Submission by the Municipal Group of Valuers
Local Government Rating System Review
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This submission has been prepared by the following members of the MGV Executive:

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Introduction

The forerunner to the Municipal Group of Valuers (MGV), The Victorian Institute of Municipal Valuers (VIMV) was formed in 1931. This later evolved into the present Municipal Group of Valuers.

For over 85 years, the MGV has engaged in a range of activities with the key aims of furthering the interests of valuers involved in the rating and taxing field, improving practises in rating generally and rating valuations in particular. The Group also is strongly focused on ensuring that ratepayers' interests are protected and equity in the rating system is maximised.

Today, the MGV is a discussion group of the Australian Property Institute (API) with over 250 members comprising both in-house and contract valuation professionals, rate collectors and others involved within the rating valuation industry.

The MGV welcomes the opportunity to provide this submission to the Local Government Rating System Review. Many of our members have also provided input to submissions by Councils, Government and other industry stakeholders such as contractors.

Our submission will focus on areas relevant to our members in the following areas:

- Property Valuations – Foundation of the Rating System
- Capital Improved Value as the Basis of Rating
- Property Classification
- Rateability and Rate Exemptions
- Revaluation Return Dates
- Rate Differentials

Executive Summary

1. Property Valuations should remain the primary basis of the rating system. The current annual cycle is supported and any move towards value indexation should be avoided.
2. Capital Improved Value (CIV) is the preferred rating base, with a consideration of updating the name to "Rating Market Value" or similar to improve ratepayer understanding.
3. The Fire Services Levy system of a schedule of charges based on AVPCC (i.e. Land Use Classification) could provide a model for administrative procedures around rate exemption applications and a methodology for applying differential rate types.
4. Current LGA provisions around rate exemptions within the Local Government Act 1989 need updating, are cumbersome to assess and should require a test of both the use and the beneficial ownership.
5. Consideration should be given to an earlier valuation return date which would also require an earlier relevant date of valuation of 1 October.
6. The potential for a greater number of Rate Differentials needs to be carefully considered. Expansion of the Rate Rebate system may be a better alternative.

Property Valuations – Foundation of the Rating System

At the core of the rating system in Victoria is the principle of a property valuation to which a rate in the dollar is applied by the Local Council for the purposes of raising revenue.

The valuation is determined by an independent property valuer at a relevant date (1 January each year) based on comparable property sales and rental evidence.

The assessed property values determine the rate distribution within a municipality. Higher valued properties pay proportionally more than low valued properties. In most situations there is a direct link between the value of property and the ability to pay property taxes.

Especially since the abolishment of minimum rates, relativity between valuations has become central to the equitable allocation of the rate burden amongst ratepayers. Importantly, valuations are not formulated from a base year and an index. Each revaluation represents a full review of market movements across all property types and locations within a given Municipality.

MGV members have seen the length of time between revaluations decrease from four years to two years and more recently to an annual cycle as part of centralisation of the valuation authority to Valuer General Victoria.

Valuations are conducted in accordance with the *Valuation of Land Act 1960* and with reference to the Valuer General published "Valuation Best Practice Specifications Guidelines" (VBPSG). Valuation principles are well-established, and the system is largely non-obtrusive for property owners who also have the right to object to and (ultimately) appeal their assessed rating valuation.

Technology has made possible the delivery of literally hundreds of thousands of municipal valuation assessments within a short time frame. Valuations are generally understood by the community and objection levels in terms a percentage of the total number of rateable assessments remain extremely low.

With the introduction of the Fire Services Property Levy, all property in Victoria – whether rateable or exempt – is now formally classified and subject to a valuation assessment.

Municipal Valuation Practice is a specialist field within the valuation industry and our practitioners produce a high-quality product that is equal (or better) to any other on a world stage.

In considering principles of taxation (efficiency, equity, simplicity and sustainability) it is the MGV's position that property valuations are being delivered in a timely manner, with taxpayers in similar circumstances treated in similar ways. Valuations are understood by the ratepayer and the framework is set in legislation and accords with valuation principles. Valuations are a reliable and sustainable way for Councils to distribute the rate burden – as they have always been.

Any move towards changing valuation practices such as a setting a base year for values with indexation should not be considered. Indeed, with revaluations now occurring on an annual basis there is no need to contemplate such a change.

Capital Improved Value as the Basis of Rating

Capital Improved Value (CIV) is defined in the *Valuation of Land Act 1960* as

> *… the sum which land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge, might be expected to realize at the time of valuation if offered for sale on any reasonable terms and conditions which a genuine seller might in ordinary circumstances be expected to require.*

In Victoria, 73 of 79 Local Councils utilise CIV as their rating base. The remainder utilise Net Annual Value (NAV) being a minimum of 5% of CIV. In an environment of falling property yields NAV is now almost a de facto CIV in any case. Site Value (SV) is not used as a basis of rating by any Council; however, it is the basis for State Government Land Tax.

The assessment of CIV has a direct relationship to sales evidence. When defending an assessed valuation, a Municipal Valuer can provide comparable "like with like" sale properties to the ratepayer who can then consider whether the assessed value is fair and reasonable. In this way CIV is the most easily understood basis of value for all property types because of that ability to link the valuation to relevant and comparable sales.

CIV is considered the most equitable rating base and is free of the artificial constructs which potentially affect NAV and – in many locations – the lack of sales evidence which renders the calculation of SV problematic and open to interpretation and challenge.

Although probably outside the scope of this review, some consideration should be given to redefining CIV as a "Rating Market Value" (RMV) in order to better convey that it reflects overall property value. This would also remove the perception amongst (some) ratepayers that CIV is an assessment of value on a cost basis.

Property Classification

The introduction of the Fire Services Property Levy (FSPL) in 2013/14 has resulted in all property within Councils being valued - irrespective of rateable status. In the FSPL Regulations there are seven categories of levy based on the Australian Valuation Property Classification Code (AVPCC) of a given assessment.

MGV Members are responsible for property valuations, AVPCC allocation and often the determination of rateability. The FSPL model of a levy based on a regulated schedule of seven land use classes for each AVPCC provides a potential framework for charging rates (or a level of rates) on all property types - irrespective of ownership or use.

This model could be expanded to rating practices within Local Government, especially around the determination of rate exemption applications. Under this system, if the use of a property changes to a community or charitable purpose the assessment can be reclassified as "public benefit" or "exempt" with a re-allocation of the AVPCC (some additional AVPCC's may be required to facilitate this). A rate in the dollar associated with the property category could then be applied to the assessment – this rate may or may not reflect a subsidy recognising community benefit.

The FSPL categories as they stand could therefore provide a basis for Councils to levy differential rates. It is recognised that double taxation should be avoided and therefore certain State and Commonwealth property types may need to remain exempt.

This is far more transparent than the current exemption provisions which operate under Section 154 of the Local Government Act 1989, where charitable bodies formally apply for a rate exemption which is then assessed by Council. The volume of rate exemptions has grown in recent years and for every exemption granted non-exempt ratepayers pay more rates. This is an inequity within the rating system.

Rateability and Rate Exemptions

Determination of Rate Exemption applications is a task often undertaken by MGV members. It is entirely appropriate that this occurs as Municipal Valuers are responsible for property classification and are best placed to request further information, conduct inspections and other tasks associated with this activity.

Further to the previous discussion about categories of Property Classification, it is the view of the MGV that the assessment of applications for rate exemptions should consider both the use of the property and the beneficial ownership. If charitable exemptions are to be maintained, they should only apply where the use is taking place on land owned by the entity.

Basic services which are the responsibility of the Local Council pass by the front of properties owned and/or occupied by these entities. It is more than reasonable to expect that as members of a community these bodies should contribute in some way to the cost of providing those services.

Of particular concern to the MGV is the degree to which activities which are nominally commercial in nature have been able to meet the criteria for rate exemption. This is because of either the nature of the entity undertaking them or the tax exempt status of the owner of the underlying land. Activities in this space include private education providers, aged care, some public bodies like Development Victoria and residential accommodation owned by Universities.

If a community benefit can be established by the presence of a charitable body, then the Council (through the normal Annual Plan and Budget process) can decide the degree of subsidy or exemption by way of a rate differential or rate rebate (see later discussion).

Processing requests for rate exemption are time consuming and involve a cost to Council if contract valuers are in use. A more strict methodology around rate subsidy or exemption based on property classification (AVPCC) and clearly defined criteria would be a way to reduce the cost and time impost of assessing rate exemptions.

Revaluation Return Dates

The return of General Revaluations is done in accordance with the *Valuation of Land Act 1960* and the stage submission dates in “Valuation Best Practice Specifications Guidelines”. The process is well established and MGV members continue to complete this task within the required timeframes.

However, the timing of this return does create conflict with the statutory timeframes for Councils to return their Annual Budget and Financial Plans. One potential solution for this is to require the valuation to be returned at an earlier date – the current date is 30 April. If a return date of 1 March was adopted this would allow time for Councils to finalise budgets and lower the risk of an inadvertent rate cap breach.

An earlier return date would also require a change to the relevant date of valuation which is currently 1 January of each year. The MGV has previously lobbied for an earlier relevant date and in our view that should be 1 October. This would lead to the following outcomes:

- Earlier finalisation of valuations
- Lower risk of rate cap breaches and unexpected Council budget impacts
- Consideration of a higher volume of sales evidence as the relevant date falls within the peak selling season
- More credibility with ratepayers – there is very little property market activity in January
- Better alignment with the Land Tax date of 31 December each year

Rate Differentials

MGV members have a major role in property classification, rate and valuation modelling and determination of rateability. The rate in the dollar applied to a given property is a driver of valuation enquiries and objections.

Councils should have greater flexibility in determining differential rates, if they so desire. The basis of the current 4x model is not known. The ability to have a wider scale of differentials – including perhaps for previously exempt land uses – could provide Councils with the ability to achieve a more equitable distribution of the rate burden and encourage optimal land use outcomes.

Greater flexibility around differentials could also provide options for value capture due to uplift from re-zonings or other planning scheme changes. This could assist Councils in funding infrastructure.

However, it is our experience that once a differential is created it is extremely difficult for a Council to take away that differential without alienating a group of ratepayers within a community. Consideration should be given to allowing expansion of the current rebate system. Councils can manage these through their Annual Plan and Budget process, adopt a rebate as a policy and if necessary apply an end date to its application. Moving to this system would also greatly simplify rate and valuation modelling processes.

An example of rate differentials being counter intuitive is where higher rates in the dollar are applied to vacant land and after a dwelling is completed on a property there is a decrease in the rates for that property. This kind of outcome does not assist in improving the understanding of the system by ratepayers.

Finally, it is fact that any form of rate differential undermines equity in the system in terms of the relativity between valuations – a house and a commercial property could have an identical CIV but where a differential is in place, the dollar amount of rates will be higher for one property owner compared to the other. This distortion affects the pre-eminence of an independent property valuation being the foundation of the rating system in Victoria.