

FAIR GO **RATES SYSTEM**

Victorian Government Response to
Legislative Council Environment and Planning Committee
Inquiry into Rate Capping Policy
Second Report



**VICTORIAN GOVERNMENT RESPONSE TO
LEGISLATIVE COUNCIL ENVIRONMENT AND PLANNING COMMITTEE
INQUIRY INTO RATE CAPPING POLICY
SECOND REPORT**

Introduction

1. The Victorian Government has implemented its Fair Go Rates policy consistent with commitments made as part of its pre-election platform prior to coming to government.
2. On 22 December 2015, following advice from the Essential Services Commission (ESC), the Minister for Local Government determined the rate cap for the 2016-17 financial year to be set at 2.5 per cent based on the Consumer Price Index forecast by the Department of Treasury and Finance. This is in line with the legislative framework that was established in November 2015 with bi-partisan support.

Background

3. Prior to the last state election the government committed to implementing an inflation based rate cap. On 14 January 2015, the Minister for Local Government announced that the Fair Go Rates System will be beginning from Financial Year 2016-17. This has now been delivered with all of Victoria's 79 councils operating under a rate cap.
4. The Victorian Parliament's Legislative Council's Inquiry into the Rate Capping Policy was established on 27 May 2015.
5. The Inquiry terms of reference states that the Legislative Council requires "the Environment and Planning Committee as part of its oversight of Local Government Victoria, to inquire into and report every six months on the outcome of the State Government policy of local government rate capping on councils' viability, service impacts on local communities and impacts on the provision of local infrastructure".
6. The first report was released on 8 December 2015 and the second on 7 June 2016.
7. The second report recommended that:
 - i) Both the ESC's advice to the Minister in relation to setting the rate cap and the Minister's decision including reasons for setting the cap at a particular figure be published annually;
 - ii) The Minister should announce the rate cap earlier than December;
 - iii) The ESC give support in particular to smaller rural councils who may wish to apply for a rate cap variation but lack the resources or staff to prepare an application;
 - iv) The ESC consider feedback from councils and refine its guidelines for what is required as part of a rate cap variation application;
 - v) The ESC investigate the most effective and administratively simple way for rate cap variation applications to be submitted. Where a legitimate case can be made for a variation a council should not be blocked from applying by administrative hurdles;

- vi) The Victorian Government provide certainty to local government as to whether the sector will need to cover the cost of the Fair Go Rates System, and if so, when that will occur and what the likely costs will be; and
 - vii) The ESC clarify its advice to councils regarding the responsible use of debt.
8. The Victorian Government is required to provide a response to this second report.
 9. In doing so, the government will respond specifically to Recommendations 1, 2 and 6, and the key findings and matters raised in the report.
 10. Recommendations 3, 4, 5 and 7 are matters for the ESC and will not be responded to by the government. The government continues to work with the ESC to improve the implementation of the Fair Go Rates system.
 11. For background and context, Table 1 provides a summary of percentage growth in average rates and charges per assessment (general rates and municipal charges only) for the period 2006/07 – 2015/16, compared to 2016/17 being the first year of the Fair Go Rates System.

Council	10 YEAR AVERAGE 2006-07 to 2015-16	2016-17
Alpine Shire Council	6.30%	2.30%
Ararat Rural City Council	6.61%	2.50%
Ballarat City Council	6.37%	2.50%
Banyule City Council	6.94%	2.50%
Bass Coast Shire Council	7.75%	2.50%
Baw Baw Shire Council	6.82%	2.50%
Bayside City Council	5.57%	2.50%
Benalla Rural City Council	5.27%	2.50%
Boroondara City Council	5.76%	2.50%
Brimbank City Council	5.57%	2.50%
Buloke Shire Council	6.12%	3.05%
Campaspe Shire Council	6.24%	2.50%
Cardinia Shire Council	5.96%	2.50%
Casey City Council	5.83%	2.50%
Central Goldfields Shire Council	7.33%	2.50%
Colac Otway Shire Council	7.39%	2.50%
Corangamite Shire Council	5.49%	2.50%
Darebin City Council	5.46%	2.50%
East Gippsland Shire Council	5.60%	2.50%
Frankston City Council	6.28%	2.50%
Gannawarra Shire Council	5.71%	2.50%
Glen Eira City Council	4.98%	2.50%
Glenelg Shire Council	8.73%	1.06%
Golden Plains Shire Council	8.86%	2.50%
Greater Bendigo City Council	6.06%	2.50%
Greater Dandenong City Council	6.64%	2.50%
Greater Geelong City Council	5.33%	2.50%

Council	10 YEAR AVERAGE 2006-07 to 2015-16	2016-17
Mansfield Shire Council	5.27%	2.50%
Mar byrnong City Council	5.69%	2.50%
Maroondah City Council	6.01%	2.50%
Melbourne City Council	-0.23%	2.50%
Melton City Council	4.35%	2.50%
Mildura Rural City Council	5.28%	2.50%
Mitchell Shire Council	8.23%	2.50%
Moira Shire Council	5.70%	2.50%
Monash City Council	5.92%	2.50%
Moonee Valley City Council	6.59%	2.50%
Moorabool Shire Council	5.43%	3.50%
Moreland City Council	5.61%	2.50%
Mornington Peninsula Shire Council	6.44%	2.50%
Mount Alexander Shire Council	7.54%	2.50%
Moyne Shire Council	4.60%	2.50%
Murrindindi Shire Council	6.39%	4.30%
Nillumb k Shire Council	7.53%	2.50%
Northern Grampians Shire Council	6.11%	2.50%
Port Phillip City Council	4.36%	2.50%
Pyrenees Shire Council	6.08%	3.83%
Borough of Queenscliffe	5.42%	2.50%
South Gippsland Shire Council	6.18%	2.50%
Southern Grampians Shire Council	5.86%	2.50%
Stonnington City Council	4.69%	2.50%
Strathbogie Shire Council	7.75%	2.50%
Surf Coast Shire Council	6.46%	2.50%
Swan Hill Rural City Council	5.07%	2.50%

Greater Shepparton City Council	6.08%	2.50%	Towong Shire Council	4.95%	3.50%
Hepburn Shire Council	6.89%	2.50%	Wangaratta Rural City Council	5.58%	2.50%
Hindmarsh Shire Council	6.30%	2.50%	Warrnambool City Council	6.50%	2.50%
Hobsons Bay City Council	6.80%	2.50%	Wellington Shire Council	6.07%	2.50%
Horsham Rural City Council	7.25%	3.50%	West Wimmera Shire Council	6.02%	2.50%
Hume City Council	6.38%	2.50%	Whitehorse City Council	6.77%	2.50%
Indigo Shire Council	6.33%	2.50%	Whittlesea City Council	4.31%	2.50%
Kingston City Council	6.58%	2.50%	Wodonga City Council	5.18%	2.50%
Knox City Council	5.69%	2.50%	Wyndham City Council	5.40%	2.50%
Latrobe City Council	5.50%	2.50%	Yarra City Council	3.97%	2.50%
Loddon Shire Council	4.92%	2.50%	Yarra Ranges Shire Council	6.44%	2.50%
Macedon Ranges Shire Council	5.74%	2.50%	Yarriambiack Shire Council	6.14%	2.50%
Manningham City Council	5.87%	2.50%			
			AVERAGE	5.99%	2.56%

Table 1: Percentage growth in Average Rates and Charges per assessment.

The Report's Recommendations and the Victorian Government's Response

Recommendation 1

That both the ESC's advice to the Minister in relation to setting the rate cap and the Minister's decision including reasons for setting the cap at a particular figure be published annually

12. This recommendation is **supported in full**.

13. On 23 March 2016, the government asked the ESC to publish its annual rate cap recommendations on an annual basis.

14. The government's commitment to the public release of the ESC's advice is part of the government's support for a Fair Go Rates system that ensures transparency in decision-making and more accountability to the public.

15. The ESC has released its advice to the Minister on setting the rate cap for 2016-17 on its website.

16. The Minister issues a Media Release each year, advising of her decision in relation to the Rate Cap. Last year the Minister reiterated the Government's published policy position, which was to set the cap at the Victorian Consumer Price Index.

Recommendation 2

That the Minister should announce the rate cap earlier than December

17. This recommendation is **under review** as part of the review of the **Local Government Act 1989**.

18. The rate cap is based on the Consumer Price Index (CPI) forecast by the Department of Treasury and Finance in the State budget update conventionally released in December each year.

19. The definition of CPI in the *Local Government Act 1989* was established in response to feedback from the local government sector that forecast CPI would better approximate the costs environment that councils face in the period that the rate cap would apply, than a retrospective CPI that reflects past costs environments.
20. The government is cognisant of the inherent tension in the sector's preference for forecast CPI and preference for the rate cap to be set earlier.
21. The review of the *Local Government Act 1989* provides an opportunity to recalibrate the balance and flexibility that underpins the Fair Go Rates system, and to account for a new strategic planning environment that may be introduced.
22. The sector reforms being pursued are to establish a strategic planning and community engagement framework that encourages and supports longer-term considerations in council decision-making, and that will result in more sustainable and enduring outcomes for ratepayers and the community.
23. The government will review how the Fair Go Rates system can be further improved in line with this new paradigm in how councils will make decisions. The government will explore the merits of bringing forward when the rate cap is set, possibly to the CPI forecast in the State budget released typically in May each year.
24. The government will also work with the ESC on how the cap setting process can better support the higher cap applications of two to four years and to strengthen the alignment of the higher cap application process to the long-term strategic planning environment.

Recommendation 6

That the Victorian Government provide certainty to local government as to whether the sector will need to cover the cost of the Fair Go Rates System, and if so, when that will occur and what the likely costs will be

25. **This recommendation is supported in principle.**
26. The government has committed funding to cover the cost of assessments for higher cap applications for Financial Years 2017-18 and 2018-19.
27. The *Local Government Act 1989* requires the ESC to provide an Outcomes Report to the government on the outcomes of the rate cap, including any trends and impacts arising from the rate cap.
28. The Outcomes Report will inform the government's consideration for funding of assessment costs beyond Financial Year 2018-19.
29. The government is also committed to minimising the administrative cost of making applications to the ESC and will support the ESC to utilise existing data collection mechanisms to reduce the reporting burden on councils where possible.

Other Matters

30. Beyond the seven recommendations, there are findings and other matters that were discussed in the report. This section discusses the government's position on the findings and key matters, and how the government has responded to the issues raised.

FINDING 1: That the rate cap as set by the Minister is calculated on Consumer Price Index estimates from the Victorian Department of Treasury and Finance rather than historical data issued by the Australian Bureau of Statistics

31. As indicated in the government's response to Recommendation 2, the CPI definition was established in response to local government sector views that a retrospective CPI had little to no association with the cost environment in the year that a rate cap would apply.
32. The government utilises the same forecast CPI for its own budgeting purposes and there are advantages in aligning the use of CPI for budgeting purposes for both levels of government.

FINDING 2: That in a rate capping environment, local governments may hold constant, withdraw or reduce funding to the State Emergency Service, with possible impacts on community safety

33. The government expects councils to engage their ratepayers and communities about any intentions to vary services and to discuss alternative approaches to manage their finances, including the need to make an application for a higher rate cap.
34. It is important ratepayers and communities are aware of the considerations that councils have to address in making such decisions and any trade-offs that may be necessary, if there is no community support for higher rating levels.
35. The government will continue to work with the local government sector to address the challenges that councils face and to support sector efforts to achieve more efficiencies in service provision.
36. The government recognises the important role that the State Emergency Service (SES) plays in ensuring that Victorians receive the support they need during times of emergency.
37. Local government has had a role in supporting their local SES units through financial and other resourcing means. The government has noted the views expressed to the Committee about the future of local government support to the SES.
38. The government is committed to better understanding the funding and support landscape of the SES in the context of the views expressed and to ensure that the service the SES provides to Victorians is not compromised.

FINDING 3: That under rate capping local governments lack operational capacity and budget certainty/flexibility to develop and implement long term financial plans or to budget for infrastructure or staff costs

39. The Fair Go Rates system is designed to support councils in planning for and making both short and long term financial decisions.

40. The annual rate cap provides a short-term basis for councils to consider their revenue and expenditure. Councils that require more rate revenue than allowed by the rate cap set by the Minister for Local Government can apply for ESC approval to raise the additional rate revenue.
41. Under the existing Fair Go Rates framework, councils can also apply for higher rate caps for up to four years. This feature was established to provide councils with the option for longer term financial decision making on their revenue needs, and to obtain certainty through ESC approval for additional rate revenue to be raised.
42. As indicated in the government's response to Recommendation 2, the long term strategic planning reforms being pursued through the Local Government Act review will provide further opportunities for the Fair Go Rates system to better support and promote the development and implementation on long term strategic plans, including financial and asset management plans, and workforce development strategies.
43. The government is also committed to strengthening community engagement in how councils develop these long-term strategic plans through better alignment with community's vision for the municipality. Through more robust community engagement practices, the government is looking to ensure that interested community members have ample opportunity to express their views, discuss resourcing issues and better understand council decisions.

FINDING 4: That the Fair Go Rates System timeline, where the Minister announces the rate cap in December and councils then have until March to apply for a variation, has created administrative and budgetary challenges for local government

44. As indicated in the government's response to Recommendation 2, the government is cognisant of the challenges that councils have expressed.
45. The government will review how the Fair Go Rates system timeline can be further improved and explore the merits of bringing forward when the rate cap is set, possibly to the CPI forecast in the State budget released typically in May each year.
46. This will be done as part of the review of the *Local Government Act 1989*.

FINDING 5: That local governments have indicated that the process to prepare an application for a variation to the rate cap is a deterrent and a significant financial and administrative challenge. Whilst the reported cost to apply varies, one council put it as high as \$250,000

47. The government continues to support the ESC to improve the application process for higher caps, including minimising the administrative burden and cost of making an application.
48. The government is of the view that the five assessment criteria prescribed in the *Local Government Act 1989* are basic criteria that any council in setting a budget in any given year should need to address, irrespective of rate capping.
49. Priority setting, engagement with ratepayers and the community, and alternative funding options, are considerations that ratepayers would expect a competent council would already be considering in setting a budget. They are not new considerations that require significant extra work for councils.

50. The government recognises that there is some effort required to make an application, but is not convinced that it should be as onerous or costly as the report has found.

FINDING 6: That some councils have informed the Committee that the costs charged by the Victorian Electoral Commission to hold local government elections have increased significantly compared to previous elections

51. The government recognises that the cost of elections has increased, but had expected councils to be addressing the need to raise the necessary funding for the elections over the course of their term in office, as local government general elections are conducted at fixed intervals and is an expense that can be anticipated and planned for.

52. It would be advisable for councils to develop revenue raising strategies that apportion the necessary revenue collection over a period of time, rather than just in a single year, to respond to anticipated cyclical expenditure such as local government general elections. This would minimise any avoidable rate increase 'shocks' to ratepayers.

Statutory Fees

53. The Committee has again highlighted the issue of Statutory Fees.

54. The government reiterates its commitment to index statutory fees to CPI or provide for more frequent reviews where possible and appropriate.

55. An example of the government meeting this commitment is the establishment of new planning fees in September 2016.

56. This initiative has been acknowledged by the Municipal Association of Victoria to be of assistance to councils in cost recovery, and minimising the impost on ratepayers.