

COUNCIL RATES EXPLAINED

Australia's tax system uses the payment of taxes to fund a variety of programs, services and infrastructure by all levels of government for the public benefit of all.

Property Tax

Council rates are a property tax. Councils use property values as the basis for calculating how much each property owner pays in rates.

In Victoria, council rates can comprise up to three components:

- municipal charge (of not more than 20 per cent of a council's total rates revenue)
- waste management (garbage) charge
- rate in the dollar.

Exemptions from rates apply to crown land, charitable land, land used for religious purposes, and land used exclusively for mining or forestry.

There is no connection between the amount of rates paid by a property and the level of council services received.

PRINCIPLE: Those with a higher valued property relative to others within a municipality will contribute more in rates than those with a lower valued property

Rate Process

Once a council has identified the total amount it needs to collect in rates (as determined by its prescribed budget process), rates and charges can be calculated. A council begins its rate process each year by determining any municipal and waste management charges that may be needed to recover part of the administrative cost and the cost of providing waste collection and disposal services respectively.

Once these discretionary charges have been accounted for, a council establishes its rate in the dollar by dividing the balance of required budget revenue by the total value of all rateable properties in the municipality.

The rate in the dollar is then multiplied by the value of a property (using one of three valuation bases) to establish the amount to be paid by each property owner. This amount is known as the general rates. General rates are added to any municipal and waste management charges set by a council to determine the total rates payable on a property.

Example: Calculating General Rates

The total value of rateable properties within a municipality is \$10,000,000,000 and council needs to collect \$40,000,000 in rates. The rate in the dollar is 0.004 ($40,000,000 \div 10,000,000,000$). The rates payable on a property valued at \$320,000 would be \$1280 ($\$320,000 \times 0.004$).

An increase in property values does not cause a rate rise. Council budgets are pre-determined to meet expenditure requirements, and include any potential rate rise. Property valuations are revenue neutral – they are used to distribute how much each ratepayer will pay, according to the value of their property compared to other properties within the municipality.

SETTING A COUNCIL BUDGET

Council Plan

Victoria's 79 councils operate as separate entities with different local issues, costs and service provision needs.

All councils identify in their Council Plan the needs and issues to be dealt with in their municipality.

This Plan is a statutory requirement which describes the strategic objectives and strategies to be implemented by a council for the coming year, as well as the following four years.

Each council issues a public notice seeking community input to its draft plan for 28 days, before the plan is finalised and adopted by council for submission to the Minister. It must be completed by 30 June each year.

Strategic Resources Plan

A Council Plan must include a Strategic Resources Plan, which sets out the financial and human resources required to achieve its objectives over five financial years.

The Strategic Resources Plan is updated annually.

Council Budget

Each council's budget is different to reflect its local community needs and priorities. However, there is a common legislated framework for setting a budget that each council must follow.

The budget process involves a council setting its priorities, identifying measures and allocating funds that will show how the key strategic objectives outlined in its Council Plan are to be achieved in the coming year.

Through the budget process a council also specifies the annual maintenance, upgrade and renewal needs of its assets and any new or replacement infrastructure; as well as the community services and facilities it will provide in the next financial year, and how much these will cost.

A council budget also estimates the revenue to be collected from other sources such as State and Federal Government funding and from loans. By using these estimates a council can determine the amount it needs to collect in rates revenue to meet its financial responsibilities for the coming year.

This information is adopted as a draft budget, which is advertised and open to public comment for a minimum of 14 days.

All councils are required to submit their budget to the Minister by 30 June each year.

Local government has an open and transparent budget-setting process that seeks community discussion and input to the development of council spending initiatives and priorities for the coming year.