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Dr Ron Ben-David  
Chairperson Essential Services Commission

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Dear Dr Ben-David,

### **SUBMISSION TO LOCAL GOVERNMENT RATES CAPPING & VARIATION FRAMEWORK REVIEW DRAFT REPORT**

Thank you for the opportunity to respond to the Local Government Rates Capping & Variation Framework Review Draft Report (Draft Report).

Council resolved on 12 August 2015 to reiterate its deep concern and objection to the imposition of rate-capping and the use of an efficiency factor on Local Governments in Victoria. Local Government is a democratically elected level of government and is entitled to govern the community that has elected it. Such governing must include setting the levels of taxation (rates) required to fund the services and infrastructure desired by our community, and to be answerable to that community for getting the balance right.

If, however, rate capping will be imposed, despite Council's objection, then in order to ensure that the methodology delivers the best outcomes, we make the following comments on the recommendations proposed in the Draft Report:

#### **The Cap**

##### *Draft recommendation 2*

*The commission recommends that:*

- *Revenue from general rates and municipal charges should be subject to the rate cap;*
- *Revenue from special rates and charges, 'revenue in lieu of rates' and the fire services levy should not be included in the rate cap and*
- *Service rates and charges should not be included in the rate cap, but be monitored and benchmarked*

Council supports the proposed exclusion from the cap of special rates and charges, 'revenue in lieu of rates', the fire services levy, and service rates and charges. In addition, Council welcomes exclusion of supplementary rates from the rate cap in the year they occur.

We note that using this definition, differential rates will be included in the rates cap and would like to highlight that this will cause some challenges due to the complicated nature of some differential rates.

#### **Moreland Language Link**

廣東話	9280 1910	हिंदी	9280 1918
Italiano	9280 1911	普通话	9280 0750
Ελληνικά	9280 1912	ਪੰਜਾਬੀ	9280 0751
عربي	9280 1913		
Türkçe	9280 1914	All other languages	
Tiếng Việt	9280 1915	9280 1919	

For example, Moreland City Council has a differential rate on vacant and unoccupied properties, with a performance rebate attached to it.

The purpose of the differential rate is to encourage the good maintenance of the vacant and unoccupied properties and to encourage the development of those properties so that they can be occupied and productive. Whilst the differential rate is clearly levied as 4 times of the general rate, property owners are entitled up to 75% rebate if they look after their property properly and do not land-bank the vacant land (evidenced by a current building permit) or 62.5% where there is no current building permit. The issue is that as it is a performance based rebate, it is difficult to predict property owner's behavior. Council would prefer all landowners receive the rebate as it means the land is being maintained and is in the process of active development.

As it is a performance based rebate, it is difficult to predict property owner's behavior. With our budget currently showing the rates income from the vacant and unoccupied land as net of rebate, this can be an issue under the proposed rate capping methodology.

**Councils like Moreland City Council will need to adjust the general rates revenue that is declared in the 2015-16 adopted budget, separating the gross rates revenue from differential rate and associated rebate allowance, with only the gross rate revenue (before rebate applied) included in the rate cap. The performance rebate should be excluded from the calculation of the rating base for the base year.**

Draft recommendation 3

*The commission recommends that the cap should be applied to the rates and charges paid by the average ratepayer. This is calculated by dividing a council's total revenue required from rates in a given year by the number of rateable properties in that Council area at the start of the rate year.*

We support the methodology of applying the cap on the rate per assessment. The calculation method proposed in the Draft Report (as above) is easy to understand and simple to verify. However it should be noted that under this formula, the rate in the dollar would only increase at the same level as the rate cap in a non-revaluation year if the average CIV of the new properties (from the supplementary valuations in prior year) happens to be the same as the average CIV of the existing property base, which almost certainly will not be the case.

In Councils with significant growth, the impact of supplementary properties will be material. The key issue is when the annualised supplementary rates are available for inclusion in the calculation. Councils will need to forecast the number and value of the supplementary properties well before 1 July so that the data can be included in the budget. This can be very difficult to forecast with great accuracy. Alternatively, consideration could be given to setting a date earlier in the year (say 31 January) at which date the number and value of the supplementary properties is known and can be include in the calculation.

Draft recommendation 4

*The commission recommends that the annual rate cap should be calculated as:  
Annual Rate Cap = (0.6 x increase in CPI) + (0.4 x increase in WPI) - (efficiency factor)*

Whilst we welcome the use of 'underlying CPI' and the indicative forecasts stated in the Draft Report (pg 13 of *volume I*) appear to be higher than current 'headline' CPI, it is concerning that DTF's forecast CPI for 2014-15 was reported in volume II of the Draft

Report (pg 49) as 1.75 per cent. Even more confusing is that the CPI used in the 2014-15 Victorian State Budget was 2.25 per cent (pg 13, *Victorian State Budget 2014-15: Strategy and Outlook*).

For many large councils, the difference between 1.75 per cent and 2.25 per cent in annual rate rise could be well over \$500k in a year and Councils need to have confidence in the forecast CPI for long-term planning purpose. **It is therefore important to address how stable/unstable the DTF forecast underlying CPI is going to be. Is the Victorian State Budget using the same indexation in their budgets? If it is, what caused the different citing of CPI of 1.75 per cent and CPI of 2.25 per cent in 2014-15?**

The Draft Report cited the need to impose an efficiency factor to address the cost of living pressures faced by ratepayers. Furthermore, it recommends an up-scaling efficiency factor that is to increase by 0.05 percentage points each year from 2017/18, notwithstanding the fact that the NSW rates capping regime adopts a flat efficiency factor of 0.04 per cent. (pg 14, *Draft Report volume 1*)

Moreland City Council resolved on 12 August 2015 to object to the use of an efficiency factor on local governments in Victoria.

Apart from the matter of impinging on local democracy, the use of an efficiency factor reflects a lack of understanding that local government is different to other sectors regulated by the Essential Services Commission. Typically infrastructure businesses such as the water industry deliver narrowly defined services delivered to finite locations and populations. Communities are ever changing and need and demand a wide array of difficult to define services, and certainly not standardized services.

Rate capping itself is a huge challenge for Victorian Councils with the initial aim to address the cost of living pressure faced by ratepayers. Imposing an efficiency factor will inevitably force Councils to reduce service and infrastructure levels, causing significant risk for current and future generations.

**We would urge reconsideration of the efficiency factor until such time as the mentioned detailed productivity analysis is done, or at the minimum, set an upper-limit or time limit for the efficiency factor.**

## Variation

### Draft recommendation 9

*The commission recommends that it should be the decision-maker under the framework, but only be empowered to accept or reject (and not to vary) an application for variation.*

As we stated in Council's submission in May, this question goes to the heart of a core problem in the introduction of rates capping. Local Government Councillors are directly and democratically elected, they submit an annual budget for community consultation prior to its adoption; they release an annual report and often monthly reports on the progress against the budget; and they are ultimately accountable through the election process.

**The ESC should advise, not decide, and Council should make the final decision.**

## Monitoring

### Draft recommendation 11

*The commission recommends that it monitor and publish an annual monitoring report on the overall outcomes for ratepayers and communities.*

Table 4.4 in the Draft Report volume II (pg 97) provides a list of information that ESC is going to rely upon for compliance monitoring and reporting.

As mentioned earlier in this submission paper, we recommend that the list **be explicit that general rates revenue is before any rebate is applied.**

### Administration Costs

Whilst the Draft Report acknowledges that '*a majority of submissions that responded to the issue of cost recovery did not support these costs being recovered from local government*', it stops short of recommending this in the Draft Report

We maintained our view that was expressed in our submission in May: **the administration cost should be covered by the State Government.**

Asking Councils to pay for the administration of the rate capping would add a further challenge for Councils to cope with the rate capping. If this had to be paid by Councils, the cost of this should be automatically added to the capping index in a transparent way.

It also needs to acknowledge that as much as the Commission intends not to add additional reporting and administration burden to local government, the rate capping compliance will inevitably add cost to councils. **The State Government should provide a transitional financial support grant to assist Council to cope with increased reporting and administration costs under rates capping.**

Thank you again for the opportunity to make a submission. We would also welcome a face to face meeting opportunity with you and your team to further discuss Moreland's submission in detail.

Yours sincerely



Nerina Di Lorenzo  
**CHIEF EXECUTIVE OFFICER**

28 / 8 / 2015