How are council rates related to my property valuation?

Rates are often described as a wealth tax, with property valuations determining the amount of rates (tax) Council receives. **This is not correct.**

Rates are more accurately described as a relative wealth tax within the boundaries of the Council area only, and with the total amount of tax (rates) set as part of the budget process up front.

Property valuations only play a role in distributing this (set) amount rather than determining what the amount is.

So how does Council determine the amount?

Council has a budget each year, just like you do. Each year the cost of delivering services goes up, often by more than the Consumer Price Index (CPI). To combat this, Council seeks efficiencies and continuous improvements in an effort to keep the cost increase of providing existing services to no more than CPI each year.

In addition to this, there are many other things that Council considers each year including responding to strategic issues like climate change, additional requirements imposed by legislation and meeting the increasing community demand for services.

Council consults on all of this annually as part of putting the budget together.

This results in a forecast cost of services for the coming year and from this Council makes a decision on the total rate revenue needed in order to fund these services.

For 2023 the rate increase was set at 8.9% and included funding for a large amount of new services including the ongoing costs of state and federal election promises. As a reference, cpi at the same point was 7.9%.

So the amount of rates in total is now set as part of the budget, what role do property valuations play?

Property valuations do not play any role in the setting of the total budgeted rates amount, this is set by the budget process outlined above and is dependent on the amount and cost of services proposed.

Property valuations are only used after the budget setting to determine the share of the total budgeted rates that one property pays **relative to other properties in the Council area.**

This is where it gets complex as individual property valuations do not move uniformly and this can lead to the misunderstanding that valuation increases result in more revenue for Council when they do not.

To illustrate, consider the following example showing the rates setting process for Council A from 2022 to 2023:

- In 2022 Council A's rates in total were $100,000.
- The valuation of all properties in the Council area added up to $50 million.
- Therefore, the rate in the dollar for Council A in 2022 was ($100,000 / $50 million) = 0.002.
- In 2022 the rates each property paid was (Individual Property Valuation x 0.002).
- Council received $100,000 rates in total to fund services.

Now let's consider the 2023 budget and rate setting process.

After considering the cost increases of existing services, new services and savings and efficiencies, Council A identifies that a 5% increase in rate revenue is required to fund services in 2023.

- So the rates required for 2023 is ($100,000 + 5%) = $105,000.
- In 2023 the valuation of all properties in the Council area added up to $60 million (a 20% increase).
- Therefore, the rate in the dollar for Council A in 2023 was set as ($105,000 / $60 million) = 0.00175 (a 12% reduction).
- In 2023 the rates each property paid was (Individual property valuation x 0.00175).
- Council will receive $105,000 rates in total to fund services (a 5% increase even though valuations went up 20%).

This is the calculation at the whole of Council A level but what happens at the individual property level, given that not all valuations would have moved by the same 20%?

This all depends on the relative valuation of each property in 2022 compared to 2023. In other words where each property sits on the valuation list within Council A's area in 2022 compared to 2023.

In short, if Property A moves up the valuation list in 2023 (i.e. had a valuation increase of greater than 20%), it will receive a rate increase higher than the 5% set by Council A and this can create the misunderstanding of a windfall gain to Council. However, in order for Property A to move up the valuation list, another property or properties must have moved down the list as a result (i.e. had valuation increases of less than 20%) and therefore will experience rate increases of less than the 5% set by Council.

Overall Council A receives a 5% increase in rates in total, as budgeted.

To further explain, let's consider three possible scenarios for Property A.

As outlined above, even though Council A has set a rate increase of 5% and will receive 5% more rates in total, the amount of this increase that Property A will pay is dependent on how Property A's valuation has moved compared to how all the other property valuations have moved in the city. And remember, for every property paying more than the 5% set by Council there is one or more others paying less than the 5% set by Council.

Scenario 1 – Property A's valuation increases by the same amount as the average of all the properties in Council A for 2023 (in this example a 20% increase). Therefore, Property's position on the valuation list in Council A stays the same from 2022 to 2023 (it has changed by the average).

In this scenario Property A's rates would increase by 5%, which is the same amount as the total increase set by Council A to fund services as part of the budget. This is because, based on Property A's position on the valuation list remaining the same it will be paying the same size share of total rates in 2023 as it did in 2022, and in 2023 the total rates have increased by 5%.

Scenario 2 – Property A's valuation increases by more than the average of all the properties in Council A for 2023 (i.e. goes up by more than 20%). Therefore, Property A's position on the valuation list for Council A moves up in 2023 compared to 2022.

In this scenario Property A’s rates would increase by more than 5% (the amount set by Council A to fund services in 2023) because, based on Property A’s position on the valuation list increasing in 2023 it will be paying a larger share of total rates in 2023 than it did in 2022. Consequently, there will be other properties in Council A that have moved down the valuation list and therefore will be paying a smaller share in 2023 (less than 5%). The total amount of rates that Council A receives will remain at the budgeted 5% increase.

Scenario 3 – Property A’s valuation increases by less than the average of all the properties in Council A for 2023(i.e. goes up less than 20%). Therefore, Property A’s position on the valuation list for Council A moves down compared to 2022.

In this scenario Property A’s rates would increase by less than 5% (the amount set by Council A to fund services in 2023) because, based on Property A’s position on the valuation list decreasing in 2023 it will be paying a smaller share of total rates in 2023 than it did in 2022. Consequently, there will be other properties in Council A that have moved up the valuation list and therefore will be paying a larger share in 2022 (more than 5%). The total amount of rates that Council A receives will remain at the budgeted 5% increase.

In summary:

- Valuation movements do not bear any influence on the amount of rate revenue that Council receives.
- Council sets the rate revenue required as part of the budget process to fund services being proposed. This is done prior to and independent of property valuations.
- Valuations are calculated and advised by the Valuer General and only used by Council to determine the share of the budgeted rates amount that each property will pay, having already set the total rates amount as part of the budget.
- Individual movements in property valuations only impacts on the share of total rates that each property pays relative to each other.