

FAIR GO **RATES SYSTEM**

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



**VICTORIAN GOVERNMENT RESPONSE TO
LEGISLATIVE COUNCIL ENVIRONMENT AND PLANNING COMMITTEE
INQUIRY INTO RATE CAPPING POLICY
FIRST 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. This was one of two commitments made that promote greater transparency, accountability and efficiency in local government. The other commitment now underway is the review of the *Local Government Act 1989*.
2. For 2016-17, the Minister for Local Government has determined that the rate cap will be 2.5 per cent based on the Consumer Price Index forecast of the Department of Treasury and Finance.
3. Many of the Environment and Planning Committee's (the Committee's) recommendations do not recognise the progress that has already been made in related areas of the local government portfolio. At times the recommendations also go beyond the Committee's terms of reference, and run the risk of duplicating existing monitoring and reporting mechanisms the Government already has in place.

Background

4. Prior to the last state election the government committed to implementing an inflation based rate cap. This system of rate capping is now in place.
5. On 14 January 2015, the Minister for Local Government announced that the Fair Go Rates System will be beginning from Financial Year 2016-17.
6. On 27 February 2015, the Ministers for Finance and Local Government announced an inquiry by the Essential Services Commission (ESC) to recommend an implementation framework.
7. The ESC submitted its report to Ministers of Finance and Local Government on 31 September 2015.
8. The Local Government Amendment (Fair Go Rates) Bill was introduced into Parliament on 20 October 2015.
9. The ESC's Final Report was tabled in Parliament on 21 October 2015 and was publicly released together with the Government Response on the same day.
10. The Local Government Amendment (Fair Go Rates) Bill was adopted by Parliament on 26 November 2015, and received Royal Assent on 1 December 2015.
11. Councils will be subject to a rate cap from the 2016-17 financial year.
12. On 22 December 2015, following advice from the 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.

13. A Victorian Parliament's Legislative Council's Inquiry into the Rate Capping Policy was established on 27 May 2015.
14. 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".
15. The first report was released on 8 December 2015.
16. The Inquiry duplicates the review work that was undertaken by the ESC.
17. The Committee's recommendations in the first report also restate the commitments that the Victorian Government had already made in response to the ESC review, commitments that formed the basis for the design and implementation elements of the Local Government Amendment (Fair Go Rates) Bill, which the majority of the Committee's members had supported.
18. The report recommended:
 - That the Victorian Government re-establish the country roads and bridges program which provided \$1 million per year to each of the 40 rural councils that qualified;
 - That detailed data on local government rates by municipality be published annually;
 - That as part of its monitoring role under the proposed rate capping regime, the ESC also monitor and report annually on levels of debt held by local government; and
 - That when the rate capping policy begins, councils provide information to ratepayers explaining what is subject to the cap, what is not subject to the cap and explaining each component on the rates notice including components collected by local government on behalf of the State Government. Some administrative support to implement this recommendation should be provided by the State Government.
19. The Victorian Government is required to provide a response to this first report.
20. In doing so, the Victorian Government will respond specifically to the four recommendations and the key matters raised in the report.

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

Recommendation 1

That the Victorian Government re-establish the country roads and bridges program which provided \$1 million per year to each of the 40 rural councils that qualified

21. **The government does not accept this recommendation.**
22. This recommendation is outside the Committee's terms of reference, which do not include matters outside rate capping such as the freeze on Federal Assistance Grants or the changes to other funding programs. However as highlighted in the minority

report from the Australian Labor Party members of the Committee, the Victorian Government has committed to a “much larger and more comprehensive program of funding for the construction, maintenance, resurfacing and repair of regional roads than that which was delivered via the previous Country Roads and Bridges Program”.

23. The commitments included in the minority report include funding:

- To repair unsafe and deteriorating roads around Victoria;
- To upgrade and strengthen 52 bridges along key freight routes, which will improve efficiency and delivery of agricultural and other goods to market from regional locations;
- For the Agriculture Infrastructure and Jobs Fund which will benefit Victoria’s agriculture sector;
- For the Future Industries Fund;
- For the Regional Jobs and Infrastructure Fund; and
- For the Roadside Pests and Weeds Program.

24. The recent 2016-17 State Budget provides funding for a number of new initiatives which impact on local government, including:

- Grants that will be provided through the Children’s Facilities Capital program to construct new early learning facilities in growth areas as part of the New kindergartens in growth suburbs initiative; and
- Creation of the Community Sports and Events Package which will provide sport and recreation capital grants to local councils.

Recommendation 2

That detailed data on local government rates by municipality be published annually

25. **The government accepts this recommendation, noting that this initiative was in place before being recommended.**

26. The government has established the Local Government Performance Reporting Framework to strengthen local government performance reporting and allow for greater transparency and accountability on how councils are delivering services and spending public funds.

27. The government has also developed the *Know Your Council* website (knowyourcouncil.vic.gov.au) to present the performance data being reported on in a user friendly and easily understood form. Ratepayers and other interested parties can view the information about a council’s performance in service delivery, financial performance, sustainable capacity, and governance and management and compare that performance against other ‘like’ councils.

28. The financial performance indicators contain information about council average residential rates, rates compared to adjusted underlying revenue, and rates compared to property values. A further benefit of the rate capping policy is that it also allows councils rate rises to be compared on a “like for like” basis for the first time.

29. The *Local Government Act 1989* requires that councils provide this information by 30 September each year.

Recommendation 3

That as part of its monitoring role under the proposed rate capping regime, the Essential Services Commission also monitor and report annually on levels of debt held by local government

30. The government accepts in principle this recommendation.

31. The *Local Government Act 1989* requires that the ESC monitor and report biennially on the outcomes of Fair Go Rates System. Much of the data already available in the *Know Your Council* website allows for comparison on a wide range of financial performance indicators, including indebtedness.
32. While the legislation does not specify any matters that the ESC must report on, the government expects that the ESC would adopt a holistic approach in meeting this responsibility and report on all relevant financial matters including levels of local government debt.
33. The government had previously accepted ESC's recommendation for such a monitoring and reporting role as there is value in providing the government, ratepayers and other interested parties with observations and analysis about whether the Fair Go Rates System is delivering on its intended policy objectives and if there are any unintended consequences that need to be addressed.
34. The government recognises the need for evaluating the impact on the financial sustainability and performance of councils arising from ESC and council decisions.
35. In addition to the ESC's monitoring and reporting role, there are already a number of avenues through which Local Government debt levels are being monitored.
36. The Department of Environment, Land, Water and Planning, through Local Government Victoria, has a comprehensive analysis process of monitoring the various financial instruments of councils. Local Government Victoria is able to closely monitor trends around a range of aspects including debt levels.
37. The *Local Government Act 1989* also requires councils to provide information on three performance indicators related to debt, namely:
 - loans and borrowings as a percentage of rates;
 - loan and borrowing repayments as a percentage of rates; and
 - non-current liabilities as a percentage of own source revenue.
38. This information is readily accessible to the public through the *Know Your Council* website.
39. In addition, councils are required to disclose both current debt (that must be repaid in the next 12 months) and long term debt in their Annual Financial Statements, which are also available to the public.

Recommendation 4

That when the rate capping policy begins, councils provide information to ratepayers explaining what is subject to the cap, what is not subject to the cap and explaining each component on the rates notice including components collected by local government on behalf of the State Government. Some administrative support to implement this recommendation should be provided by the State Government

40. The government accepts in principle this recommendation.

41. The government had committed to this approach prior to being recommended.

42. The government has subsequently delivered on this commitment by amending the Local Government (General) Regulations 2015 to prescribe that all councils include the following text in their rate notices from 2016-17:

- Statement 1 (where a higher rates cap does not apply)

“Council has complied with the Victorian Government’s rate cap of [*insert percentage amount*] per cent. The cap applies to the average annual increase of rates and charges.

The rates and charges for your property may have increased or decreased by a different percentage amount because of the following reasons:

- i. the valuation of your property relative to the valuation of other properties in the municipal district;
- ii. the application of any differential rate by your council;
- iii. the inclusion of other rates and charges not covered by the Victorian Government’s rates cap.”

- Statement 2 (where a higher rates cap does apply)

“The Victorian Government has specified a rates cap of [*insert percentage amount*] per cent. The cap applies to the average annual increase of rates and charges. Council has made an application to the Essential Services Commission and a higher cap of [*insert percentage amount*] per cent applies.

Council has complied with this cap.

The rates and charges for your property may have increased or decreased by a different percentage amount because of the following reasons:

- i. the valuation of your property relative to the valuation of other properties in the municipal district;
- ii. the application of any differential rate by your council;
- iii. the inclusion of other rates and charges not covered by the Victorian Government’s rates cap.”

43. It is a matter for council to decide how to present the information it includes in rate notices. The government encourages councils to clearly explain how the Fair Go Rates System applies in their individual circumstances. However, it would not be practicable for the government to prescribe how every council should go about doing so beyond the amendments to the Local Government Regulations highlighted above.

44. In making the amendments, the Government was cognisant of the need to minimise any administrative burden on councils and that existing rate notices already contain considerable information for the ratepayer.
45. The government has also developed materials to explain how the Fair Go Rates System works that ratepayers can access through the Fair Go Rates website (fairgorates.vic.gov.au).
46. More material is being developed to assist ratepayers with understanding how the Fair Go Rates System works when they receive their rate notices beginning in August 2016.

Other Matters

47. Beyond the four 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.

Councils face different circumstances and have to address different needs

48. The report notes that councils are diverse in their operating circumstances and in the needs they need to address. The report has highlighted differences in the rate base, infrastructure requirement and needs, and ability to provide services.
49. The Victorian Government was cognisant of these differences and has designed the Fair Go Rates System with sufficiently flexible features that would allow these differences to be accounted for appropriately.
50. A key feature is the ability of councils to apply to the ESC for higher caps. This allows councils to put forward the needs they are seeking to address through additional funding.
51. The government has prescribed only five basic criteria that councils will need to address in their applications, namely:
 - the reason(s) a variation from the cap is required;
 - how the application takes account of ratepayers' and communities' views;
 - how the variation reflects the efficient use of council resources;
 - what consideration has been given to alternative budgetary priorities and funding options; and
 - that the assumptions and proposals in the application are consistent with the council's long-term strategic planning and financial management instruments.
52. Much of the work to address these criteria represents good practice in financial management and community engagement. For councils that have already been adopting such good practice, the application process should be relatively straightforward.

Cap Setting – Uniform and group-based caps

53. Another key feature is the flexibility available to the Minister for Local Government in setting the rate cap.

54. The government had previously indicated that it will consider different factors or weightings to be taken into account as circumstances confronting the sector evolve.
55. The government had noted the ESC's rationale for taking the Wage Price Index into account in setting the cap to recognise the limited capacity for councils to adjust their wage costs immediately, and the ESC's recommendation for the inclusion of an efficiency factor.
56. The government is committed to exercising such flexibility in a considered and informed manner. That is why it will request the ESC to complete a productivity assessment by mid-2017, in order that the outcomes can be applied from 2018-19 and beyond.
57. That is also why the government will look at the analysis being undertaken by Local Government Victoria to see if there is any strong evidence of factors that may point to the need for different caps to apply to different groups of councils.
58. Any information that groups of councils can jointly present to government on their circumstances and needs that require different caps be set will also be looked at.
59. The authority to set different caps will be used judiciously to avoid ratepayers being asked to contribute more than is necessary.

Statutory Fees

60. The report noted its support for the ESC's recommendation for statutory fees to be reviewed.
61. The government reiterates that it is cognisant that some statutory fees are not sufficient to cover the costs incurred by councils when providing some services. Where possible and appropriate, the government will seek to index statutory fees to CPI or provide for more frequent reviews.