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**Via Engage Victoria**

**FinPro response to Valuation Averaging Mechanism, Local Government Rates – Discussion Paper.**

The opportunity to provide feedback is appreciated by FinPro, noting that changes to the rating system can have significant impacts on rate revenue generated by Councils – and just as importantly can impact on the ability of ratepayers to understand how the system is applied.

The complexities of the local government rating system are acknowledged, and any proposed change requires detailed modelling of a sample size sufficient to capture the range of likely scenarios resulting from the proposed changes.

Responses provided are based on the information contained in the discussion paper, case studies and examples provided, noting no access to the data used to produce the examples and results was provided to FinPro.

Being a key body representing the local government sector, FinPro is supportive of the concept of promoting a system that can be:

- explained to ratepayers,
- is cost-effective to administer and
- promotes equity in the manner the system is applied to ratepayers.

At a high level, FinPro acknowledges that the current rating system is far from perfect, but believes that valuation averaging would be administratively complex, confusing and would lead to poorer outcomes more broadly. These issues far outweigh the possible benefit in smoothing relative annual increases or decreases.

Below are our responses to the consultation questions in the discussion paper.

**Consultation Questions:**

- **What should be considered a 'volatile increase' in valuation and rates?**
  **A:** It is difficult to set a limit however if one was set suggest it should be 20% or greater. However, even at 20% or greater, there could be genuine reasons for this to occur.

- **Which principles of good taxation should be considered for a VAM in these scenarios?**
  **A:** All (in order of importance - vertical equity, horizontal equity, simplicity and sustainability).

- **When would it be appropriate to lower an occupancy's rates when its valuation (and potential sale value) has increased?**
  **A:** Under no circumstances. The valuation as a key driver to the allocation spread of rates is still supported by FinPro, noting earlier that any deviation from this will create more complexity, confusion and poorer result to the principles of good taxation.

- **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?**
  **A:** It is as equitable as it is going to get, and more equitable than under the averaging method. Given that when there is an increase in valuation, the impact can also differ, depending on what full valuation movements have occurred, across differing rate types in most instances.

- **In the context of the examples above, what may be considered rate 'volatility' and do the VAM's proposed mitigate this sufficiently?**
  **A:** Rate 'volatility' is generally in the eye of the beholder, the rate payer. What their expectations are, and how far apart these expectations are from reality. This is then explained, or even more the case, the ratepayer's circumstance is understood so that a productive discussion can take place. VAM's will never necessarily mitigate the gap between the ratepayer's expectation and reality. Again, the current rating methodology is what most similarly represents that of the Land Tax system, why would we deviate from that?

- **Does the application of a VAM provide the desired results in a taxation environment that includes Supplementary Valuations, Differential Rates and Municipal Charges?**
  **A:** No. It is acknowledged that the concept of a 'smoothing' could be attractive, however it is administratively very complex and would be confusing in an already confusing system (to the public).

  Rate capping and its interaction with valuations is already not well understood – and recent regulatory changes 'added' information to an already 'busy' rates notice. Hence administratively, would suggest a VAM is not the way to progress.

- **Would it be practical to remove Supplementary Valuations, Differential Rates and Municipal Charges from legislation in favour of applying a VAM?**
  **A:** In short, not practical. The supplementary valuations are essential to continue providing the ability to take action on property changes as well as allowing for ongoing maintenance of the rating database, before you commence the new year. VAM will only stagnate and hinder Council's current processes. Rating implications of movements, based on valuations deviating year-on-year can be explained. Noting that the move to annual valuations has already assisted in this space.

- **How would multiple valuations be applied to annual rate notices without creating confusion for ratepayers?**
  **A:** As intimated by the question, this would be extremely difficult to do, and likely not possible without creating more confusion. Rate notice redesign would be required and difficult to prevent more confusion, particularly following the recent regulation changes (announced May 2023) which have added more information creating 'busy' rate notices.

- **What information should be present on the rate notice to explain the function of the VAM?**
  **A:** The value used in the calculation, the calculation could be included in the rates brochure or Council webpage. However, in noting this, as peak body, we are unwaveringly against the VAM concept and don't think it is required to fix the current system.

- **How would the SRO and Councils prevent confusion during the objection process, regarding the application of varied valuations?**
  **A:** A VAM system is likely to cause more confusion however if introduced the objection would need to be on the 'most recent' 1 January valuation.  Councils could provide more information on their web site about the process and would need to highlight the valuation used for the VAM and calculation of the VAM. However, by not supporting VAM, we can avoid this unnecessary confusion.

- **Does existing legislation provide sufficient power for Councils to offer extended payment options, effectively allowing ratepayers to "smooth" their rate payments?**
  **A:** Yes, current legislation enables longer term payment plans.  Most Councils offer these payment plans.  The changes provide ratepayers to make one small payment and then default with Councils having to wait 2 years until they can take legal action which has resulted in the changes likely to result in increases in overdue debtors.

  Extended payment options should only be used for ratepayers experiencing significant financial hardship due to their personal circumstances.  'Smooth' rate payments should not be a consideration for extended payment options. Over and above all this, Councils have become more and more creative in providing ratepayers more flexible ways and timings to pay. This is the greater focus, rather than trying to smooth out valuations in an attempt to artificially change an outcome that works.

- **Given the potential expense and complexity, would introducing a VAM provide impactful changes for ratepayers?**
  **A:** Adamantly no, given the administrative complexity versus the smoothing benefit. The additional confusion and administrative complexity outweigh the potential benefit. The VAM would also add complexity to Councils in determining compliance with the rate cap with the VAM spread over multiple years.

We would be more than happy to discuss our submission in further details.

Regards,

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