

# **FAIR GO** **RATES SYSTEM**

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



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LEGISLATIVE COUNCIL ENVIRONMENT AND PLANNING COMMITTEE  
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THIRD REPORT**

**Introduction**

1. The Victorian Government implemented its Fair Go Rates policy consistent with commitments made as part of its pre-election platform prior to coming to government.
2. In December 2016, following advice from the Essential Services Commission (ESC), the Minister for Local Government determined the rate cap for Financial Year 2017-18 to be set at 2 per cent based on the Consumer Price Index (CPI) forecast by the Department of Treasury and Finance.

**Background**

3. Prior to the last state election, the Government committed to implementing an inflation based rate cap. In January 2015, the Minister for Local Government announced that the Fair Go Rates system would apply from Financial Year 2016-17. The policy was delivered and is now its second year, 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 in December 2015, the second in June 2016 and the third on 8 December 2016. Government responses to the first and second reports were tabled in Parliament in June 2016 and December 2016, respectively.
7. The third report made two recommendations, namely:
  - i) The government review of the Fair Go Rates System be independent, public and transparent, with terms of reference that include timeframes and the variation process; and
  - ii) The government simplify and streamline the variation process to reduce costs to local government and the community.
8. The Victorian Government will respond specifically to the two recommendations and key matters raised in the report.

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

### **Recommendation 1**

***The Committee notes that the government intends to review the Fair Go Rates System and the Committee recommends that review be independent, public and transparent, with terms of reference that include timeframes and the variation process.***

9. The Fair Go Rates legislative framework was introduced with a number of inbuilt review mechanisms that reflect this government's commitment to an independent, public and transparent review process.
10. **Accordingly, this recommendation is supported in full by the existing Fair Go Rates system.**
11. Section 185G of the *Local Government Act 1989* (the Act) requires the Minister for Local Government and the Minister for Finance to undertake a review of the Fair Go Rates system by 31 December 2021 to determine if the mechanism for setting a rates cap is still appropriate, and if the Fair Go Rates system is still effective or needs to be amended.
12. The government will implement this recommendation as part of this review, with subsequent reviews to be completed every four years.
13. The government is committed to the importance of ensuring that any review of the Fair Go Rates system is consistent with the principles that underpin the system itself, being accountability and transparency. As such, in developing the review's terms of reference, the government will involve an independent reviewer in the process.
14. The four yearly reviews will be undertaken in consultation with the ESC to ensure that the suite of Fair Go Rates system review mechanisms are complementary, integrated and effective.
15. The other legislative review mechanisms of the Fair Go Rates system require the ESC to report annually on councils' compliance with rate caps, and to report biennially on the outcomes, trends and impacts resulting from the rate caps.

### **Recommendation 2**

***The Committee recommends that the government simplify and streamline the variation process to reduce costs to local government and the community.***

16. **This recommendation is supported in principle.**
17. As part of the ESC's independent role specified under section 185E of the Act, it is responsible for establishing its own higher cap assessment process and any associated information provision requirements.
18. The government has previously highlighted its commitment to minimising the administrative burden associated with the higher rate cap application process.

## Other Matters

19. Beyond the two recommendations, there are other matters that were discussed in the report. This section discusses the key matters and how the government has responded to the issues raised.

### FINDING 1: The Committee considers that the Brown Review was of value to the sector and the community but was not a public process.

20. The Brown Review was an independent review commissioned by the ESC into the higher rate cap application process for Financial Year 2016-17 and is separate from the review of the Fair Go Rates system required under section 185G of the Act.
21. In response to the Brown Review recommendations, the ESC has made improvements to its higher rate cap application process for Financial Year 2017-18.
22. For instance, the ESC has committed to providing clear guidance that it would use the Local Government Performance Reporting Framework (LGPRF) for assessment purposes. Further, in response to a recommendation to provide advice on the financial ratios that councils should use to assist the ESC assessment, the ESC committed to clarifying how it will examine councils' LGPRF forecast indicators as part of its assessment process.
23. The government will continue to support the ESC to progress the recommendations of the Brown Review that it has accepted.

### FINDING 2: The Committee finds that the variation process was complex and iterative and added costs and challenges to councils, particularly with the applicable timeframes.

24. As indicated in the government's response to Recommendation 2, the government is committed to minimising any administrative burden associated with the implementation of the Fair Go Rates system.
25. Regarding the Committee's observation that the rate cap setting timeframe poses difficulties for council financial planning and budget processes, the decision to base the rate cap on the CPI forecast by the Department of Treasury and Finance in the State budget update (conventionally released in December each year) was in response to feedback from the local government sector during the development of the Local Government Amendment (Fair Go Rates) Bill 2015. The feedback was 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.
26. The government is cognisant of the inherent tension in the sector's preference for forecast CPI and the preference highlighted by the Committee for the rate cap to be set earlier to minimise difficulties for council planning and budgeting.
27. Accordingly, the government reiterates its previous public commitment that it will explore the merits of bringing forward when the rate cap is set.

### FINDING 3: The survey results provided relevant and useful information and the Committee will undertake a detailed analysis in the next reporting period.

28. The government notes the Committee's finding.