

Fact Sheet 05

Property Valuations and Council Rates



Local
Government
Association
of South
Australia

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South Australian Councils provide a wide range of services and infrastructure to their communities, all of which must be funded. Councils receive some funding in grants from other governments and raise some funds in user fees and charges; however, on average, about 68% of revenue comes from Council rates.

In setting rates, Councils are governed by the Local Government Act 1999 which provides flexibility for Councils to make decisions that suit their local community. As a result, the way one Council structures its rates may differ from another Council.

Rates are not a fee for service but rather a tax based on the value of land and property. Within South Australia property values are set by the State Valuer-General. Under the *Valuation of Land Act 1971*, the State Valuation Office re-values every property in South Australia annually with the new values taking effect from 1 July each year. Sales of all property types are analysed to determine market movements. This analysis of sales happens throughout the year and occurs for both site value (the value of the land excluding structural improvements) and capital value (the value of the land including improvements).

Under the *Local Government Act 1999*, Councils may choose to purchase valuations from the Valuer-General or a valuer under the Land Valuers Act. A property database, central to the valuation process, is kept of all properties within the state and is updated each year. The database includes information on land use (such as residential, commercial and industrial) and the physical details of the land and improvements (such as building size and condition).

Like other spheres of government, Councils have a responsibility to ensure that their revenue raising effort and other funding available is sufficient, over time, to meet expenditure responsibilities and policy choices made on behalf of the community. Councils determine an overall target for rate revenue each year as part of their budget process. Property values are then used to distribute the predetermined level of rate revenue.

In determining who pays how much in rates, a Council divides its rate revenue target by the sum of all property values in its area. The number arrived at is called the 'rate in the dollar'. The value of each rateable property is then multiplied by the 'rate in the dollar' to produce the rates bill for the property. Each year Council resets the 'rate in the dollar' so that only the required rate income is received. The total rates payable by the community will equal the amount determined as part of the budget process.

A Council Service Story: On Saturday morning, you wake up and decide to cycle down the **road** to the **beach** for a quick swim and take a walk along the **jetty**. Heading home along the **bike-path**, you decide to stop by your **local library** and browse on the **internet** and check out that **book** you have been meaning to read. Later on you head down to the local **oval** to watch a game of footy and use the **community grill** to have a BBQ with a few friends as the kids play on the **playground** in the **park** nearby.



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The way in which the 'rate in the dollar' is calculated allows it to react to changes in property values. When the total value of all properties within a Council increase and the amount of rate revenue required remains the same, the rate in the dollar will decrease. Alternatively, when the total value of all properties decrease and the amount of rate revenue required remains the same, the 'rate in the dollar' will increase. This change to the 'rate in the' dollar does not necessarily translate into an increase or decrease in the amount of rates payable. Where a rate rise is required in any year, the percentage increase is applied to the reset the 'rate in the dollar' so that variations in valuations are accounted for.

Additionally, there may be variations in the 'rate in the dollar' within a Council. This variation is known as differential rating and is usually based on the use of the land and/or locality of the land. As part of the valuation assessment process, the State Valuation Office applies a land use to each assessment to identify the predominate use of the land. It is important to note that valuations do not determine the rate revenue of Councils and, as a result, Councils do not obtain windfall gains from valuation increases. Rather, valuations are used to more equitably distribute the predetermined rate revenue amount across Council rate payers.

Example Calculations



Scenario 1:

Total Council property valuation - \$3,500 million
Total revenue to be raised by rates - \$11.25 million

$$\frac{\$11.25 \text{ million}}{\$3,500 \text{ million}} = \$0.003214 \text{ (cents)}$$

The rate in the dollar is \$0.003214.

Property value - \$350,000
Total rates payable - \$350,000 x \$0.003214 = \$1,125



Scenario 2:

A property boom has occurred resulting in a 10% increase in property values.

Total Council property valuation - \$3,850 million
Total revenue to be raised by rates - \$11.25 million

$$\frac{\$11.25 \text{ million}}{\$3,850 \text{ million}} = \$0.002922 \text{ (cents)}$$

The rate in the dollar is \$0.002922.

Property value - \$385,000
Total rates payable - \$385,000 x \$0.002922 = \$1,125



Scenario 3:

The housing market has hit a slump and property values have decreased by 7%.

Total Council property valuation - \$3.271 billion
Total revenue to be raised by rates - \$11.25 million

$$\frac{\$11.25 \text{ million}}{\$3,271 \text{ million}} = \$0.003439 \text{ (cents)}$$

The rate in the dollar is \$0.003439.

Property value - \$327,100
Total rates payable - \$327,100 x \$0.003439 = \$1,125

