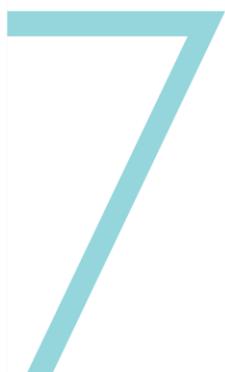


Fact Sheet 3 – Frequently Asked Questions about Rates

Contents

| | |
|--|---|
| Q1. How does Victoria's rating system work?..... | 2 |
| Q2. What are differential rates? | 3 |
| Q3. My rates rose more than the rate cap amount – why is that? | 3 |
| Q4. Why is the Valuer-General now responsible for annual land valuations? Aren't councils best placed to undertake their own valuations? | 4 |
| Q5. Why are valuations for farmers so different than valuations for other residents? | 4 |
| Q6. What support measures are in place to help the community cope with rate bills? | 4 |
| Q7. What can councils do to ensure their ratings strategies are applied fairly for all members of the community? | 4 |
| Q8. What obligations are councils bound by to inform their communities of their rating strategy? | 5 |
| Q9. What must a council do to use special rates and charges?..... | 5 |
| Q10. Does the Victorian Government have the capacity to interfere with a council's rates?..... | 5 |
| Q11. Does a council have the capacity to change its budget during the rating year? | 5 |
| Q12. What are the appropriate investigative bodies for concerns around a council's rating strategy?..... | 6 |



Fact Sheet 3 – Frequently Asked Questions about Rates

Q1. How does Victoria's rating system work?

A. State Government Involvement

The power to collect rates and the broad parameters of how rates may be set are included under state legislation: the [Local Government Act 1989](#).

Each year the Minister for Local Government determines the state-wide rate cap for all Victorian councils. This cap is set after considering the current rate of inflation and a recommendation from the Essential Services Commission (ESC).

The Fair Go rate capping system was introduced in 2016-17 to limit the amount by which Victorian councils can increase rates in a year. The cap applies to both general rates and municipal charges and is calculated on the basis of a council's average rates and charges. The rate cap was introduced to prevent unsustainable rate rises among Victorian councils, some of which were increasing annual rates by upwards of six per cent before the Fair Go Rates system.

Councils are able to apply to the ESC for an exemption from the rate cap. The ESC, as the independent assessor, is responsible for making a decision on higher cap applications. The rate cap mechanism is **not** being examined in the Local Government Rating System Review. It is subject to its own review which must take place by December 2021, as required by law.

A. Council Involvement

Councils are responsible for applying the rating systems within the cap set by the Minister for Local Government.

The *Local Government Act 1989* allows councils to raise revenue through rates on real property (land), including general rates, which are set as a proportion of property value, a municipal charge, service rates and charges and special rates and charges.

In preparing its budget for the coming year, a council identifies the total amount of income it will need to deliver its services and programs and determines its non-rates related income, before deciding how much it

should raise in rates. The mix of rates and charges applied and how these are distributed across ratepayers, are decisions for individual councils to consider in consultation with their local community.

The budget considers community needs in relation to the available council income. A council should also consider how rate rises will impact ratepayers by applying common taxation principles of efficiency, equity, capacity to pay, and sustainability.

Revaluations help to deliver rating equity by redistributing the rate burden within a municipality according to property price movements. It is important to recognise that increased property values do not in themselves increase the amount of money a council collects in rates; rather, they redistribute the amount of rates paid between individual properties in a municipality. Following a revaluation, some ratepayers will pay more and some will pay less, depending on the new value of their property and how it relates to other properties in their municipality.

As property values change, the distribution of rates across the municipality moves accordingly each year. Revaluations for all Victorian properties were undertaken by the Victorian Valuer-General as at 1 January 2018 and apply to rates in the 2018-19 financial year. Rates for 2019-20 will use the most up to date 2019 valuations.

The council determines the amount to be paid in rates by each property by applying the rate in the dollar to the assessed value of each property.

EXAMPLE:

If a council plans to raise a total rate revenue of \$10 million, and the total Capital Improved Value of all rateable properties in the municipality is \$2,380 billion, then the rate in the dollar is calculated by dividing \$10 million by \$2,380 billion = 0.0042 cents in the dollar.

If the total value of all properties in the municipality is higher, the council reduces the rate in the dollar to compensate, thereby raising the same amount of revenue.

Fact Sheet 3 – Frequently Asked Questions about Rates

Each property's value is different. Each property value is multiplied by the rate in the dollar amount to establish how much the property owner must pay in rates. In simple terms, the more valuable a property is, the higher the amount to be paid in rates in comparison to lower valued properties in the same municipality.

Q2. What are differential rates?

A. Differential rates are when councils set different rates in the dollar for different categories of rateable land, meaning the council is able to tax the land. Councils can collect a uniform rate across all properties (sometimes called a 'general rate' in council annual budgets), or two or more differential rates. The council may, for example, have differential rates for farmland, various categories of residential property or commercial/industrial properties – each paying a different rate in the dollar.

Differential rates are an instrument that allows councils to collect rates to accommodate different circumstances in their municipality and apply principles of equity and capacity to pay. Differential rates are subject to some restrictions in the [Local Government Act 1989](#), most importantly that the highest differential rate cannot be more than four times the lowest differential rate declared by a council. They are also subject to the [2013 Ministerial Guidelines for Differential Rating](#).

For more information on differential rating, see the [Ministerial Guidelines](#) and [Revenue and Rating Strategy](#) on the Department of Environment, Land, Water and Planning [website](#).

Q3. My rates rose more than the rate cap amount – why is that?

A. There are reasons your rates notice may have changed by an amount different to the amount set by the rate cap.

The most common reason is the change in the value of your property relative to the value of other properties

in the municipality. It is important to note that increased property values do not increase **the total amount** of funds a council collects in rates. Rather, property value changes redistribute the amount of rates paid by individual properties within the municipality. The rates cap is the maximum amount councils can increase their total rates and charges revenue over the previous year. However, at the individual property level, some ratepayers will pay more and some will pay less than the average increase cap, depending on the new value of their property in relation to other properties in their municipality.

Residents may object to their property valuation using the prescribed form provided by council within two months of the issue of the rates notice. The grounds for objection are set out in the [Valuation of Land Act 1960](#).

Some other potential reasons are as follows:

- Your council may have successfully applied to the Essential Services Commission (ESC) for a variation to the rate cap. If a council wishes to raise rates above the cap to deliver essential projects and services, they must demonstrate to the ESC that an increase is warranted and that they have engaged and listened to ratepayer and community views.
- There may have been increases in items in your rates bill that are not subject to the Government's rates cap, such as service charges, which are most commonly levied for waste. The Victorian Government has capped increases to the general rates and municipal charges only.
- Your council may have changed the amount of rates levied from your property type (residential, commercial or rural) through the application of differential rates.
- There may have been increases in other items such as the Fire Services Property Levy, which are collected by councils on behalf of the State Government. As state taxes, they are not subject to the rate cap.

Fact Sheet 3 – Frequently Asked Questions about Rates

Q4. Why is the Valuer-General now responsible for annual land valuations? Aren't councils best placed to undertake their own valuations?

A. The Government has legislated that the Valuer-General Victoria is responsible for undertaking annual valuations to ensure land and property values will be more accurate and up-to-date, ensuring taxpayers' land tax bills will more accurately reflect the value of their landholdings.

The Valuer-General is best placed to undertake annual land valuations as they can let out larger contracts for valuation services across municipal boundaries and have the expertise to manage valuation standards.

The changes follow extensive consultation with local councils and will make the valuation process more efficient and less costly.

Overall, councils will have no extra costs because of the move to annual valuations.

Along with centralising the process, the Government will pay for the full costs of revaluations, with councils only paying the cost of the supplementary valuation component. It is estimated that councils will save \$15 million every two years under the new arrangements.

The change will also resolve the inconsistency of the previous arrangements, in which some valuations were undertaken by in-house valuers, some by the Valuer-General Victoria, and some by contract valuers across municipal boundaries.

The changes will begin in 2019, but councils have the opportunity to opt out of the centralisation arrangement until 30 June 2022 to help the transition to the new arrangements.

For those councils that do not opt out of the centralisation, the Victorian Government will provide funding to help with the transition, including administration, IT and other costs.

Q5. Why are valuations for farmers so different than valuations for other residents?

A. The valuation process for farms is the same as for all property types.

As farming can require large parcels of land, the value of a farm land assessment can often be higher than other types or classes of land such as residential land in the same municipality. Land size however is only one factor among many in determining value. Recent comparable sales, amenity and access to services are some of the other factors used to determine a property's value.

Because rates are based on a proportion of a property's value, farms may pay a higher dollar amount in rates if they are valued higher than other properties in the municipality.

Ratepayers can object to their property valuation using the prescribed form provided by council. Objections must be made to the council within two months of the issue of the rate notice.

Q6. What support measures are in place to help the community cope with rate bills?

A. Victorian councils offer financial hardship provisions for those experiencing financial stress. People facing difficulties paying their rates should contact their council for assistance.

Q7. What can councils do to ensure their ratings strategies are applied fairly for all members of the community?

A. DELWP's [2014 Local Government Better Practice Guide - Revenue and Rating Strategy](#) provides guidance for councils on developing, monitoring and reviewing a revenue and rating strategy, including applying common taxation principles such as efficiency, fairness and capacity to pay.

Fact Sheet 3 – Frequently Asked Questions about Rates

The legislation allows councils to use a wide range of rating instruments to consider these principles and apply them to their municipality.

Q8. What obligations are councils bound by to inform their communities of their rating strategy?

A. Good practice suggests that councils develop a revenue and rating strategy to inform their annual budget and publish it in or alongside the adopted budget. The [Local Government Act 1989](#) and [Local Government Planning and Reporting Regulations 2014](#) require specific information about rates and charges to be disclosed in the annual budget. The annual budget document must also be subject to public consultation. A revenue and/or rating strategy is not required by legislation, although many councils do produce the document as good practice.

Q9. What must a council do to use special rates and charges?

A. By law, before finalising a special rate or charge, a council must provide formal public notice. Councils will often also ask the community for comment before proposing the rate or charge, although this is not mandatory.

People have the right to put in a formal submission before the council finalises a special rate or charge. The council is required to consider all submissions that are received within 28 days of the public notice, although councils may allow a longer time for submissions.

If the council is proposing to raise more than two-thirds of the total cost of a project as a special rate or charge, the affected ratepayers must also be given a formal right to object. If objections are received from a majority of properties within 28 days, the council cannot approve the special rate or charge. This objection process does not apply to drainage schemes that are required for public health.

Under certain conditions, people who are required to pay a special rate or special charge may appeal to the Victorian Civil Administrative Tribunal (VCAT). The use of special rates and charges by councils is subject to a [Ministerial Guideline](#).

Q10. Does the Victorian Government have the capacity to interfere with a council's rates?

A. Other than the rate capping system (see above) the [Local Government Act 1989](#) imposes some high-level requirements around the way councils develop their rates as part of their annual budgets.

The Act requires councils to impose and distribute rates and charges equitably (section 3C(2)(f)). Councils must also pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden (section 136(2)(b)).

The [2013 Ministerial Guidelines on Differential Rating](#) impose some specific limitations on the application of differential rates by local governments.

Councils have the responsibility to meet these requirements. The Victorian Government would only intervene if a council's revenue and rating strategy conflicted with the legislative requirements.

Q11. Does a council have the capacity to change its budget during the rating year?

A. Yes, a council may undertake a revised budget at any time of the year if the council determines there is a material change in circumstances which affects the financial operations and position of council.

A revised budget must include the transparency and community consultation components of a normal budget process. Changes to the rates contained in the approved budgets are possible and are subject to the same consultation requirements as a revised budget process.

Fact Sheet 3 – Frequently Asked Questions about Rates

Section 128 of the [Local Government Act 1989](#) sets out the requirements of this process.

Q12. What are the appropriate investigative bodies for concerns around a council's rating strategy?

A. As noted above, a revenue and/or rating strategy is not required by legislation, although many councils do produce such a document as good practice. Concerns around a council's rating strategy should be raised directly with the council in the first instance. The Act also provides that a council must give the Minister any information concerning its budget upon request (section 130(7)(8)). Where there is a potential breach of the Act the [Local Government Inspectorate](#) may decide to investigate.

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7

