

Attachment 2 – City of Port Phillip Submission

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Local Government Victoria
C/o Department of Government Services

Local Government Property Valuation Averaging Mechanism

Thank you for the opportunity to provide feedback on the Local Government Rates – Valuation Averaging Mechanism discussion paper.

The City of Port Phillip welcomes the opportunity to inform the development of a rating system that best supports its own objective of providing valued services to the community.

The City of Port Phillip's Rating Strategy was recently reviewed in 2022 which mitigated the concerns of property valuation movements on rates distribution therefore are not supportive of average valuation mechanism. The rating strategy changes include:

- 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.
- 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. This will also fully fund the cost of direct waste management services.

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.

Councils' preference would be to return to a two-yearly valuation cycle as opposed to an annual or average valuation cycle.

The City of Port Phillip holds several concerns regarding the implementation of a valuation averaging mechanism. These concerns are outlined in the responses to the specific consultation questions below:

Chapter 4 - Valuation Movements and Rate “Volatility”

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

Property valuations are inherently volatile as they fluctuate both by property type, location and economic conditions. The current annual valuation process ensures that rates are adjusted annually to best reflect any movement in property valuation across the municipality. Ratepayers would likely define a volatile increase in valuation and rates as one that results in a change in rates significantly different from the rates cap.

Chapter 6 - Initial Models for Consideration

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

Council rates should remain simple to understand and administer and should also minimise inequality between ratepayers. The advantages of valuation averaging are heavily outweighed through the level complexity that it would add to the administration of the system and ratepayers ability to understand their rates notices.

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

Under the rates capping mechanism, the total rates collectable by a Council is capped by an increase to the average rates, with the distribution of rates directly tied to property values. Individual rates bills may increase or decrease by more (or less) than the rates cap due to their individual valuation movements.

Where a property valuation increases by an amount that less than the increase experienced by majority of properties, the rates may decrease. This is consistent with the rates capping framework This is because other properties that increased in value by more than this property are required to contribute more towards the total rates collectable by Council.

4. 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?

Yes – as per the response in question 3.

The total rates collectable in the municipality is tied to the rates cap. If all properties in the municipality decrease in value, and the rates cap is set with percentage increase, individual property rates will increase regardless of valuation movement. Valuations are used to distribute the rates burden based on comparative property value.

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

It is likely that a change in rates payable outside of the rates cap may be seen by ratepayers as volatile. The valuation averaging mechanism may help to mitigate this volatility through gradually adjusting rates over a period of multiple years. The valuation averaging mechanism proposed only delay the rate increase by two to four years – it is not a longer-term solution for these ratepayers.

Chapter 7 – Challenges of Implementation and Administration

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

No – the rating approach of annual valuation and supplementary valuation means that rates are reflective of the current economic conditions. Valuation averaging moves towards a less dynamic rating system. Properties with higher value are required to contribute more towards the rates burden which is a generally accepted principle of taxation.

Councils' preference would be to return to a two-yearly valuation cycle as opposed to an annual or average valuation cycle.

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

No – we do not believe it would be practical to remove supplementary valuations, differential rates and municipal charges from legislation in favour of applying a valuation averaging mechanism. Valuation averaging provides a limited benefit to a defined number of properties that experience significant valuation movements. This valuation is associated with a windfall gain in property value that is available to the ratepayer. Differential rating is a core part of City of Port Phillip's rating strategy that enables council to manage valuation movements separately between different classes of land.

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

We do not believe this is possible to introduce a valuation averaging mechanism without adding further confusion for ratepayers. Rates notices are already complicated with differential rates, separated charges and special rates. Ratepayer can currently assess their current valuation on an annual basis and if it is incorrect, they can lodge an objection.

An additional complication would be the calculation of the fire services levy which would you the annual valuation and not the average valuation.

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

The rates notice would need to be updated to include information on the historical valuations, the average valuation and how valuation average is calculated. It would also need to include clear reasoning for the change and how this impacts the object process.

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

Council staff are not involved in the valuation process as managed by the state government. However, it is likely that any change in valuation methodology would result in additional community questions and concerns which would have to be managed by Council.

Chapter 8 – Existing Mechanisms to Smooth Rate Payments Over Multiple Years

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

No – the valuation averaging mechanism would impact ratepayers unevenly, add additional complexity to both the rates notice and rate calculations and result in general rates pool subsidising the impact of significant valuation movements for a small number of properties.

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

Section 170 of the Local Government Act 1989 gives Councils limited discretion to approve a deferral of rates payment to those suffering from hardship.

This submission provides the City of Port Phillip's views on the key issues raised within the discussion paper.

Yours sincerely,

