



Department of Environment
Land, Water & Planning

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Mr Keir Delaney
Secretary
Council Committees
Legislative Council Environment and Planning Committee
Parliament of Victoria
Parliament House, Spring Street
EAST MELBOURNE VIC 3002

Dear Mr Delaney

INQUIRY INTO RATE CAPPING POLICY

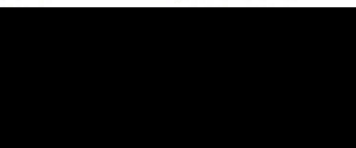
Thank you for your letter of 10 March 2016 regarding further evidence to be provided to the Environment and Planning Committee.

I am pleased to provide the three requested pieces of evidence, namely:

1. The Department's advice to the Minister for Local Government regarding the setting of the rate cap (Attachment 1)
2. Rate increase and CPI data from 2005-06 to 2014-15 (Attachment 2); and
3. Know Your Council website access data (Attachment 3).

Should you have any queries, please contact Chris Phoon, Senior Manager Intergovernmental Relations on 9948 8525 or christopher.phoon@delwp.vic.gov.au.

Yours sincerely



Graeme Emonson
Executive Director
Local Government Victoria

23 / 3 / 2016

FAIR GO RATES - SETTING OF AVERAGE RATE CAP FOR 2016/17

Core message

Dept Initiated - Minister

The Local Government Amendment (Fair Go Rates) Bill has received Royal Assent, enabling you to set, by general Order, an average rate cap for the 2016/17 Financial Year. In accordance with this legislation you sought and have received advice from the Essential Services Commission on the setting of the average rate cap. This brief facilitates consideration of this advice, your determination of the average rate cap and execution of the administrative processes to put this determination into effect, including signing of the necessary Order and related certificates under the provisions of the Subordinate Legislation Act 1984 of the Order.

Timing The general Order needs to be approved, signed and published in the Government Gazette by 31 December 2015 to meet the statutory requirement for setting an average rate cap for 2016/17. This brief proposes the publication of a Special Gazette on Tuesday 15 December to formalise this decision.

Recommendations

1. Approve the setting of an average rate cap for all councils for 2016/17.

Recommendation 1 [] Approved [] Not approved [] Noted [] Returned for review

2. Accept the advice of the Essential Services Commission to approve a 2.8 per cent average rate cap, to be applied uniformly to all councils for 2016/17, derived from the forecast Consumer Price Index (CPI) for 2016/17 of 2.5 per cent with an upward adjustment of 0.3 per cent to take into account higher forecast wage cost increases.

Recommendation 2 [] Approved [x] Not approved [] Noted [] Returned for review

3. Sign the attached general Order to set the average rate cap prepared under the Subordinate Legislation Act 1994.

Recommendation 3 [x] Approved [x] Not approved [] Noted [] Returned for review

4. Sign the attached Regulatory Impact Statement (RIS) exemption certificate and other required certificates prepared under the Subordinate Legislation Act 1994.

Recommendation 4 [x] Approved [] Not approved [] Noted [] Returned for review

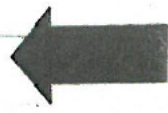
5. Announce the setting of the average rate cap by way of a media release, letters to the peak associations and members of the Fair Go Rates Reference Group, and a request to Local Government Victoria to follow up this announcement with a circular letter to all council Chief Executive Officers.

Recommendation 5 [x] Approved [] Not approved [] Noted [] Returned for review

Comments



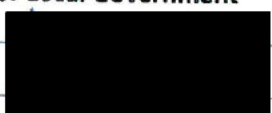
Approve a rate of 2.5% in line with ESC recommendation A



Signed HON NATALIE HUTCHINS MP Minister for Local Government

Date 14.12.2015

Approved by



Date 11/12/15

Mark Curry, Acting Executive Director Local Government Victoria

Endorsed by: Terry Garwood, Deputy Secretary Local Infrastructure (03) 9948 8540



Date: 11/12/2015

From LOCAL GOVERNMENT VICTORIA
Title FAIR GO RATES - SETTING OF AVERAGE RATE CAP FOR
2016/17

Ref MBR028554
File FOL/15/53020

Key Information

LEGISLATIVE FRAMEWORK

1. Pursuant to section 185D of the *Local Government Act 1989* (the Act), the Minister may set an average rate for 2016/17 by general Order published in the Government Gazette.
2. Pursuant to section 185D(3) of the Act, the Minister must request advice from the Essential Services Commission (ESC) for the purposes of adjustment to forecast CPI in setting the average rate cap and must have regard to any advice received.
3. You wrote to the ESC on 2 December 2015 seeking its advice on the setting of the average rate cap for 2016/17. On 7 December, pursuant to 185D(4) of the Act, the ESC advised that (see ATTACHMENT 1):
 - a. A uniform cap be applied to all councils; and
 - b. In calculating the average rate cap, forecast CPI (of 2.5 per cent) be weighted at 60 per cent of the cap total, and the forecast Wage Price Index (of 3.25 per cent) be added as an adjustment and be weighted at 40 per cent of the cap total.

The application of the ESC's advice would mean that the cap would be set at **2.8 per cent** for all councils.

4. The advice of the ESC states further that "On the basis of the information currently held by the Commission, we are not in a position to advise you of alternative rate caps for different classes of councils in 2016-17."

CONSIDERATION OF ESC ADVICE AND OTHER OPTIONS

5. Although you are required to seek and have regard to the ESC's advice in setting the average rate cap, you are not strictly required to follow the advice. Nevertheless, in the Department's view, there should be clear and strong justification if you were to depart from the advice.
6. A decision to follow the ESC's recommendation for a uniform average rate cap to be set at 2.8 per cent for 2016/17 would be consistent with the original decision to engage the ESC as an expert, independent body to advise you on the most appropriate methodology for calculating a cap.
7. Further, in the Department's view, the ESC has made a sound case for an upward adjustment to CPI to take into account a higher wages cost growth component in the overall cost structure of councils and for the use of forecast WPI in weighted average with CPI (in the ratio 40:60) as a basis for calculating the quantum of the adjustment. This case is set out in the ESC's *Final Report on the Local Government Rates Capping and Variation Framework Review* (30 September 2015).
8. While the recommended cap, being slightly higher (by 0.3%) than forecast CPI, may lead to some criticism from ratepayers and other commentators who may argue that it is a departure from the Government's pre-election commitment to set the cap at CPI, or that they are not convinced by the ESC's arguments for an adjustment, such a cap will be better received by councils than a CPI only cap and is likely to lead to a lower number of applications for a higher cap in this first year.
9. Another option which is contemplated by the legislation and which could be considered by you is the adoption of different average rate caps for different groups or classes of councils
10. The ESC recommends against the adoption of alternative caps for different classes of councils in 2016/17 on the basis that there is currently insufficient information available to support such an approach. The Department supports the ESC's position noting further that:

- a. While there may be scope for applying a different (likely higher) cap for small rural councils to account for their financial circumstances, it is difficult to reliably determine the criteria that should be adopted in deciding which small rural councils should be included in this group;
 - b. There is a risk that any adjustment applied to the cap for group of councils could be incorrectly calibrated due to the complexity of measuring individual financial circumstances using existing data (ratepayers could potentially be asked to pay more in rates than what is reasonable); and
 - c. It would be more prudent in the first year of the system to allow councils to make the case for a higher cap on their individual merits, particularly given that the Government has committed to financing application fees in the first year, thereby minimising the financial burden to make an application.
11. Based on the above considerations, the Department recommends that you approve a uniform average rate cap in 2016/17 for all Victorian councils of 2.8 per cent, consistent with the advice provided by the ESC pursuant to section 185D of the Act.

PROCEDURAL MATTERS

12. Subject to your approval of the recommended average rate cap, your signature is sought for the general Order (at **ATTACHMENT 2**) that will formally establish the average rate cap for all councils for the 2016/17 financial year in accordance with section 185D(1) of the Act.
13. Subject to this approval, your signature is also sought for the following certificates which were the subject of an earlier briefing provided to you (MBR028631):
- a. Certificate of Consultation Section 12C (at **ATTACHMENT 3**),
 - b. Human Rights Certificate Section 12D (at **ATTACHMENT 4**), and
 - c. Regulatory Impact Statement (RIS) Exemption Certificate Section 12F (at **ATTACHMENT 5**).

COMMUNICATIONS

14. In addition to establishing the cap by general Order published in the Government Gazette, it is proposed that a media release be prepared to announce your determination.
15. It is proposed also that you write to the peak associations and members of the Fair Go Rates Reference Group advising them of your actions and request that the Acting Executive Director Local Government Victoria write to all council Chief Executive Officers advising them of your decision in respect of the cap.

GOVERNMENT GAZETTE

16. General Gazettes are published on Thursdays and approved copy needs to be provided to the Victorian Government Gazette by 9am the Tuesday prior.
17. Special Government Gazettes can be prepared within three hours and as normal courtesy 24 hours notice of the intention to require this is given.
18. Your office has indicated a preference to announce your decision on Tuesday 15 December 2015 and therefore officers will commence arrangements for a Special Gazette to be published on that day.

CONTEXT

1. The Local Government Amendment (Fair Go Rates) Bill received Royal Assent on 2 December 2015.
2. Section 185D of the *Local Government Act 1989* establishes a framework for capping rates.

Consultation

Extensive opportunity for the making of submissions and consultation was provided by the Essential Services Commission and the community at large was invited to make submissions.

The Fair Go Rates Reference Group established by the Minister also comprised a broad cross section of interested parties and met several times to contribute to the development of the system.

Attachments

1. ESC advice on setting the average rate cap for 2016/17.
2. General Order establishing the average rate cap for 2016/17.
3. Certificate of Consultation 12C
4. Human Rights Certificate 12D
5. Certificate of Exemption 12F

7 December 2015
Our ref: C/15/18371



MIN011377

The Hon Natalie Hutchins MP
Minister for Local Government
Level 27, 1 Spring Street
Melbourne VIC 3000



Dear Minister

**ESSENTIAL SERVICES COMMISSION'S ADVICE ON THE AVERAGE RATE CAP
FOR 2016-17**

On 2 December 2015, you requested the Commission's advice on the following matters in setting the average rate cap, pursuant to section 185D(3)(a) of the *Local Government Act 1989* (the Act):

- A recommendation for any adjustments to be applied to Consumer Price Index (CPI) in setting the cap for all or any councils, and
- The rationale for any such adjustments and the quantum of such adjustments.

In response to your request and pursuant to 185D(4) of the Act, we provide the following advice.

The methodology outlined in our final report *A Blueprint for Change – Local Government Rate Capping and Variation Framework Review* (September 2015), was based on the following formula:

Average rate cap = (0.6 x CPI) + (0.4 x WPI) – zero efficiency factor

which applied a 60 per cent weighting to the rate of increase in the CPI and a 40 per cent weighting to the Wage Price Index (WPI), less an efficiency factor. The CPI and WPI measures were based on the latest available forecasts from the Department of Treasury and Finance (DTF). Our final report considered that the efficiency factor should be set at zero in the first year of the rate capping framework.

On 27 November 2015, the DTF updated its forecasts of growth in the CPI and WPI measures. The forecast rates of increase in the CPI and WPI for 2016-17 are 2.50 and 3.25 per cent, respectively. Applying these forecasts to the formula shown above (and maintaining a zero value for the efficiency factor) suggests the following average rate cap:

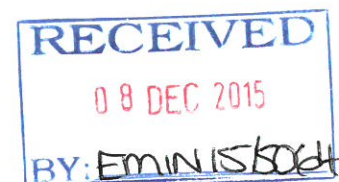


Table 1: Average rate cap for 2016-17

Average rate cap	2016-17
(a) Average rate cap based on CPI only	2.50
or	
(b) Adjusted average rate cap based on:	2.80
• 60 per cent weighting applied to rate of increase in CPI and	
• 40 per cent weighting applied to rate of increase in WPI	

On the basis of the information currently held by the Commission, we are not in a position to advise you on alternative rate caps for different classes of councils in 2016-17.

Using DTF's forecasts for future years (as at 27 November 2015) and applying a gradually increasing efficiency factor, suggests the following *estimates* for the rate cap:

Table 2: Estimates for the average rate cap

Year	2017-18	2018-19
CPI forecast (DTF)	2.50	2.50
WPI forecast (DTF)	3.50	3.50
Efficiency Factor	0.05	0.10
Average rate cap (estimate)	2.85	2.80

If you or your staff have any queries, please contact me on 9032 1316 or Andrew Chow on 9032 1323.

Yours sincerely



Dr Ron Ben-David
Chairperson

cc: The Hon Robin Scott MP, Minister for Finance

**LOCAL GOVERNMENT ACT 1989
SECTION 185D**

GENERAL ORDER

I, Natalie Hutchins, Minister for Local Government, pursuant to section 185D(1) of the **Local Government Act 1989**, hereby direct all Victorian Councils, that the *capped average rate* in respect of the 2016-17 financial year must not exceed the *base average rate* by more than the *average rate cap* of **2.80 per cent**.

HON NATALIE HUTCHINS
Minister for Local Government

/ / 2015

Subordinate Legislation Act 1994

CERTIFICATE OF CONSULTATION

(Section 12C)

GENERAL ORDER SETTING THE AVERAGE RATE CAP

I, Natalie Hutchins MP, Minister for Local Government, and Minister responsible for administering the **Local Government Act 1989**, certify that there has been consultation in accordance with the guidelines made under the **Subordinate Legislation Act 1994** with:

- (a) every other Minister whose area of responsibility may be affected by the proposed general Order and there is no overlap nor conflict with any other existing or proposed legislative instrument, other legislation or stated government policy; and
- (b) Victorian councils and the peak local government bodies have been consulted, being sectors of the public on which a significant economic or social burden may be imposed by the proposed general Order, so that the need for, and the scope of the proposed general Order has been considered.

Dated:

NATALIE HUTCHINS MP
Minister for Local Government

Subordinate Legislation Act 1994

HUMAN RIGHTS CERTIFICATE

(Section 12D)

GENERAL ORDER SETTING THE AVERAGE RATE CAP

I, Natalie Hutchins MP, Minister for Local Government and Minister responsible for administering the **Local Government Act 1989** certify that, in my opinion the proposed general Order does not limit any human right set out in the **Charter of Human Rights and Responsibilities Act 2006**.

Dated:

NATALIE HUTCHINS MP
Minister for Local Government

Subordinate Legislation Act 1994

EXEMPTION CERTIFICATE

(Section 12F)

GENERAL ORDER SETTING THE AVERAGE RATE CAP

I, Natalie Hutchins MP, Minister for Local Government, and Minister responsible for administering the **Local Government Act 1989**, certify under section 12(F)(1)(g) of the **Subordinate Legislation Act 1994** that in my opinion, the proposed legislative instrument has undergone an analytical and consultation process equivalent to the process for a Regulatory Impact Statement.

The reasons for forming this opinion are that the proposed legislative instrument has undergone an analysis of the costs and benefits, including consideration of alternative options, as well as an extensive consultation process undertaken by the Essential Services Commission in finalising its Local Government Rate Capping and Variation Framework Review Final Report and in providing advice to the Minister for Local Government under section 185D(4) of the **Local Government Act 1989**.

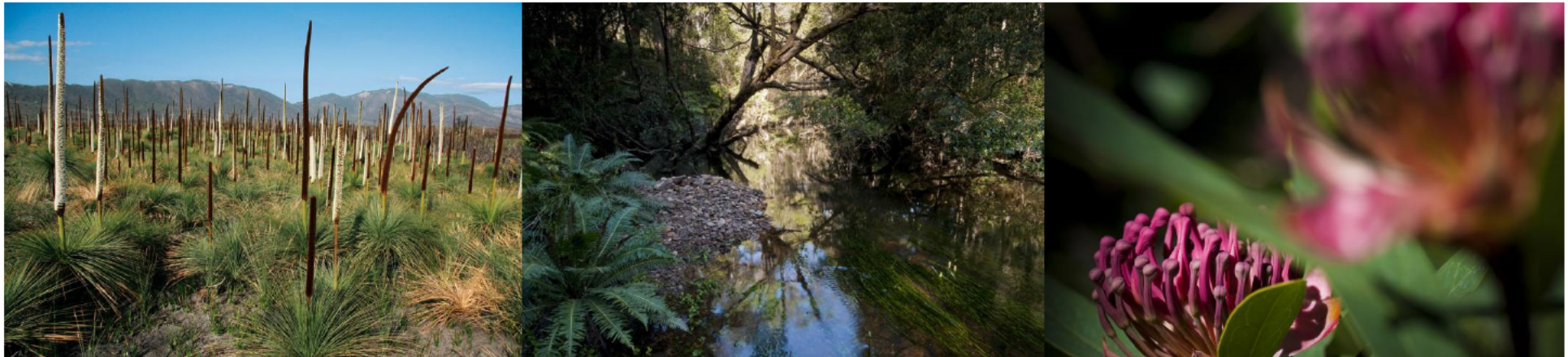
Accordingly, a Regulatory Impact Statement is not required for this legislative instrument.

Dated:

NATALIE HUTCHINS MP
Minister for Local Government

Local Government Performance Reporting Framework & Know Your Council Website

Google Analytics – Page view data

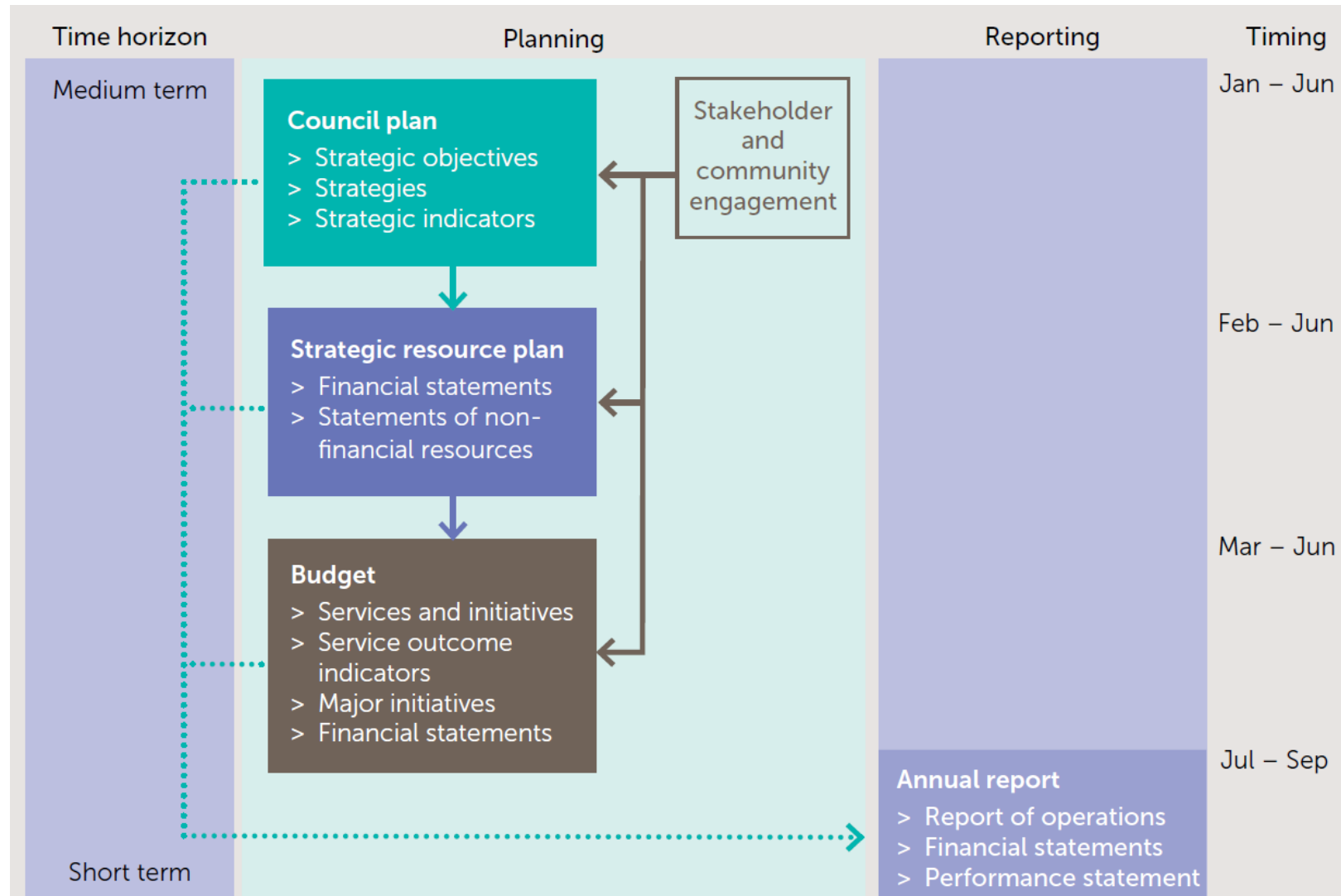


23/03/2016

Why it was developed

- Prompted by VAGO findings
- Parliamentary support for the framework
- Integrated into the planning and accountability framework
- Aims to provide information that meets the needs of the *community, council, regulators* and *government*

Planning & Accountability Framework



How it works

HOW IT WORKS



INDICATORS MEASURING

48



SERVICES

12



FINANCES

6



SUSTAINABLE CAPACITY



GOVERNANCE CHECKLIST



YES NO



EFFECTIVENESS

EFFICIENCY



BALANCED PICTURE OF PERFORMANCE



DETAILED REPORTING IN ANNUAL REPORT

RESULTS EXPLAINED BY COUNCIL NARRATIVE



What it offers

WHAT IT OFFERS



TREND DATA
SHOWS COUNCIL
PERFORMANCE OVER TIME



COMPARISONS
BENCHMARKS SIMILAR
COUNCILS



MY COUNCIL
ACCESSIBLE WEBSITE



CREDIBLE
AUDITED BY
AUDITOR-GENERAL



MANDATORY
ENABLED THROUGH
LEGISLATION



TIMELY
FIRST REPORT
30 SEP 2015

What are the most viewed pages?

As at 11 March 2016:

- Most people visit the homepage primarily (50,307 page views).
- 36,000 page views are dedicated to users finding their council, or the council they are looking for.
- The third most viewed page type is a council's summary report (22,885 page views) on the 48 service indicators, 12 financial indicators and 6 sustainable capacity indicators as well as the Governance and Management Checklist. Moreland, Boroondara and Wyndham City Councils have the most viewed summary reports.
- Users have also sought to compare councils performance data (20,738 page views).
- After this, users view the Guide to Councils or look at their council's profile for information such as contact details, localities, councillors, population and finance data. The council profiles with the most page views are Melbourne, Casey and Boroondara City Councils.