing a valuation increase of *greater* than 3.91% (the average valuation change across the municipality) will experience an increase in rates payable. This lessens the impact of rate increases for properties that have increased substantially, while amplifying the effect for properties that have declined in value.

**Average Valuation Change:** 3.91%

% Change (Valuation)	Old Valuation	New Valuation	Old Rates	New Rates	% Change (Rates)
-20%	\$1,000,000	\$800,000	\$3,134.95	\$2413.62	-23.01%
+20%	\$1,000,000	\$1,200,000	\$3,134.95	\$3620.43	+15.49

## 4.2 Conclusion

The example data above demonstrates that individual property valuation movements in a municipality are highly variable in a given year. While the majority of occupancies cluster within a range of movements, there are many occupancies that experience greater or lesser movements. These occupancies will experience an effect on their rates that is relative to the other valuation movements in the municipality. In many cases, large decreases in an individual property's value translate into larger equivalent decreases in rates, owing to the impact of the distribution of rates across all properties.

There is a common public misconception – noted by the 2020 Local Government Rating System Review – that property valuation movements across a municipality are largely uniform (especially within broad property categories), and that an increase in valuations automatically results in an increase to the rates levied on a property. The data shows this is not the case, due to the disparate valuation movements and the distribution effect of the rating system.

The common public misconception is also abetted by councils publishing 'average' valuation and rate movements of broad property categories in their annual budget documents in advance of the issuance of rate and valuation notices. Councils that levy differential rates also typically present in their budget documents the change in rate revenue from the previous year derived from a differential rate category. These published 'average' figures often confuse ratepayers who may then expect their individual property's value and rates to move in line with the stated averages, leading to frustration and even anger when they usually do not.<sup>3</sup>

In rural areas for example, farming properties in one locality of a municipality can be in high demand in a year, pushing up values, whereas farming properties in another area of the municipality experience valuation declines in the same year. Presenting this information in the form of 'average' movements for the broad category of 'farmland' for a whole municipality hides this fact. In the Shire of Buloke example above, many farm properties increased in value, however there were also farm properties in the Shire that declined in value in the same year, reducing their rates accordingly.

As shown by the examples, movements in an individual property's valuation does not equate to an equivalent movement in rates. It is only when there are significant changes in value experienced by relatively few properties in a municipality that this will translate into large rate movements for these properties.

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<sup>3</sup> It is noted that during the Local Government Rating System Review the Ministerial Panel did not receive any submissions from ratepayers that had experienced property valuation declines and any consequential reductions in their rates from the previous year.

Owing to the average shifts in values in the above cases, the largest rate movements as a result of valuation changes – or what may be considered ‘volatile’ – are those occupancies that have declined in value in a given year.

### **Consultation Question**

What should be considered a “volatile increase” in valuation and rates?



## 5. Considerations for a Valuation Averaging Mechanism

Based on the work conducted by the *Local Government Rating System Review* and analysis by Local Government Victoria for this paper, several design criteria have been identified to inform consideration of a VAM. The criteria reflect the common good taxation principles used throughout the Local Government Rating System Review:

**Simplicity** – any VAM system should be comprehensible to ratepayers and not any more difficult to interact with than the current system.

**Sustainability** – any VAM system proposed should be practical and cost-effective for Councils to administer.

**Horizontal Equity** - all ratepayers in similar circumstances are treated in a similar way, and so a VAM must be applied to all properties in a municipality.

**Vertical Equity** – this principle is worth considering in any VAM design, in that ratepayers with greater economic measures (i.e., property value) should contribute more.

When assessing a VAM, the paper will:

- Consider a VAM model against good taxation principles;
- Consider the financial impacts on ratepayers and councils;
- Determine any legislative amendments required; and
- Identify administrative disruption/burden on stakeholders.

As noted previously, it is also essential that any VAM does the following:

- Not affect the calculation of the FSPL or land tax; and
- Must apply to all rateable properties in a municipality. Any VAM could not be selectively applied to rateable properties in a municipality either by the council or by a ratepayer on an opt in basis.<sup>4</sup>

A VAM model at its simplest would entail a number of previous years of valuations of the property (e.g. 3 or 4 years) being averaged to determine the valuation for rating purposes. On face value, this basic arrangement – if applied to a municipality – would entail rates year on year being ‘smoothed’. However, such a basic model is not straightforward in Victoria due to the complications presented by supplementary valuations and the application by councils of differential rates and municipal charges.

These significant complexities constitute major hurdles to an effective VAM in Victoria and make modelling of an implementable VAM excessively complicated for the purposes of this paper. This chapter will therefore sketch out several ‘basic’ hypothetical models to provide an indicative picture of a VAM in operation and its effects. The challenges of supplementary valuations, along with other complexities are discussed later in this paper.

## 5.1 Existing Interstate Models

Within Australia, two State Governments apply versions of Valuation Averaging for property related taxes and levies; Queensland and New South Wales (see Appendix One for further details).

Where a Valuation Averaging Mechanism is applied to a State Government’s Land Taxation system, it averages the land’s Unimproved Valuation (Site Value), which does not take into consideration the value of any improvements to the land. Using a land’s Unimproved Valuation may be seen as another method of “smoothing” in that it is not affected by large changes to valuation caused by construction (or demolition) works. This is applied in Queensland’s and NSW’s land tax system and is detailed in Appendix Two.

The only jurisdiction applying a VAM to local government rates and charges, is the State of Queensland, which is discussed below.

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<sup>4</sup> Either scenario (of a council selectively applying a VAM or a ratepayer opting in outside of the budget cycle) faces two critical problems that are practically insurmountable. The first is that the entire rate base would have to be remodelled for all ratepayers, necessitating a revised budget if it occurred outside of the budget cycle. Second, an individual ratepayer opting in to a VAM would have no ability to make an informed decision as they would not know their future property values or the rates in the dollar. The third problem is that it would pose a problem for horizontal equity in that ratepayers in the same circumstances would be treated differently.

## 5.1.1 The Queensland VAM

Like Victoria, Queensland has adopted an annual valuation cycle, though also providing the Queensland Valuer-General the power to not make annual valuations in certain circumstances.

Applying a Valuation Averaging Mechanism in Local Government is on an opt-in basis only, Councils are not required by legislation to adopt the model. In regard to the State Government's Land Tax, Valuation Averaging is mandatory.

Detailed within Queensland's *Local Government Regulation 2012*, the Averaging Mechanism functions as follows:

- Each Council individually determines whether they wish to apply Valuation Averaging;
- If adopting a Valuation Averaging Mechanism, Councils:
  - may either average valuations over a 2 or 3 year period; and
  - must apply valuations to properties that is the lower of either the averaged valuation or current year's valuation;
- The averaged valuation used is called the property's "Rateable Value".

Where a council has adopted a Valuation Averaging Mechanism over 2 or 3 years, and a property has not been valued in previous years, then the current valuation is instead multiplied by an "averaging number" to determine the property's valuation.

The "Averaging Number" is calculated using the following formulas:

$$\frac{T}{2V}$$

For Councils adopting 2 year valuation averaging.

$$\frac{T}{3V}$$

For Councils adopting 3 year valuation averaging.

**T** is the total of the values of all rateable land in the local government's area for the financial year and the previous financial year.

**V** is the value of all rateable land in the local government's area for the financial year.

## Queensland's Council Rates and Charges - Applying Rateable Values

Where a parcel of land is valued over the past 2 years the Rateable (Averaged) Value is calculated as follows:

\$850,000 - 30 June 2021	$(\$850,000 + \$800,000) \div 2 = \$825,000$
\$800,000 - 30 June 2020	

Where a parcel of land is valued over the past 3 years the Rateable (Averaged) Value is calculated as follows:

\$800,000 - 30 June 2021	$(\$800,000 + \$850,000 + \$775,000) \div 3 = \$808,333$
\$850,000 - 30 June 2020	
\$775,000 - 30 June 2019	

In this case, because the current year's valuation is lower than the Averaged Value, the Rateable Value is \$800,000.

Where a parcel of land has not been valued in previous years the Rateable (Averaged) Value is calculated as follows:

\$800,000 - 30 June 2021	$\$800,000 \times 0.95 = \$760,000$
Averaging Number = 0.95 <sup>5</sup>	

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<sup>5</sup> Averaging Numbers have been selected for examples to demonstrate calculations only.

## 6. Initial Models for Consideration

Consideration of how many years of values should be averaged was not recommended by the Local Government Rating Review's Ministerial Panel, so initial consideration will model a 2-, 3- and 4-year averaging period. This will emulate previously used Victorian revaluation periods (two-year and four-year revaluation cycles), as well as the existing averaging mechanism used in New South Wales and Queensland (either two or three years).

### Model A (Simple Queensland Model)

A property's valuation is only averaged where valuations are present.

In a four year valuation averaging mechanism, if a property only has a valuation for three years, it is only averaged for those three years, and not four.

### Model B (Queensland Model – Lowest Floor)

This model is identical to Model A, except

- where the current year's valuation is lower than the averaged figure, the lower valuation must be applied for rating purposes (like the current Queensland arrangements)

### Model C (Indexed Model)

A property's valuation is averaged where valuations are present.

Where a property does not have all valuations present (such as a new occupancy), an indexation multiplier is applied to the current year's valuation, rounded to two decimal places.

$$\frac{T}{XV}$$

"**T**" means the total of all rateable valuations, for the financial year and the previous financial years, of all land for which there is or was a valuation for.

"**V**" means the total of all rateable valuations for land which there is a valuation for the financial year.

"**X**" means the number of years that property valuations will be averaged.

### Model D (Indexed Model – Lowest Floor)

This model is identical to Model C, except:

- where the current year's valuation is lower than the averaged figure, the lower valuation must be applied for rating purposes.

## 6.1 Impacts on Individual Ratepayers

How a Valuation Averaging Mechanism would affect rates and charges for many typical properties is the topic of this section which details the models above applied to the fictional City of Pleasantville. The valuation and rating data for the City of Pleasantville is from a randomly selected and de-identified Victorian council. This section provides a summary of the models and their effect on common individual property scenarios and indicates how each model would affect a ratepayer in similar circumstances.

Each model is referenced by the Alpha-Numeric Code specified previously. These reference the type of Model (A, B, C or D) and the number of years the valuation will be averaged across (2, 3 or 4). For example, if the B3 model has been applied to an occupancy, then the valuation is being averaged using Model B (Queensland Model – Lowest Floor) over a period of 3 years.

As noted previously, the models are based on the application of a uniform rate only to clearly identify the effects of a VAM. The significant complications of differential rates and/or a municipal charge are discussed in the next section.

### 6.1.1 Scenario 1 – Established Family Home

Ms Colt purchased her home in 1990 and has been living there with her family as their principal place of residence since. Without a Valuation Averaging Mechanism, Ms Colt's rates are:

<b>Uniform Rates</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>
<i>Capital Improved Value</i>	\$437,500	\$449,000	\$485,000	\$504,000
<i>Rate in the Dollar</i>	0.0042875	0.0045093	0.0046202	0.0049898
<i>Levied Amount</i>	\$1,875.80	\$2,024.68	\$2,240.79	\$2,514.86

Applying the Valuation Averaging Models noted above, Ms Colt would be charged the following amounts in 2021-22:

	<b>Valuation (Averaged)</b>	<b>Variance in \$ value</b>	<b>Uniform Rates (Averaged)</b>	<b>Variance in Rates (21/22)</b>
<b>A2</b>	\$494,500	-\$9,500	\$2,569.16	+\$54.29
<b>A3</b>	\$479,333	-\$24,667	\$2,571.41	+\$56.55
<b>A4</b>	\$486,875	-\$35,125	\$2,598.01	+\$83.15
<b>B2</b>	\$494,500	-\$9,500	\$2,578.04	+\$63.18
<b>B3</b>	\$479,333	-\$24,667	\$2,583.39	+\$68.53
<b>B4</b>	\$468,875	-\$35,125	\$2,612.54	+\$97.68
<b>C2</b>	\$494,500	-\$9,500	\$2,572.40	+\$57.54
<b>C3</b>	\$479,333	-\$24,667	\$2,574.89	+\$60.03
<b>C4</b>	\$468,875	-\$35,125	\$2,601.32	+\$86.45
<b>D2</b>	\$494,500	-\$9,500	\$2,581.30	+\$66.44
<b>D3</b>	\$479,333	-\$24,667	\$2,586.90	+\$72.04
<b>D4</b>	\$468,875	-\$35,125	\$2,615.56	+\$100.70

In this scenario the occupancy's averaged valuation is lower, however due to the redistribution of rates across the municipality, their individual rates will increase compared to using the most recent value for rates. Each model VAM guarantees a lower valuation, but with increased rates.

## 6.1.1 Scenario 2 – Commercial/Industrial Landlord

Mr Jade's commercial/industrial property has been in his family for decades and has been leased to the current tenants for the past five years (who pay the rates on Mr Colt's behalf). Without a Valuation Averaging Mechanism, Mr Jade's rates are:

<b>Uniform Rates</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>
<i>Capital Improved Value</i>	\$3,072,000	\$3,755,000	\$3,755,000	\$3,625,000
<i>Rate in the Dollar</i>	0.0042875	0.0045093	0.0046202	0.0049898
<i>Levied Amount</i>	\$13,171.33	\$16,932.46	\$17,348.83	\$18,088.06

Applying the Valuation Averaging Models noted above, Mr Jade would be charged the following amounts:

	<b>Valuation (Averaged)</b>	<b>Variance in \$ value</b>	<b>Uniform Rates (Averaged)</b>	<b>Variance in Rates (21/22)</b>
<b>A2</b>	\$3,690,000	\$65,000	\$19,171.27	+\$1,083.21
<b>A3</b>	\$3,711,667	\$86,667	\$19,911.46	+\$1,823.39
<b>A4</b>	\$3,551,750	-\$73,250	\$19,680.04	+\$1,591.98
<b>B2</b>	\$3,625,000	\$0	\$18,898.67	+\$810.61
<b>B3</b>	\$3,625,000	\$0	\$19,537.15	+\$1,449.08
<b>B4</b>	\$3,551,750	-\$73,250	\$19,790.13	+\$1,702.07
<b>C2</b>	\$3,690,000	\$65,000	\$19,195.47	+\$1,107.40
<b>C3</b>	\$3,711,667	\$86,667	\$19,938.40	+\$1,850.34
<b>C4</b>	\$3,551,750	-\$73,250	\$19,705.11	+\$1,617.05
<b>D2</b>	\$3,625,000	\$0	\$18,922.61	+\$834.54
<b>D3</b>	\$3,625,000	\$0	\$19,563.67	+\$1,475.61
<b>D4</b>	\$3,551,750	-\$73,250	\$19,813.00	+\$1,724.94



In this scenario the occupancy's valuation fluctuates between rising, falling and remaining static over a four year period. Due to the redistribution of rates across the municipality, the rates will increase in 2021-22 despite the annual valuation declining from the previous year. The VAM models provide fluctuating average valuations (compared to the 2021/2022 valuation), but regardless of the valuation applied, every result is increased rates for the occupancy.

It is noted rates increase even for models **B** and **D** which use the lowest of either the most recent annual value or the averaged value. This is because of the distributive effect of the rating system and the relative movement in values for the whole municipality.

## 6.1.1 Scenario 3 – Rural/Farming Land

Mr Good inherited his farm from his father 10 years ago and has been working the land commercially since. Without a Valuation Averaging Mechanism, Mr Good's rates are:

<b>Uniform Rates</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>
<i>Capital Improved Value</i>	\$931,500	\$975,000	\$1,015,000	\$1,320,000
<i>Rate in the Dollar</i>	0.0042875	0.0045093	0.0046202	0.0049898
<i>Levied Amount</i>	\$3,993.84	\$4,396.58	\$4,689.50	\$6,586.55

Applying the Valuation Averaging Models, Mr Good would be levied the following amounts:

	<b>Valuation (Averaged)</b>	<b>Variance in \$ value</b>	<b>Uniform Rates (Averaged)</b>	<b>Variance in Rates (21/22)</b>
<b>A2</b>	\$1,167,500	-\$152,500	\$6,065.71	-\$520.84
<b>A3</b>	\$1,103,333	-\$216,667	\$5,918.90	-\$667.65
<b>A4</b>	\$1,060,375	-\$259,625	\$5,875.48	-\$711.07
<b>B2</b>	\$1,167,500	-\$152,500	\$6,086.68	-\$499.87
<b>B3</b>	\$1,103,333	-\$216,667	\$5,946.48	-\$640.07
<b>B4</b>	\$1,060,375	-\$259,625	\$5,908.34	-\$678.21
<b>C2</b>	\$1,167,500	-\$152,500	\$6,073.36	-\$513.19
<b>C3</b>	\$1,103,333	-\$216,667	\$5,926.91	-\$659.64
<b>C4</b>	\$1,060,375	-\$259,625	\$5,882.96	-\$703.59
<b>D2</b>	\$1,167,500	-\$152,500	\$6,094.38	-\$492.17
<b>D3</b>	\$1,103,333	-\$216,667	\$5,954.55	-\$632.00
<b>D4</b>	\$1,060,375	-\$259,625	\$5,915.17	-\$671.38

In this scenario the occupancy has experienced a rise in valuation in 2021/2022. Each VAM model in this scenario guarantees a lower valuation and lower rates, however this shortfall must be paid by other members of the community that have not benefited from the mechanism: these ratepayers will pay rates based on an average valuation that is higher than their most recent valuation. Mr Good's property has increased in value – but without the equivalent increase in rates. In the same municipality, a property that had decreased in value (such as the previous scenario examples) do not experience a relative reduction in rates when the VAM is applied.

It is noted that the largest decrease in rates is Model **C4**, entailing a 10.6% reduction in rates compared to the uniform rate.

## 6.2 Conclusion

The three examples above demonstrate the following:

- A council's ability to levy their total budgeted rates and charges across the municipality is unchanged;
- The application of a VAM directly effects the ad valorem method of rating distribution;
- Occupancies that do not experience large valuation movements may pay more in rates to compensate for other occupancies that do – effectively a subsidy.
- Occupancies that experience a decline in valuations will not realise a relative decrease in rates in the same year – effectively a penalty and may even experience an increase in rates.
- Occupancies that experience an increase in value may experience a rate decrease in real terms.

The VAM scenarios provided in this section are based on the application of a Uniform Rate in a municipality. With the application of supplementary valuations and commonly applied rating instruments such as differential rates and/or a municipal charge any modelling becomes more complex, requiring a greater understanding of a system which the Local Government Rating System Review noted is already difficult to understand (by both ratepayers and Councils).

Any Valuation Averaging Mechanism designed will only affect how rates are distributed. If one ratepayer's bill lowers due to the application of a Valuation Averaging Mechanism (compared to using the most recent value as is current), then this amount will be redistributed to other rateable properties and paid by these ratepayers. Conversely, a ratepayer that pays more in rates under a VAM (compared to using the most recent valuation), is effecting a subsidy to other ratepayers.

Where additional complexity is introduced, the consequence may include a further loss of transparency and a requirement for Councils to provide in-depth material to explain their budgets and how the VAM affects ratepayers. The next section looks at these complexities in depth in the context of a VAM.

### **Consultation Questions**

Which principles of good taxation should be considered for a VAM in these scenarios?

When would it be appropriate to lower an occupancy's rates when its valuation (and potential sale value) has increased?

Is it equitable that an occupancy that experiences a decrease in valuation in a given year does not experience a relative reduction in rates in the same year?

In the context of the examples above, what may be considered rate 'volatility' and do the VAMs proposed mitigate this sufficiently?

# 7. Challenges of Implementation and Administration

## 7.1 Complications for a VAM

The models in this paper were applied using a simple uniform rate and the scenarios were all examples where there existed 4 years of stable valuations (i.e. no changes to the nature of the occupancy). As noted previously, such a model is only useful for its indicative value. In the real world, there are many complications for a VAM as a result of the current legislated valuation and rating arrangements. This section looks at each of these in detail.

### 7.1.1 Equity and a VAM

The current method of applying valuations to an occupancy for the purpose of determining rates, is based on the “ad valorem” system of taxation, meaning “according to value”. This phrase is used in reference to the method of levying tax on a property based proportionally on its value.

A foundation of the local government rating system and its equity is that all properties are subject to the same process of valuation under the *Valuation of Land Act 1960* with appeal rights for ratepayers. Furthermore, changes to a property outside of the revaluation cycle require a supplementary valuation to be performed in a transparent manner. This information is then used to levy rates and other property taxes.

Such an arrangement is fundamental to the equity of the rating system as all properties have a valuation on the same nominal date of 1 January or the most recent value (in the case of a supplementary valuation). Since 2018 and the introduction of an annual valuation cycle, the equity of the rating system has been arguably enhanced as property valuations for rates are no more than 6 months old.

A VAM could weaken this nexus as rates would no longer be based on the most recent valuation. Owing to the way rates are apportioned, ratepayers that enjoy a large increase in their property’s value in the most recent year may also enjoy a reduction in their rates (or a less concomitant increase). Conversely, a ratepayer that had experienced a one-year value decline, would not have this reflected in their rates. This poses a challenge for the principle of *vertical equity*: ratepayers with lesser/greater wealth are not paying commensurately lower/higher rates the following year.

It is worth noting that a well-designed VAM will result in rates payable that is commensurate with the value of a property relative to other ratepayers – but only over the time period of the averaging and only in the unlikely situation that a municipality’s properties are owned by the same ratepayers for the same time period.

## 7.1.2 Supplementary Valuations

Supplementary valuations<sup>6</sup> are a requirement under the *Valuation of Land Act 1960*. A supplementary valuation may occur in instances such as:

- an occupancy is subject to a successful valuation objection
- an occupancy is altered due to capital works on the site (demolition, construction or alteration)
- a change to a property resulting from natural disasters such as bushfire or flooding
- changes to planning schemes that may affect the land's value, and
- the sale of lots following the sub-division of land.

Where a Council requests Supplementary Valuations, the VGV provides amended valuations that are often applied pro-rata against the respective occupancies, allowing Councils to issue revised rate notices for properties outside of the annual valuation process. Undertaking a supplementary valuation ensures that rates can be adjusted up or down as soon as practicable after any change to a property. For example, if a property has been damaged or destroyed by a bushfire, the VGV and the council will undertake a supplementary valuation and issue a revised rate notice to ensure the affected ratepayer is not levied rates that continue to be based on the value of the pre-bushfire damaged property.

This makes it more equitable for the ratepayer when the change has decreased the value of their land (resulting in lower rates) and more equitable for the whole community when a property's change has increased its value. The VGV reports that during 2019/2020, councils across Victoria reported that approximately 199,500 occupancies received a Supplementary Valuation sometime during the financial year, 8,800 of which were a result of an objection to an annual valuation while the remainder fall under other changes to the occupancy (listed at the beginning of this section). Additionally, Land Tax objections for 2019/2020 are currently reported at approximately 4,250, however the SRO allows property owners to submit applications to previous land tax years.

Introducing a VAM in the context of supplementary valuations adds complexity, requiring a determination on how to manage pro-rated valuations that are not applied across a full financial year.

An example of this scenario is detailed below:

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<sup>6</sup> S13DF – Valuation of Land Act 1960

Mx Haslam has completed subdividing a piece of land into two separate lots, intending to build on each lot, selling one and living in the other. The VGV has returned supplementary valuations for the two new lots to be applied from 1 March 2020. This means that:

- The initial piece of land (prior to the subdivision) will have a valuation and respective rates, valid between 1 July 2019 and 28 February 2020; and
- Two new occupancies will be created with new valuations, and respective rates, valid between 1 March 2020 and 30 June 2020.
- The application of most of the model VAMs guarantee a lower valuation than the most current value, but with *increased* rates compared to applying the most recent valuation.

Details regarding the rates/valuation treatment of Mx Haslam's new home with the model VAMs can be found in Appendix Three.

### 7.1.3 Uniform and Differential Rates

Following the determination of the valuation base used, a council must determine how it is to raise General Rates: by either a uniform (single rate in the dollar) or differential rates, and if they wish to apply a Municipal Charge<sup>7</sup>.

If a council chooses to set a uniform rate, the total amount of rates to be collected is divided across the total value of all rateable properties. This results in the rate in the dollar which represents how many cents a ratepayer must pay for every dollar of their property's valuation. The example scenarios and modelling in the previous section were based on a uniform rate to aid clarity.

Where councils raise rates by determining different rates in the dollar for certain categories of property, with each category assigned a separate rate in the dollar. Once this is determined, differential rates are calculated using the same method as a Uniform Rate.

When councils choose to alter the rate of the dollar levied on differential rating categories annually, they alter the amount payable on all affected properties. This alteration directly interacts with the outcomes sought by applying a VAM, manually manipulating the rates levied after a VAM is applied.

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<sup>7</sup> s160 & s161 – LGA1989

In the example below, the City of Pleasantville has elected to levy their highest rate in the dollar on commercial land and the lowest on farm land. As each rate in the dollar is different, properties will experience a greater or lesser impact of the VAM based on the council’s decisions.

*Table 1. Example Differential Rating Categories*

Category	Rate in the Dollar	Rates Payable
Residential Land	0.00250	\$1,500
Commercial Land	0.00500	\$3,000
Farm Land	0.00125	\$750

As noted earlier in this paper, valuation movements in a broad property category can be highly variable, so the application of differential rates – often justified by councils to ameliorate average valuation movements for a broad property category such as farms – becomes even more erratic in the context of a VAM.

This is because within a broad property category there are individual properties that have changed in value by very different amounts. The average movement of a broad property category such as farms hardly applies to any individual farms at all in a municipality. The examples below – again from a deidentified Victorian council – illustrate this.



Within the City of Pleasantville there are 10 occupancies that are being rated in the Farming Differential Rating category. These 10 occupancies experienced the following movements in their valuations between 2020/2021 and 2021/2022:

Occupancy	Valuation Movement	Occupancy	Valuation Movement
12 Government Road	+\$120,000	622 Government Road	+\$65,000
64 Government Road	+\$90,000	1902 Government Road	+\$10,000
198 Country Road	+\$25,000	212 Government Road	-\$50,000
455 Forest Road	+\$200,000	622 Forest Road	-\$9,000
929 Forest Road	+\$250,000	12 Moxen Road	+\$30,000

The average valuation movement of these occupancies is +**\$73,100**, calculated as follows:

$$\frac{\text{Total Valuation Movement (+\$731,000)}}{\text{Number of Occupancies (10)}}$$

As shown above, no individual occupancy has experienced the average valuation movement.

The *Local Government Rating Review's* forums reported that both the rating and valuation process is opaque and difficult to understand for many ratepayers and given a community expectation is that the process should be transparent and simple, any new valuation averaging mechanism should be considered in the broader context of simplicity and should not increase dissatisfaction among ratepayers. A VAM applied along with differential rates would make the rating system very complex for ratepayers and council alike.

## 7.1.4 Municipal Charges

Councils can opt to use a Municipal Charge to apply a fixed dollar amount equally to all rateable properties, regardless of their value. The greater the Municipal Charge applied by a council, the less the influence of the property's value in determining the total amount levied in general rates and charges.

Municipal charges can be used when levying differential rates as well as a uniform rate and may elect to raise up to 20 per cent of general rates leviable on each property.

Reducing the influence of a property's valuation on its rates levied by introducing a fixed charge, directly affects the impact of averaging valuations and any VAM. If a council was to make changes to its rates by introducing, removing or increasing/decreasing an existing Municipal Charge, it would affect rating outcomes and impact the influence of a VAM.

Example: The City of Pleasantville declares it will raise \$10 Million (out of \$50 Million in rates) via a Municipal Charge applied to each of its 50,000 occupancies. This means that:

- Each property would be levied a fixed amount of \$200 in municipal charges;
- The rate in the dollar would be reduced to 0.002 cents in the dollar;
- A property worth \$600,000 would be charged \$1,200 in rates (0.002 cents in the dollar x \$600,000);
- The total rates payable would be \$1,400 (Municipal Charge + Uniform Rates).

## 7.1.5 Land Parcel Maintenance

Finally, a VAM would be affected by administrative decisions by council that can affect an occupancy's data history. Where a land parcel is added, removed or altered within an occupancy (instead of a new occupancy being created), it will affect the land area and subsequent valuations.

For instance, a unit valued at \$500,000 is altered to include an additional carpark (which was previously valued separately, or not at all). Because the current occupancy has been altered rather than a new occupancy created, the averaged valuation will be calculated using two different iterations of the land which two different land areas which would result in two, non-comparable, valuations to be averaged.

### Consultation Questions

Does the application of a VAM provide the desired results in a taxation environment that includes Supplementary Valuations, Differential Rates and Municipal Charges?

Would it be practical to remove Supplementary Valuations, Differential Rates and Municipal Charges from legislation in favour of applying a VAM?

## 7.2 Administration Processes

Where a Valuation Averaging Mechanism would be applied, additional information would be required on the rate notice. *Local Government (General) Regulation 2015* outlines what must be present on an annual rate notice, which includes a range of information on rates and charges.

### 7.2.1 Issuing Rate Notices

The annual rates and charges notice issued by councils also commonly acts as a valuation notice under the *Valuation of Land Act 1960*, as well as billing charges under the *Fire Services Property Levy Act 2012* (requiring Councils to include relevant state charges on the rate notice). Rate notices currently contain the three types of valuations (CIV, SV, NAV) that must be undertaken as per the *Valuation of Land Act 1960* as well as specifying which of the valuations is used for the purposes of setting rates and the valuation used for the FSPL.

In the situation where a Valuation Averaging Mechanism is adopted, consideration must be given to how this valuation will be presented on the notice to the ratepayer. For example, where a VAM is applied, the notice would need to show:

- The *current year's* valuation as applied to the State Government's Fire Services Property Levy;
- What valuations have been averaged to determine the valuation applied to Local Government Rates and Charges, i.e. 2, 3 or 4 years of the property's valuations;
- The *current year's averaged valuation* applied to the Local Government Rates and Charges which are on the notice; and
- Which of these valuations may be contested, and how.

Consideration must be given regarding how this information is provided to ratepayers, and if there is a method to apply this information while retaining the good taxation principle of simplicity. Further complicating the system of billing and objection may confuse ratepayers that already find it difficult to understand the current system.

The process of objection may be complicated by any confusion as to what valuation a ratepayer may object to. For example, a VAM system that used the previous 3 years of valuations to determine an average would likely disclose 4 different values (the previous 3 years of valuations and the average figure for the purposes of levying rates). A valuation objection would only be possible to the most recent annual valuation figure, not the preceding years or the average figure itself.

Furthermore, the FSPL is applied to the current year's valuation and it is outside the scope of this paper to consider levying the FSPL on an average valuation (more on this in the next section). Additionally, rate notices also often contain other information such as separate service charges for waste collection services.

The addition of a VAM on rate notices provides for significant complexity challenges. During the *Local Government Rating System Review*, Councils reported that the notice is already considered 'crowded' and that few ratepayers read and fully understand what is present on their rate notice, including how valuations are determined and applied when calculating rates and charges.

**PROPERTY ADDRESS**  
Details and address of the rated property.

**AVPCC**  
The Australian Valuation Property Classification Code (AVPCC) is used to categorise your property for valuation purposes.

**CAPITAL IMPROVED VALUE**  
The expected sale price of the property if it was sold at the time of valuation.

**SITE VALUE**  
The value of your land without improvements, like a house.

**NET ANNUAL VALUE**  
Five percent of the Capital Improved Value of your residential property.

**RATE IN THE DOLLAR AMOUNT**  
Rate in the dollar amount or type of differential rate applied to valuation (if used)\*

**MUNICIPAL CHARGE**  
This is a fixed amount paid equally by every property and is an option used by some councils. Councils may raise up to 20 per cent of their rates and charges revenue via this fixed amount.

**WASTE CHARGES**  
These are charges collected by the council to manage waste, including recycling, green waste and general waste.

**FIRE SERVICES PROPERTY LEVY**  
This is a State Government charge used to fund fire services in Victoria. It is collected by councils and calculated on the property's Capital Improved Value.

**2019-20 Valuation and Rate Notice**  
For the Period 01 July 2019 to 30 June 2020

City of Pleasantville  
PO Box 70  
River Plenty  
ASN 0000 792 0000

**Tax Invoice**  
Assessment No. 0484923  
Date of Issue 23 Aug 2019

**Rate Enquiries**  
Monday to Friday 8.45am-5pm  
Phone: 03 9000 7555  
Fax: 03 9000 7566  
TTY: 03 9000 7576  
Web: www.cityofpleasantville.vic.gov.au

**Pay in Instalments**  
Pay by four instalments. First instalment due by 01 October 2019

**Instalment 1**  
Due 01 Oct 2019 \$474.40

**Remaining Instalments**  
Instalment 2  
Due 30 Nov 2019 \$474.40  
Instalment 3  
Due 28 Feb 2020 \$474.40  
Instalment 4  
Due 31 May 2020 \$474.40

Instalment Notices will be issued for Instalments prior to their respective due dates.  
Late payments will attract interest at 10%. Any arrears, interest and legal costs are overdue and must be paid immediately.  
Postal delays will not be accepted as an excuse for late payment.

Property 32 PROSPECT ROAD RIVER PLENTY VIC 3000  
LOT 61 PLN 9673  
AVPCC 110 : Detached Dwelling

Valuations	Valuation Effective Date
Capital Improved Value \$800,000	1 January 2019
Site Value \$446,000	
Net Annual Value \$15,000	

Council Rates and Charges	Amount
Residential 0.0025 cents in the \$ on CIV	\$1,500.00
Municipal Charge	\$70.00
140ltr Bin Charge x1	\$100.00
240ltr Green Bin Charge	\$100.00
Annual Council Rates and Charges 2019/2020	\$1,770.00
Fire Services Property Levy	
Fire Service Levy Residential Variable Rate 0.00046 cents in the \$ on CIV	\$27.80
Fire Services Levy Residential Fixed Charge	\$100.00
<b>Balance of 2019 - 2020 Rates and Charges</b>	<b>-\$1,897.60</b>

The Fire Service Property Levy is collected for the State Government. They do not form part of Council revenue.

**Payment Options**

**B** Biller Code: XXXXX  
Ref: XXXX XXXX XXXX  
Contact your bank or financial institution to make this payment directly from your cheque, savings or credit account  
More info: bpay.com.au  
BPAY View - View and pay this bill using internet banking  
BPAY View Registration No.: XXXX XXXX XXXX

**D** Billpay Code: XXXX  
Ref: XXXXXX  
Pay in-store at Australia Post, by phone 13 18 16 or online at [auspost.com.au/postbillpay](http://auspost.com.au/postbillpay)

**Amount Payable \$474.40**  
Payment Due by 01 Oct 2019

**RATE AMOUNT**  
This is the rate amount calculated based on the value of your property.

**TOTAL**  
Total amount you need to pay.

**AMOUNT PAYABLE**  
This is the amount you need to pay on your first of four rate instalments.

Example: The City of Pleasantville's annual Valuation and Rate Notice

## 7.3 Fire Services Property Levy and Land Tax

The VGV provides annual valuations to Councils as well as the State Revenue Office, which are used to determine amounts payable for Land Tax and the Fire Services Property Levy (FSPL).

It is Council's responsibility to bill the FSPL via rate notices, which is legislated within the Fire Services Property Levy Act 2012<sup>8</sup> and consideration will be given to the impact of potentially applying two different valuations to separate levies on the same rate notice, for the same occupancy (see section 6.3.1).

Additionally, ratepayers who are also required to pay land tax to the State Government will receive notices from the SRO which is based on the most recent Site Value. These ratepayers may experience confusion if they see different valuations applied to the same property.

Where ratepayers lodge objections to this valuation, either for their Land Tax or Council Rates and Charges, this method of application may cause confusion when dealing with the VGV and their contracted valuers. As noted above, during the 2019/2020 financial year the VGV reported that 4,250 owners lodged objections to their occupancy's Site Valuation in response to their annual land tax bill.

### Consultation Questions

How would multiple valuations be applied to annual rate notices without creating confusion for ratepayers?

What information should be present on the rate notice to explain the function of the VAM?

How would the SRO and Councils prevent confusion during the objection process, regarding the application of varied valuations?

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<sup>8</sup> <https://content.legislation.vic.gov.au/sites/default/files/2021-06/12-58aa029%20authorised.pdf>

## 8. Existing Mechanisms to Smooth Rate Payments Over Multiple Years

While consideration of a VAM remains the primary purpose of this discussion paper, the *Local Government Rating Review's Final Report* discussed that the primary goal of a VAM is to lessen rate 'volatility'.

Existing legislation affords councils power to provide relief to ratepayers, including methods of "payment smoothing", though the *Local Government Rating Review's Final Report* as well as the *Victorian Ombudsman's Investigation into how councils respond to ratepayers in financial hardship*<sup>9</sup>; noted that Councils are not widely embracing some of the powers afforded to them. The main instruments for councils to adjust the amount leviable to an individual ratepayer over time is a rate deferment or an alternative form of rates and charges payments to the four annual instalments set by legislation often known as a 'payment plan'.

### 8.1 Deferrals and Payment Plans

Whether ratepayers are experiencing financial hardship or short-term budgeting issues, current legislative powers allow councils flexible options to defer payments of rates and charges<sup>10</sup> across any period of time, providing a flexible method of allowing ratepayers to effectively "smooth" payments to fit their budgetary needs and the agreement of the council.

Councils may set any period of time for a "Payment Deferral" (which may carry across financial years) and also choose to waive any penalty interest that would apply during this time. The application of "Payment Plans" also provide surety to councils that the ratepayer is making regular payments in order to address their outstanding balances.

Providing additional time to make payments and waiving rates and charges (including interest charges) is a precise measure that allows councils the ability to directly address the financial needs of an individual ratepayer. Unlike a VAM, they do not affect other ratepayers or the overall distribution of rates.

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<sup>9</sup> <https://assets.ombudsman.vic.gov.au/assets/Reports/Parliamentary-Reports/Financial-Hardships/Investigation-into-how-local-councils-respond-to-ratepayers.pdf>

<sup>10</sup> Section 170, LGA 1989

### **Consultation Questions**

Does existing legislation provide sufficient power for Councils to offer extended payment options, effectively allowing ratepayers to “smooth” their rate payments?

Given the potential expense and complexity, would introducing a VAM provide impactful changes ratepayers?



# Appendix One – Data Modelling

## Case Study: City of Ballarat

Financial Year	Total Valuation	Rate in the Dollar (Uniform)
2020/2021	\$23,017,056,548	0.004807
2021/2022	\$25,681,239,752	0.004308

### 20% increase in Valuation

Valuation 2020/2021	Valuation 2021/2022	Old Rates	New Rates	Increase in Rates	Rates Increase
\$350,000	\$420,000	\$1,682.39	\$1,809.43	+\$127.04	+7.55%
\$500,000	\$600,000	\$2,403.41	\$2,584.90	+\$181.49	+7.55%
\$750,000	\$900,000	\$3,605.12	\$3,877.35	+\$272.23	+7.55%
\$1,000,000	\$1,200,000	\$4,806.83	\$5,169.80	+\$362.97	+7.55%

### 25% increase in Valuation

Valuation 2020/2021	Valuation 2021/2022	Old Rates	New Rates	Increase in Rates	Rates Increase
\$350,000	\$437,500	\$1,682.39	\$1,884.82	+\$202.43	+\$12.03%
\$500,000	\$625,000	\$2,403.41	\$2,692.60	+\$289.19	+\$12.03%
\$750,000	\$937,500	\$3,605.12	\$4,038.90	+\$433.78	+\$12.03%
\$1,000,000	\$1,250,000	\$4,806.83	\$5,385.21	+\$578.38	+\$12.03%

### 30% increase in Valuation

Valuation 2020/2021	Valuation 2021/2022	Old Rates	New Rates	Increase in Rates	Rates Increase
\$350,000	\$455,000	\$1,682.39	\$1,960.21	+\$277.83	+\$16.51%
\$500,000	\$650,000	\$2,403.41	\$2,800.31	+\$396.89	+\$16.51%
\$750,000	\$975,000	\$3,605.12	\$4,200.46	+\$595.34	+\$16.51%
\$1,000,000	\$1,300,000	\$4,806.83	\$5,600.61	+\$793.79	+\$16.51%

**20% decrease in Valuation**

<b>Valuation 2020/2021</b>	<b>Valuation 2021/2022</b>	<b>Old Rates</b>	<b>New Rates</b>	<b>Decrease in Rates</b>	<b>Rates Decrease</b>
\$350,000	\$280,000	\$1,682.39	\$1,206.29	-\$476.10	-28.30%
\$500,000	\$400,000	\$2,403.41	\$1,723.27	-\$680.15	-28.30%
\$750,000	\$600,000	\$3,605.12	\$2,584.90	-\$1,020.22	-28.30%
\$1,000,000	\$800,000	\$4,806.83	\$3,446.53	-\$1,360.30	-28.30%

**25% decrease in Valuation**

<b>Valuation 2020/2021</b>	<b>Valuation 2021/2022</b>	<b>Old Rates</b>	<b>New Rates</b>	<b>Decrease in Rates</b>	<b>Rates Decrease</b>
\$350,000	\$262,500	\$1,682.39	\$1,130.89	-\$551.50	-32.78%
\$500,000	\$375,000	\$2,403.41	\$1,615.56	-\$787.82	-32.78%
\$750,000	\$562,500	\$3,605.12	\$2,423.34	-\$1,181.78	-32.78%
\$1,000,000	\$750,000	\$4,806.83	\$3,231.12	-\$1,575.70	-32.78%

**30% decrease in Valuation**

<b>Valuation 2020/2021</b>	<b>Valuation 2021/2022</b>	<b>Old Rates</b>	<b>New Rates</b>	<b>Decrease in Rates</b>	<b>Rates Decrease</b>
\$350,000	\$245,000	\$1,682.39	\$1,055.50	-\$626.89	-37.26%
\$500,000	\$350,000	\$2,403.41	\$1,507.86	-\$895.56	-37.26%
\$750,000	\$525,000	\$3,605.12	\$2,261.79	-\$1,343.33	-37.26%
\$1,000,000	\$700,000	\$4,806.83	\$3,015.72	-\$1,791.11	-37.26%

# Appendix Two – Other Jurisdiction’s Legislation

## Queensland – Local Government Regulation 2012

### Section 74 - Rateable value of land

- 1) A local government must calculate the rates for land by using the rateable value of the land.
- 2) The rateable value of land for a financial year is the value of the land—
  - a) for the financial year; or
  - b) as averaged over a number of financial years.
- 3) A local government may use the value of the land averaged over a number of financial years only if the local government decides, by resolution, to do so.
- 4) The resolution must state whether the local government will use, for deciding the rateable value of the land—
  - a) the 2-year averaged value of the land; or
  - b) the 3-year averaged value of the land.
- 5) However, if the value of the land averaged over a number of financial years is more than the value of the land for the financial year, the rates must be calculated using the value of the land for the financial year.

### Section 75 - Working out the 2-year averaged value

- 1) The 2-year averaged value of land for a financial year is the amount that equals—
  - a) if the land had a value for the previous financial year—
    - the value of the land for the previous financial year
    - plus the value of the land for the financial year
    - divided by 2; or
  - b) if the land did not have a value for the previous financial year—
    - the value of the land for the financial year
    - multiplied by the 2-year averaging number.
- 2) The 2-year averaging number, for a financial year, is the number calculated to 2 decimal places by using the formula—

$$\frac{T}{2V}$$

where—

**T** is the total of the values of all rateable land in the local government's area for the financial year and the previous financial year.

**V** is the value of all rateable land in the local government's area for the financial year.

### **Section 76 - Working out the 3-year averaged value**

- 1) The 3-year averaged value of land for a financial year is the amount that equals—
  - a) if the land had a value for the 2 previous financial years—
    - the sum of the value of the land for each of the 2 previous years
    - plus the value of the land for the financial year
    - divided by 3; or
  - b) if the land did not have a value for the 2 previous financial years—
    - the value of the land for the financial year
    - multiplied by the 3-year averaging number.
- 2) The 3-year averaging number, for a financial year, is the number calculated to 2 decimal places by using the formula—

$$\frac{T}{3V}$$

where—

**T** is the total of the values of all rateable land in the local government's area for the financial year and the previous 2 financial years.

**V** is the value of all rateable land in the local government's area for the financial year.

## Queensland – Land Tax Act 2010

### Section 16 - Taxable Value

- 1) The "taxable value" of land for a financial year, is the lesser of -
  - a) the Land Valuation Act value of the land for the financial year; or
  - b) the averaged value of the land for the financial year.
- 2) However, if section 18A applies to land for a financial year, the "taxable value" of the land for the financial year is the capped value of the land.

### Section 18 - Averaged Value

- 1) The "averaged value" of land for a financial year, is -
  - a) if there are Land Valuation Act values of the land for the financial year and the previous 2 financial years—the amount that is the average of those 3 values; or
  - b) otherwise - the amount equal to the Land Valuation Act value of the land for the financial year multiplied by the averaging factor for the year.
- 2) For subsection (1), the "averaging factor" for a financial year is the number calculated to 2 decimal places using the following formula -

$$\frac{T}{3V}$$

"T" means the total of the Land Valuation Act values, for the financial year and the previous 2 financial years, of all land for which there is or was a Land Valuation Act value for that year.

"V" means the total of the Land Valuation Act values of all land for which there is a Land Valuation Act value for the financial year.

## Applying Taxable Values and Averaged Values

Examples of how to apply Taxable Value and Averaged Value is supplied by the Queensland Government<sup>11</sup>.

Where a parcel of land is valued over the past 3 years the Averaged Value is calculated as follows:

\$800,000 – 30 June 2021	$(\$800,000 + \$850,000 + \$775,000) \div 3 = \$808,333$
\$850,000 - 30 June 2020	In this case, because the statutory land value for 30 June 2021 is lower than the Averaged Value, the Taxable Value is \$800,000.
\$775,000 - 30 June 2019	

## New South Wales – Land Tax Management Act 1956

New South Wales' *Land Tax Management Act 1956*<sup>12</sup> requires the use of a "taxable value" when determining land tax payable to a property:

### Section 9 - Taxable value

- 1) Land tax is payable by the owner of land on the taxable value of all the land owned by that owner which is not exempt from taxation under this Act.
- 2) The taxable value of that land is the total sum of the average value of each parcel of that land.
- 3) The average value of a parcel of land is to be calculated, as provided for by section 9AA, on the basis of the land value of the land.

### Section 9AA - Average value of land

- 1) For the purposes of this Act, the "average value" of a parcel of land is the average of the land value of the land in relation to the year for which the average value is being ascertained (the "current land tax year") and the land value of the land in relation to the 2 preceding land tax years (the "preceding land tax years").

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<sup>11</sup> <https://www.qld.gov.au/environment/land/tax/calculation/value>

<sup>12</sup> <https://legislation.nsw.gov.au/view/html/inforce/current/act-1956-026>

- 2) If a land value adjustment is required in relation to a parcel in the current land tax year, the average value is to be determined before that land value adjustment is made (that is, on the basis of the land value without that land value adjustment) and, despite any other provision of this Act, the Valuation of Land Act 1916 or the Heritage Act 1977, the land value adjustment is to be applied, for the purpose of assessing land tax, to the average value of the land for that land tax year (and not the land value).
- 3) For the purposes of this section, a "land value adjustment" is--
  - a) a "land value reduction", being any reduction that is required to be made to the land value of land under this Act for the purpose of assessing land tax, or
  - b) a "special allowance", being any allowance made in respect of the land value of land under Division 3 or 4 of Part 1B of the Valuation of Land Act 1916.
- 4) In the case of a land value reduction, the land value adjustment is to be applied to the average value of land by applying any provision of this Act that specifies that the land value is to be reduced for the purpose of assessing land tax as if a reference to the land value of land were a reference to the average value of land.
- 5) (Repealed)
- 6) In the case of a special allowance, the land value adjustment is to be applied to the average value of the land by deducting the allowance from the average value.
- 7) If a parcel of land did not exist on 31 December immediately before either or both of the preceding land tax years, the average value of the land is taken to be—
  - a) if the parcel did exist on 31 December immediately before one of the preceding land tax years--the average of the land value of the land in relation to the current land tax year and the land value of the land in relation to the preceding land tax year immediately before which it did exist, or
  - b) in any other case--the land value of the land in relation to the current land tax year.
- 8) Subsection (2) applies in relation to an average value determined as provided for by subsection (7) in the same way as it applies to an average value determined as provided for by subsection (1).
- 9) The average value of a parcel of land that is heritage-protected, and that was not heritage-protected on 31 December immediately before either or both of the preceding land tax years, is to be determined as provided for by subsection (7) (as if the parcel did not exist on the date or dates of 31 December on which it was not heritage-protected).

- 10) If the land value of land in relation to a land tax year is altered (whether as a result of being reascertained or on objection or appeal or for the correction of a clerical error or misdescription), the average value of the land must be reascertained on the basis of the altered land value.
- 11) If the average value of a parcel of land, after applying a land value adjustment, is less than zero, the average value of the parcel is taken to be zero.
- 12) For the purposes of this section, land is heritage-protected if it is either heritage restricted (within the meaning of section 14G of the Valuation of Land Act 1916) or the subject of a heritage valuation under Division 6 of Part 6 of the Heritage Act 1977, or both.

### Applying Taxable Values and Averaged Values

Examples of how to apply Taxable Value and Averaged Value is supplied by the Queensland Government<sup>13</sup>.

Where a parcel of land is valued over the past 3 years the Averaged Value is calculated as follows:

\$930,000 - 2021	$(\$830,000 + \$910,000 + \$930,000) \div 3 = \$890,000$ In this case the Averaged Value is \$890,000.
\$910,000 - 2020	
\$830,000 - 2019	

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<sup>13</sup> <https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/land-tax#calculate>



# Appendix Three – New Homeowner / Supplementary Valuation

Mx Haslam completed building their home in 2020 and has been living there as their principal place of residence since.

In 2018/2019 and 2019/2020 the valuation of the property was tied to the pre-subdivided land, which cannot be applied to a VAM (it is a different occupancy with a much larger land area and, therefore, a different valuation). When a new occupancy is created, Valuations (usually) only apply from the year it was created.

Without a Valuation Averaging Mechanism, Mx Haslam’s rates are:

<b>Uniform Rates</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>
<i>Capital Improved Value</i>	\$0	\$0	\$541,000	\$560,000
<i>Rate in the Dollar</i>	N/A	N/A	0.0046202	0.0049898
<i>Levied Amount</i>	N/A	N/A	\$2,499.53	\$2,794.29

Applying the Valuation Averaging Models, Mr Good would be levied the following amounts:

	<b>Valuation (Averaged)</b>	<b>Variance in \$ value</b>	<b>Uniform Rates (Averaged)</b>	<b>Variance in Rates (21/22)</b>
<b>A2</b>	\$550,500	-\$9,500	\$2,860.10	+\$65.81
<b>A3</b>	\$550,500	-\$9,500	\$2,953.19	+\$158.90
<b>A4</b>	\$550,500	-\$9,500	\$3,050.29	+\$256.00
<b>B2</b>	\$550,500	-\$9,500	\$2,869.99	+\$75.70
<b>B3</b>	\$550,500	-\$9,500	\$2,966.95	+\$172.66
<b>B4</b>	\$550,500	-\$9,500	\$3,067.35	+\$273.06
<b>C2</b>	\$550,500	-\$9,500	\$2,863.71	+\$69.42
<b>C3</b>	\$509,307	-\$50,693	\$2,735.91	-\$58.39
<b>C4</b>	\$487,378	-\$72,622	\$2,703.97	-\$90.32
<b>D2</b>	\$550,500	-\$9,500	\$2,873.63	+\$79.33
<b>D3</b>	\$509,307	-\$50,693	\$2,748.67	-\$45.63
<b>D4</b>	\$487,378	-\$72,622	\$2,718.78	-\$75.52

In this scenario the occupancy's valuation lowers, however due to the redistribution of rates across the municipality, their individual rates will increase in most instances. Many of the model VAMs guarantee a *lower* valuation, but with *increased* rates.

Models C and D over three and four years allow an indexation of the property's valuation, resulting in lower rates. These rates will be redistributed to other occupancies that do not benefit from the indexation calculation, ensuring that the Council still collects the total rate revenue budgeted for.