



13.2 **PROPOSED SUBMISSION ON VICTORIAN GOVERNMENT'S
PROPERTY VALUATION AVERAGING MECHANISM PAPER**

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1. PURPOSE

1.1 To provide Council's proposed submission on the Valuation Averaging Mechanism options presented in the Local Government Victoria discussion paper.

2. EXECUTIVE SUMMARY

2.1 The Final Report of the 2020 Local Government Rating Review recommended the Victorian Government consider the benefits of a Valuation Averaging Mechanism to mitigate the impact of significant changes in property valuations on rates.

2.1.1 As context, the 2020 Local Government Rating Review heard submissions from the public (in predominately farmland and rural areas) that significant increases in their annual valuations resulted in unaffordable increases in rates.

2.2 Local Government Victoria has prepared a Discussion Paper (Attachment 1) with options of Valuation Averaging Mechanism.

2.2.1 Local Government Victoria is currently conducting a public consultation on Valuation Averaging and is accepting feedback between 8 May 2023 and 31 August 2023.

2.3 Under a valuation averaging mechanism, property rates would be calculated using an average valuation (over 3 or 4 years). It must be applied to all rateables properties and does not change the calculation of the Fire Services Levy which would continue to use an annual valuation.

2.4 The discussion paper concludes that the potential benefits of valuation averaging are diffused and limited, noting there are many complications and downsides with valuation averaging. Moreover, there are existing rating tools available to councils allow for targeted ways to address challenges resulting from large year to year movements in property values.

2.5 Officers conclude that recent changes to Council's Rating Strategy have mitigated the concerns of property valuation movements on rates distribution therefore are not supportive of average valuation mechanism. The rating strategy changes include:

2.5.1 Implemented a differential rating mechanism to enable Council to use different rates in the dollar at property class (residential, commercial, industrial) to reduce rates shift between properties. Council has adjusted differential ratings in last two adopted budgets to mitigate the impacts of valuation.

2.5.2 Introduction of separate waste charges, which account for 10% of total rates & charges revenue, are set at fixed amounts which are not subject to annual property valuation changes.



- 2.6 Moreover, a large portion of our community finds property rating a difficult topic to comprehend, the introduction of valuation average mechanism would add to an already complex issue.
- 2.7 It is also noted that the preferred approach is to return to a two-year valuation cycle as opposed to an annual valuation or average valuation approach.
- 2.8 On balance, the added layer of complexity with Average Valuation Mechanism outweighs the minimal benefit to be gained.
- 2.9 Officers have prepared a submission (Attachment 2) that provides Council's in-principle views on the key issues raised in the Local Government Victoria Valuation Averaging Mechanism Discussion Paper.

3. RECOMMENDATION

That Council:

- 3.1 Endorses the City of Port Phillip submission to the State Government responding to the Valuation Averaging Mechanism discussion paper (Attachment 2).
- 3.2 Delegates authority to the Chief Executive Officer, or their delegate, to make amendments to the document to correct any minor drafting errors that do not materially alter the intent.

4. KEY POINTS/ISSUES

- 4.1 The approach to property valuation methodology has changed periodically over the last fifty years.
- 4.2 Key milestones in Victoria's property valuation history including:
 - 4.2.1 1979/1980 – Metro properties are valued every 4 years and rural properties every 6 years.
 - 4.2.2 2000/2001 – All properties are valued every 2 years.
 - 4.2.3 2008/2009 – Water Rights were removed when determining property valuations
 - 4.2.4 2019/2020 (current) – All properties are valued annually (subject to ratepayer objections and supplementary (mid-year) valuations for new properties.
- 4.3 **Current Valuation Process:**
 - 4.3.1 The annual revaluation process is undertaken by the Valuer-General (subcontracted to private valuers).
 - 4.3.2 The annual rates cap sets the capped average increase to rates. Therefore, the income council collects is restricted by the rates cap, regardless of significant movements in valuations.
 - 4.3.3 Any alteration to property valuations approaches will not affect the total amount Council collects in rates, only the distribution of rates between rateable properties in a municipality.
 - 4.3.4 The only option currently available to Councils to smooth the impact of sudden changes in valuation includes differential rating manage the rates burden between property classes, payment plans and deferrals or rates. Noting that deferral of rates are generally only available where financial hardship exists.



4.4 Potential Valuation Averaging Models:

The discussion paper provides four possible options for valuation averaging:

<p style="text-align: center;">Model A (Simple)</p> <p>Property valuations are averaged (3- or 4-year average). If no prior year valuations, then current year valuation is used.</p>	<p style="text-align: center;">Model C (Indexed)</p> <p>Property valuations are averaged. If no prior year valuations, then an index factor is used to calculate an average.</p>
<p style="text-align: center;">Model B (Lowest Floor)</p> <p>Consistent with Model A with additional requirement that the current year valuation must be used if it is lower than the averaged valuation. <u>The model is currently available to Queensland local governments with an opt-in approach.</u></p>	<p style="text-align: center;">Model D (Indexed / Lowest Floor)</p> <p>Consistent with Model C with additional requirement that the current year valuation must be used if it is lower than the averaged valuation.</p>

4.4.1 Regardless of any decision to change the property valuation methodology, that the rates cap will still apply, and it will not change the total amount of rates council can collect.

4.5 An alternative approach is used for Land Tax calculations in New South Wales and Queensland.

4.5.1 A Valuation Averaging Mechanism is applied to a State Government’s Land Taxation system in NSW and QLD.

4.5.2 It averages Site Value of Land which does not take into consideration the value of any improvements to the land.

4.5.3 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.

4.6 Key Issue 1 – Uneven Impact of Valuation Averaging

4.6.1 The impact of averaging valuations would impact individual properties unevenly as it does not change the total amount of rates that Council can collect. Therefore, the valuation averaging mechanisms proposed only change the distribution of rates between properties.

4.6.2 For example, properties that increase significantly in value would see their rates gradually increase over several years (despite being able to realise windfall gains from their property value).

4.6.3 Conversely, properties that suddenly decrease in value will not realise a decline in rates. For example, if a house burns down, market changes, or a neighbourhood specific issue occurs. These properties will continue to pay higher rates until their average value declines. Acknowledging that this is mitigated in the proposed Model B (Lowest Floor) approach where the lower of the current year or average valuation is used.



- 4.6.4 While there is no change to the overall rates collected by council, valuation averaging changes the rates distribution between properties.
- 4.6.5 The current annual valuation approach is preferred as valuation changes and corresponding rates billing is clearly linked and defensible as a method of taxation. Smoothing this tax burden to benefit those experiencing windfall gains (through rising property values) is not an appropriate approach.
- 4.6.6 Differential rating also assists to address this issue more efficiently through enabling council to manage the rates burden by property class each year.

4.7 Key Issue 2 – Unnecessary complexity in Rates Notices

- 4.7.1 Rates notices are already complex with differential rating, separated charges and special rates. The introduction of a valuation averaging methodology would add an additional layer of complexity that the ratepayers would have to navigate.
- 4.7.2 The averaging approach would mean that different valuations would be applied for the calculation of rates (average valuation) and fire service levy (current year valuation) adding confusion to rate payers and complications for Council to process the calculations.
- 4.7.3 A secondary complication occurs with the calculation of supplementary valuations (objections and new properties during the year).
- 4.7.4 The proposed Model B and Model C add further complication through applying indexation factors for new properties where an average cannot be calculated. This adds significant complication to valuation calculations which will add workload in processing annual processing annual rates and interpreting and explaining calculations to the public.
- 4.7.5 Councils' preference would be to return to a two-yearly valuation cycle as opposed to an annual or average valuation cycle to minimise complexity and reduce administrative burdens.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 Council undertakes extensive consultation in the annual review of the Council Plan 2017-2027 and in the preparation of the annual Budget. This included substantial community consultation on the City of Port Phillip Rating Strategy 2022-25 which was endorsed in 2022.
- 5.2 If a change to the method of valuation is endorsed, Council will review the impacts that this has on the Rating Strategy 2022-25 and the need for additional community consultation.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 Any change to rating methodology is likely to see a shift of rates distribution across property classes.
- 6.2 Council mitigates this risk through the endorsed Rating Strategy 2022-25 which manages the distribution of rates across property classes and proposed a gradual shift from residential to commercial and industrial properties.



7. FINANCIAL IMPACT

- 7.1 A change to valuation averaging will not change the overall amount of rates that City of Port Phillip can collect. This will remain capped in accordance with the Local Government Rates Capping Framework.
- 7.2 However, a change to property valuation averaging impact ratepayers unevenly depending on the frequency and amount of valuation movements.

8. ENVIRONMENTAL IMPACT

- 8.1 There is no environmental impact of the valuation averaging mechanism.

9. COMMUNITY IMPACT

- 9.1 The proposed valuation averaging methodology will have an uneven impact on the community.
- 9.2 The valuation averaging methodology does not change the overall rates collectable by Council, it only changes the distribution of rates.
- 9.3 Depending on the model selected, valuation averaging will provide a greater benefit to those that have experienced a significant increase in valuation (through gradually increasing rates over the averaged period). This will effectively be subsidised by those that do not experience an increase in valuation.
- 9.4 An additional impact to the community will be caused by the additional complexity of rates notices. Valuation averaging will make rates notices harder to understand.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 Council's submission supports the Council Plan direction Well Governed Port Phillip through ensuring that Council is a financially sustainable, high performing, well-governed organisation that puts the community first. The proposed valuation averaging mechanism does not provide material benefit to ratepayers in the municipality.
- 10.2 The proposed submission aligns to the principles established in Councils Rating Strategy 2022-25.

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

- 11.1.1 Council's submission (attachment 2) will be submitted to the State Government by the due date 30 August 2023.
- 11.1.2 Feedback received will be reviewed between September 2023 and December 2023 with a report back on the Government's decision in first quarter of 2024.

11.2 COMMUNICATION

- 11.2.1 Feedback received by the State Government will be reviewed between September 2023 and December 2023 with a report back on the Government's decision in first quarter of 2024.

12. OFFICER DIRECT OR INDIRECT INTEREST

- 12.1 No officers involved in the preparation of this report have any material or general interest in the matter.

MEETING OF THE PORT PHILLIP CITY COUNCIL
16 AUGUST 2023



ATTACHMENTS

1. **Local Government Rates - Valuation Averaging Mechanism - Discussion Paper 2023**[↓](#)
2. **City of Port Phillip Submission on Valuation Averaging Mechanism**[↓](#)