

**Item 9.8**

**Enquiries  
Chief Executive Officer**

**FAIR RATES FRAMEWORK****1. Purpose**

To propose that Council makes a Submission to the Essential Services Commission to inform the Commission's methodology for the implementation of the Government's Rate setting policy.

**2. Background**

On 5 May 2014, two working days before the State Budget, the then Opposition made an announcement about the setting of municipal rates.

Council has considered two previous submissions on this matter:

- Item 9.4 of the Ordinary Council Meeting of 10 June 2014
- Item 9.9 of the Ordinary Council Meeting of 16 December 2014.

On 19 January 2015 the Minister for Finance issued a Reference to the Essential Services Commission (ESC). Councils were informed on 27 February 2015. The Reference is included in the attached proposed submission.

**3. Methodology**

The ESC proposes to issue a Draft Report in two months' time, June 2015, on its methodology for examining council rates.

There are important differences between state agencies and local government as to how property taxation is undertaken.

- State agencies tend to hold tax rates constant so that increases in the tax base (eg property values) drive significant increases in revenue. This is true of Land Tax and Stamp Duty. It is not true of municipal rates because Council adjust their rates of taxation downwards. (If this Council had maintained its 1996 tax rate, rates would have raised an additional \$280m over the last eighteen years.) For 2016-17 in this municipality, residents will pay twice as much to State Revenue Office in Land Tax and Stamp Duty as they will to the council in rates to fund local services, local infrastructure and local community facilities.

**Item 9.8 (cont'd)**

- State legislation requires all properties to be revalued every two years. This drives increased revenue for the State Revenue Office because Land Tax and the Fire Services Levy are assessed on the new valuation. It does not provide councils with any extra revenue because the increase in the property base is offset by a decrease in the tax rate. It does, however, change the distribution of rates from property to property for the reasons set out in response 3.2 in the attached draft submission. For example, in this council's revaluation in 2014, one suburb increased by an average of 13.4% compared with another of 2.4%. All things being equal, properties in the first suburb would have experienced significant rate increases and those in the second suburb possible rate decreases. (Most claims of 'excessive' rates increase concern the impact of the legislatively-required revaluation, not the council's decision to raise additional revenue overall.) The Government's rate setting policy is to be introduced in 2016-17 which is the date of effect for the next revaluation of all property in Victoria. Even in a hypothetical municipality with zero increase in rate revenue, there would be considerable fluctuations in actual rates involving both increases and decreases.
- Most fees which fund council services are set by State agencies. The submission points out that State agencies have paid close attention to maintaining or increasing fees which fund themselves but less attention to fees which fund councils. Failure to maintain or increase these fees puts upwards pressure on municipal rates. The best example is town planning application fees where the fees have been allowed to reduce in real terms over a long period of time. They have not been increased at all in the last six years. The fees cover less than half the cost of processing town planning applications. Ratepayers would be alarmed to know that they are subsidising property developers by more than a million dollars a year owing to inaction by State agencies.
- Many important community services are jointly funded by partnerships of State and local governments (eg home and community care to which councils contribute a total of \$115m pa). Other examples include immunisation, school crossings, maternal and child health etc. When one partner puts pressure on the revenue of the other partner, the pressure inevitably comes on the partnership itself. Over time, these sorts of services could move to fee-for-service where councils deliver the funding that State agencies make available and responsibility for the outcomes would rest with the relevant State agency.

**Item 9.8 (cont'd)**

It is important that policy development is informed by these considerations. The attached draft aims to inject this sort of information into the process.

**4. Glen Eira's Financial Strategy**

Glen Eira has the second- lowest average rates and charges in metropolitan Melbourne.

For the period from 2016-17 onwards, Council's Strategic Resource Plan provides for increases in average rates and charges per property of around 3.5% pa.

**5. Recommendation**

That Council forward the attached submission to the Essential Services Commission.

**Crs Magee/Hyams**

1. That council forward the attached submission to the Essential Services Commission;
2. That Council forward the attached submission to the Victorian Treasurer, the Victorian Minister for Local Government, the Victorian Shadow Treasurer, the Victorian Shadow Minister for Local Government, all members of the Victorian parliament from both Upper and Lower Houses whose electorates include areas within Glen Eira, the Municipal Association of Victoria and all other Councils within the Inner South Metropolitan Mayoral Forum.

9.06PM Cr Esakoff left the Chamber.

The MOTION was put and CARRIED unanimously.

9.08PM Cr Esakoff returned to the Chamber.

## Fair Rates Policy Reference to the Essential Services Commission

Response by Glen Eira City Council

On 19 January 2015 the State Minister for Finance gave a Reference (attached) to the Essential Services Commission concerning the implementation of the Government's Fair Rates Policy. Councils were informed on 27 February 2015.

### Executive Summary

All levels of government aim to increase the Standard of Living. The Standard of Living includes

- the cost of living (as indicated by the CPI)
- and the range and quality of services
- and the range and condition of infrastructure and community facilities.

Government policy and implementation needs to have regard to all three elements, not one to the exclusion of the others.

Up until now, there has been an 'understanding' under which Council rates supplement government funding of social programs in order to achieve better outcomes (eg home and community care where Victorian councils contribute \$115m of rates, maternal and child health, immunisation, school crossings, pre-schools, libraries and so on). The two levels of government partner to deliver all these services. Rates are higher than they would otherwise be so that outcomes are better than they would otherwise be.

If one partner puts pressure on the revenue of the other partner, the pressure inevitably comes on the partnership itself. If the 'partnership' is undermined by the capping of rates, the financial benefits which have accrued to State agencies are unlikely to continue. It is foreseeable that waiting lists for these services could blow out and other social outcomes deteriorate before the end of this Parliamentary term.

On 19 February 2014 the Victorian Auditor General Reported to Parliament  
*"Victorian councils manage around \$73 billion of infrastructure assets. Council spending on renewing or replacing existing assets is not keeping pace with their rate of deterioration, resulting in cumulative renewal gaps that grow each year".* [See Response 5.1]

It is universally accepted that much of the backlog of infrastructure works was created during the previous era of rate capping in the 1990s. While renewal is driven by deteriorating condition, it also has to address the need for extra capacity (eg drainage), improved community safety and equal opportunity for all-abilities and for both genders in facilities that previously provided for only one.

The 'liveability' of Melbourne is highly dependent on the infrastructure and community facilities provided by councils (eg parks, playgrounds, shopping strips, recreational facilities etc).

The imperative for Policy is to increase spending on local infrastructure and community facilities. To achieve this with least impact on residents:

- operating costs need to be kept as low as possible and / or
- non-rate revenues need to be increased.

Many non-rate revenues to local government are controlled by State agencies. State agencies have given high priority to maximising revenues to the State but not given any priority to managing non-rate revenues to local government. The best example is town planning. Fees to cover State costs of running VCAT have been increased dramatically. Fees to cover councils' costs of processing developers' applications have not been increased at all. Ratepayers in this municipality are subsidising developers by more than a million dollars every year.

Upwards pressure on local rates could be minimised by

- a. fees which are set by State agencies but paid to local councils (hundreds of millions of dollars a year) need to be actively managed so that rates are not paying costs which should be borne by others [Response 1.5]
- b. assessing the impact of proposed levies by State agencies on local councils and ratepayers *before* they are introduced (also hundreds of millions of dollars a year) [Response 1.3] Right now, State agencies are preparing regulatory changes which would increase costs on councils (ie ratepayers) by many millions of dollars each year.
- c. increasing rate rebates to disadvantaged ratepayers [Response 1.7] and
- d. reviewing exemptions from paying any rates at all (thousands of properties across Victoria) which increase the costs on everyone else [Response 4(e).2]. Most properties which are exempt from paying local rates enjoy no such exemption from State agency charges (eg the Fire Services Levy).

There are opportunities to redress the imbalance between revenues from ratepayers and revenues from other sources. Responsibility for the four factors listed above needs to be assigned by Government to a particular agency or agencies and their actions reported publicly each year.

Rates need to be assessed in the context of what other agencies are doing, or are failing to do. An unsophisticated approach would see social programs start to fail, infrastructure unravel and costs shifted onto future ratepayers.

Rates need to be planned more than one year at a time. Otherwise there will not be sufficient certainty to undertake major capital projects (eg aquatic centres, children's services hubs, libraries). Any Fair Rates process should focus on the four year plans which councils are already required to produce under s126 of the Act, not one year budgets.

Rate increases which appear sensationally high in the case of individual properties are generally not caused by councils' decision to raise revenue. They are caused by the system of setting rates currently required by the Local Government Act based on revaluing all properties every second year. (Your rates are not determined by the value of your property. They are determined by the value of your property *relative* to the value of all property in your municipality.) This is not well understood. It is explained in section 3.2.

The next revaluation is fixed by State legislation for 1 January 2016 and will apply for the first time for 2016-17, which is the first year of rate capping. In 2016-17, the majority of properties in Victoria will *not* experience the rate increase published by the ESC for their municipality. Some will be higher than the 'headline' figure and some lower. Care would need to be exercised in managing expectations.

Notwithstanding all this, the property tax which has increased least in Victoria has been council rates. Property taxation, set by the Department of Treasury and Finance and collected by the State Revenue Office, has risen the most. This is projected to continue. [See Response 1.6] For 2016-17 in this municipality, residents will pay twice as much to State Revenue Office as they will to the council to fund local services, local infrastructure and local community facilities.

Rates in this municipality in 2014-15 average \$1.51 per person per day. One daily return train fare from this municipality to the city costs \$7.52.

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## **Local Government Rates Capping Framework**

### **Terms of Reference**

I, Robin Scott MP, Minister for Finance, under section 41 of the *Essential Services Commission Act 2001* (the 'ESC Act'), refer to the Essential Services Commission (ESC) the development of a rates capping framework for local government.

As provided for by section 185b of the *Local Government Act 1989*, the Minister for Local Government can cap council general income. The Government has announced a commitment to cap annual council rate increases<sup>1</sup> and has also provided additional guidance on factors to be considered during the implementation of the cap<sup>2</sup>.

The State Government's objective is to contain the cost of living in Victoria while supporting council autonomy and ensuring greater accountability and transparency in local government budgeting and service delivery. The Government intends to promote rates and charges that are efficient, stable and reflective of services that the community needs and demands, and set at a level that ensures the sustainability of the councils' financial capacity and council infrastructure, thereby promoting the best outcomes for all Victorians.

The ESC is asked to inquire into and advise the Ministers for Finance and Local Government on options and a recommended approach for a rates capping framework for implementation from the 2016-17 financial year. Advice should include and/or take into account the following matters:

- 1) Available evidence on the magnitude and impact of successive above-CPI rate increases by Victorian councils on ratepayers.
- 2) Implementation of the Government's commitment to cap annual council rate increases at the Consumer Price Index (CPI) with councils to justify any proposed increases beyond the cap, including advice on the base to which the cap should apply (e.g. whether to rates or to general income).
- 3) Any refinements to the nature and application of the cap that could better meet the Government's objectives.
- 4) Options for the rate capping framework should be simple to understand and administer, and be tailored to the needs of the highly diverse local government sector. The framework should take into account factors that may impact on local governments' short and longer term financial outlook, such as:
  - a) actual and projected population growth and any particular service and infrastructure needs;

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<sup>1</sup> Media release by Daniel Andrews, *Andrew Announces Fair Go for Ratepayers*, 5 May 2014.

<sup>2</sup> ALP's response to MAV's *Local Government Call to Political Parties*, p.1, November 2014.

- b) any relevant Commonwealth Government cuts to Local Government grants;
  - c) any additional taxes, levies or increased statutory responsibilities of local governments as required by the State or Commonwealth Governments;
  - d) any extraordinary circumstances (such as natural disasters); and
  - e) other sources of income available to councils (for example, ability to raise user fees and charges from non-residents).
- 5) Consider how local governments should continue to manage their overall finances on a sustainable basis, including any additional ongoing monitoring of council service and financial performance to ensure that any deterioration in the level, quality or sustainability of services and infrastructure and councils' financial position is identified and addressed promptly.
- 6) The processes and guidance to best give effect to the recommended approach for the rates capping framework and a practical timetable for implementation, including:
- a) the role of councils, the ESC and the Victorian Government and the expected time taken by local governments and by the Victorian Government or its agencies, for each step in the rate capping process;
  - b) any technical requirements including the information requirements on councils that request exemptions from the cap;
  - c) any guidance required to give effect to the rate capping options (including in relation to consultation with ratepayers) and to improve accountability and transparency; and
  - d) any benchmarking or assessment of the effectiveness of the regime, including options to continuously refine the regime and improve council incentives for efficiency.
- 7) Options for ongoing funding to administer the rate capping framework, including the potential for cost recovery.

In conducting the inquiry and providing its advice, the ESC will have regard to:

- the role of local government in the provision of infrastructure and services to the community and the general efficacy with which they currently perform this task;
- the differences between rural, regional and metropolitan local councils in terms of costs, revenue sources and assets maintained;
- the Revenue and Rating Strategy guide and Local Government Performance Reporting Framework to be administered by the Department of Environment, Land, Water and Planning;
- matters regarding rating practices and asset renewal gap raised by the



Victorian Auditor-General's Office (VAGO);

- Department of Treasury and Finance's Victorian Guide to Regulation and Victorian Cost Recovery Guidelines; and
- any relevant insights from the experience of rate pegging in New South Wales, including any reviews or evaluations that can suggest ways to minimise any unintended consequences.

In conducting this independent inquiry, the ESC will be informed by wide consultation. This will include, but is not limited to: councillors and officials from local government; representative bodies such as Municipal Association of Victoria, Victorian Local Government Association and LGPro; unions; VAGO; and relevant government agencies and departments. In addition, the ESC will consult regularly throughout the course of the inquiry with a sector consultative panel established by the Minister for Local Government. The ESC's consultation will be guided by its Charter of Consultation and Regulatory Practice.

The ESC will publish a draft report on the rates capping framework no later than six months after receipt of these terms of reference. The draft report must be made publicly available and invite comments from local governments and other interested parties. A final framework report along with draft guidance material will be provided to the Minister for Finance and Minister for Local Government no later than 31 October 2015.

ROBIN SCOTT  
Minister for Finance  
Dated: 19 January 2015

## Fair Rates Policy Reference to the Essential Services Commission

Response by Glen Eira City Council

### S U B M I S S I O N

On 19 January 2015 the State Minister for Finance gave a Reference (attached) to the Essential Services Commission concerning the implementation of the Government's Fair Rates Policy. Councils were informed on 27 February 2015.

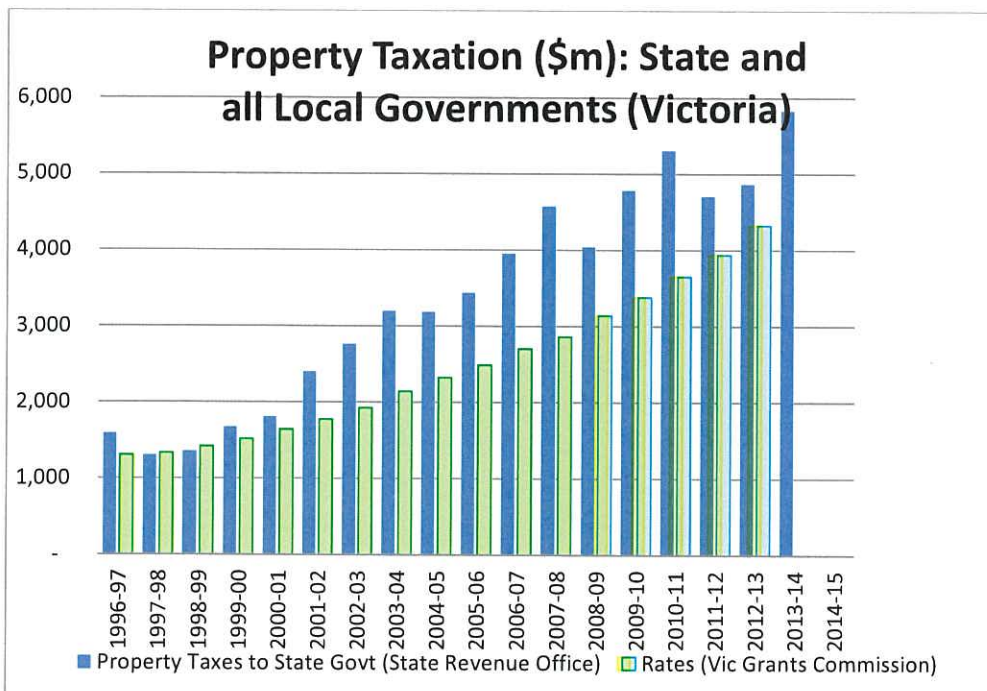
This submission addresses each of the Terms of the Reference.

*"Everyone is always in favour of general economy and particular expenditure."*  
- Rt. Hon. Anthony Eden (UK Prime Minister), *The Observer*, 17 June 1956

Finance Reference: The ESC is asked to inquire into and advise the Ministers for Finance and Local Government on options and a recommended approach for a rate capping framework for implementation from the 2016-17 financial year. Advice should include and/or take into account the following matters:

- 1) Available evidence on the magnitude and impact of successive above-CPI rate increases by Victorian councils on ratepayers.

Response 1.1 Property taxation by Victorian local government has risen by significantly less than property taxation by the Victorian State Government.



Since 2000, property taxation (rates) by all Victorian Councils have increased by \$13b less than property taxation by State agencies (under both sides of politics).

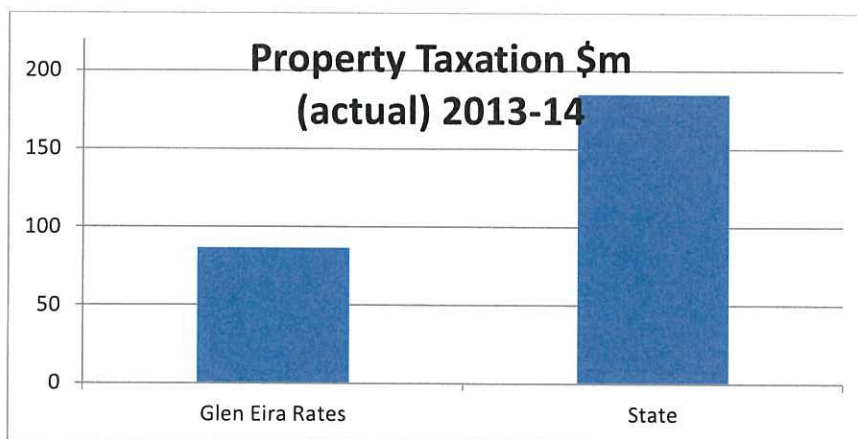
Victoria's population grew by 23% (1.1m people) between 2000 and 2014.

State property taxation is

- Collected by the State Revenue Office (SRO)
- With rates of taxation set by the Department of Treasury and Finance (DTF).

In this municipality, the actual comparison in 2013-14 was

- Local rates and charges were \$86.7m
- Land Tax and Stamp Duty from this municipality to the State Revenue Office \$183.9m (source: State Revenue Office).



The number of rateable properties in this municipality is 61,658.

The number of properties in this municipality which pay Land Tax is 17,680.

The number of properties which pay Stamp Duty is several thousand each year.

Since 2008, the percentage increases in property taxation in this municipality have been

- Local rates 43.6%
- Land tax (SRO / DTF) 238%.

Actual average amounts of property taxation this year are:

- Local rates and charges \$1,474
- Land Tax in this municipality (SRO / DTF) \$2,194.

The rate of objection to Rates Notices is very low. For 2013-14, this council sent out 61,658 Rates Notices. The number of objections to the valuation was 195 or 0.316%.

The "magnitude" of successive "above-CPI" tax increases has been greater by SRO / DTF than by local government.

**Recommendation: That the ESC make clear that the property taxation which has risen least in Victoria has been council rates.**

## Response 1.2 Rates supplementing insufficient State government programs

Up until now, there has been an 'understanding' under which Councils supplement government funding of social programs in order to achieve better outcomes.

The most important example is Home and Community Care. In all other states the program is delivered by State governments or their contractors. In Victoria, the program is delivered mainly by Councils. Victorian councils contribute approximately \$115m pa to achieve this. It is universally accepted that outcomes are best in Victoria. This council provides care for more than 4,000 elderly and disabled people in their homes.

Other important programs (with this council's volumes in brackets) include

- maternal and child health (15,000 consultations pa)
- immunisation (9,000 pa)
- school crossings (3.4 million crossings pa) including 27 school crossings of roads which are legally the sole responsibility of VicRoads.
- pre schools (10 council provided venues)
- libraries (more than one million loans each year).

In each of these areas, the two levels of government have been in a partnership. Rates have set at a level to supplement government funding of these programs. Rates are higher than they would otherwise be so that outcomes are better than they would otherwise be.

The main service beneficiary of this 'partnership' has been the community, notably, the very old, the very young and those participating in education.

The main financial beneficiary of this 'understanding' has been State agencies.

When one partner puts pressure on the revenue of the other partner, the pressure inevitably comes on the partnership itself. If the partnership is undermined by the capping of rates and if that is initiated by State agencies, the financial benefits which have accrued to State agencies are unlikely to continue. (A council is unlikely to feed the hand that bites it.)

Councils' legal obligations under, amongst others, s136 of the Local Government Act will require priority to be given to Councils' own responsibilities above those of State agencies. It is foreseeable that all these services would move to a fee-for-service basis in which councils:

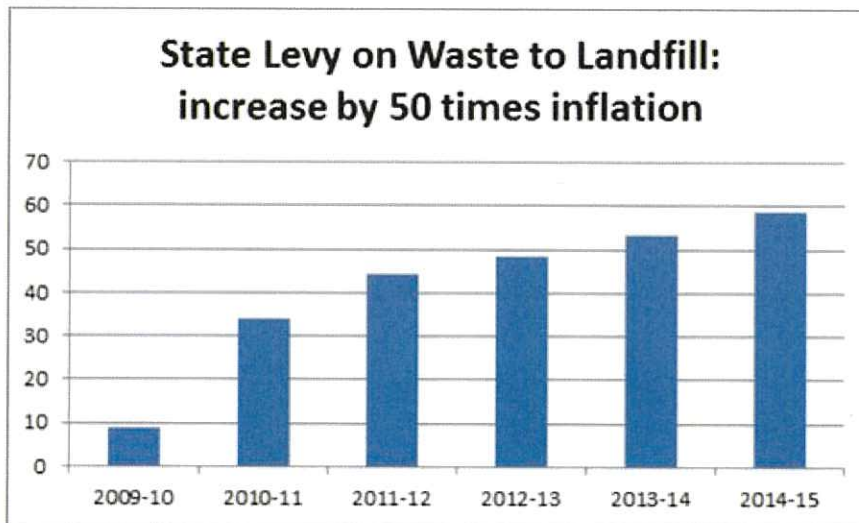
- deliver the funding that the State agency provides,
- account for their expenditure
- and any shortfalls in outcomes would be a matter for the State agency.

It is foreseeable that waiting lists for these services could blow out and other social outcomes deteriorate before the end of this Parliamentary term.

**Recommendation: That the ESC report the aggregate "*magnitude*" of rates which are currently spent supplementing the State government programs listed above.**

Response 1.3 Levies by State agencies account for a proportion of the increases in local rates.

For example, there is a levy on each tonne of material going to landfill. In 2009, the then Department of Sustainability and Environment (DSE) announced significant increases in its levy in order to encourage diversion of waste from landfill. In the last five years the levy has increased from \$9.00 a tonne to \$58.50 a tonne, an increase of 650% or more than 50 times the CPI during that period.



Assuming around 25,000 tonnes of waste to landfill per year, that is an increase from \$225,000 pa to \$1,462,500 pa. The extra (around \$1,237,500) has been passed on in increased rates and charges.

No assessment of the impact on rates or on cost of living was undertaken at the time.

The State levy represents more than \$50m pa. In the five years since it was increased, it has contributed more than \$250m to the "magnitude" of "above CPI" increases.

The outlook for the waste and recycling charge in Glen Eira in 2015-16 for

- a 240 litre garbage bin, 240 litre recycling bin and 240 litre green waste bin is \$349 of which \$51 reflects the levy;
- a 120 litre garbage bin, 240 litre recycling bin and 240 litre green waste bin is \$169 of which \$24 reflects the levy.

There are other examples of additional costs being imposed on councils by State agencies which put upward pressure on local Rates.

**Recommendation: That the ESC report the "magnitude" of rates and charges attributable to this levy and publish a statement from the responsible government agency as to what outcomes have been achieved from this levy on council rates and ratepayers and the cost of living.**

Response 1.4 Councils' liabilities for Defined Benefit Superannuation are fully funded while State Governments' are unfunded.

Since 1998, Victorian local government has paid \$1.162 billion in calls into a defined benefit superannuation scheme. Rates have been higher than they would otherwise have been in order to meet this liability.

All levels of government operated Defined Benefit Superannuation schemes. The benefits were defined. The employer governments need to fund them. The local government scheme was established by the State legislation decades ago. It was closed to new members by the State legislation in 1993. (Although closed to new members, liabilities to existing members continue to grow.)

The structure of the local government fund is such that it has to be kept fully funded for future liabilities at all times. The Fund has made four "calls" on Councils:

Year	Amount of Call	Contributions Tax	Total
2011	\$ 453,000,000	\$ 79,954,500	\$ 532,954,500
2010	\$ 87,000,000	\$ 15,355,500	\$ 102,355,500
2002	\$ 127,000,000	\$ 22,415,500	\$ 149,415,500
1998	\$ 321,000,000	\$ 56,656,500	\$ 377,656,500
<b>TOTAL</b>	<b>\$ 988,000,000</b>	<b>\$ 174,382,000</b>	<b>\$ 1,162,382,000</b>

That has required rate increases to be higher than they otherwise would have been.

By contrast, the equivalent defined benefit schemes of the State and Federal governments do not have to be kept fully funded and have become an "unfunded liability" with government having to pay entitlements as they become due.

While local councils were keeping their scheme fully funded, between 30 June 2002 and 30 June 2012, the unfunded liability of Victorian State Government grew from \$13.4 billion to \$32.5 billion, an increase of \$19.1 billion in ten years. This is a transfer of cost from the present to the future.

The Commonwealth Government has an unfunded liability (after allowing for the Future Fund) of approx. \$80b.

For the 5.9m residents of Victoria, the unfunded liabilities per person are

- their local Victorian council: nil – the Council has paid it
- their State Government: \$5,612 per person (and growing)
- their Federal Government \$2,807 per person (also growing), assuming Victoria is 20% of the Commonwealth
- total \$8,419 per person of which their council represents nothing.

These unfunded State and Federal liabilities per person are equivalent to approximately 17 years' municipal rates.

The Defined Benefit Scheme is expected to make further calls on Councils over the estimated 60 years life of the scheme. Typically, councils may be given only a few months' notice of the need to contribute millions of dollars.

**Recommendation: That the ESC find that management of defined benefit unfunded liabilities has been significantly more effective by local government than by other levels of government.**

**Recommendation: That the ESC**

- a. recommend that DTF prepare legislation to absorb the local government defined benefit scheme into the State defined benefit unfunded liability and cease treating them differently, with entitlements being paid as and when they fall due or**
- b. recommend that DTF support loan guarantees to councils in order to secure lower interest rates for borrowings to cover defined benefit liabilities or**
- c. accept that the different treatment of the local government defined benefit superannuation scheme is a factor which drives rate increases independently of other factors and often at short notice.**

Response 1.5 Fees received by local government but set by State Government have not increased.

The best example is town planning application fees. Fees are paid to Councils by developers and other applicants to cover the cost of processing the town planning application or an amendment to rezone land. The levels of the fees are set by the State Government.

It would be reasonable for fees to cover slightly less than the full cost of processing a town planning application because part of the process concerns the amenity of existing residents i.e. the interests of existing ratepayers. That could legitimately be a claim on rates. Most of the cost arises from the proposed new development and should be borne by the applicant.

Between 2000 and 2013 successive State governments have increased fees by less than half the CPI. Less and less of the costs are met by the applicant. More and more of the costs fall back on Rates.

Application fees have not increased at all since 2009.

For example, an application fee for a development of between \$1m and \$7m is a Class 8 application under s47 of the Planning and Environment Act. In 2000 the fee was \$1,010. If it had been increased, for example by CPI, in 2013 it would have been \$1,480. In fact it was \$1,153. This is a reduction in real terms of 22%. That cost has been shifted from developers on to ratepayers. This council processes approximately 1,200 applications per year or about 16,000 applications over 13 years. The total costs shifted from the development industry to ratepayers over the thirteen years are large.

Ratepayers would be alarmed to know that their rates are now paying more than half the costs of processing the applications for multi-million dollar property developments.

It appears that there is no State agency which assesses the impact of shifting costs from developers to ratepayers.

By contrast, VCAT is funded by State government. To offset government costs, appeal fees have been increased markedly over the same time. The Section 80 fee

for a developer to challenge planning permit conditions at VCAT (development under \$5m) rose from \$250 in 2002 to \$1553.60 today (development of between \$1m and \$10m), an increase of 621%.

Developers are covering a higher proportion of State costs but a lower proportion of local costs. This is another example of action being taken to protect the financial interests of State agencies but not rate payers.

In this council more than \$1m pa of rates goes to administering planning applications not funded by planning application fees.

A reform would be to maintain low fees for domestic projects (such as extensions, renovations or redevelopments) up to, say, \$1m but increase planning application fees on commercial projects to close to cost recovery.

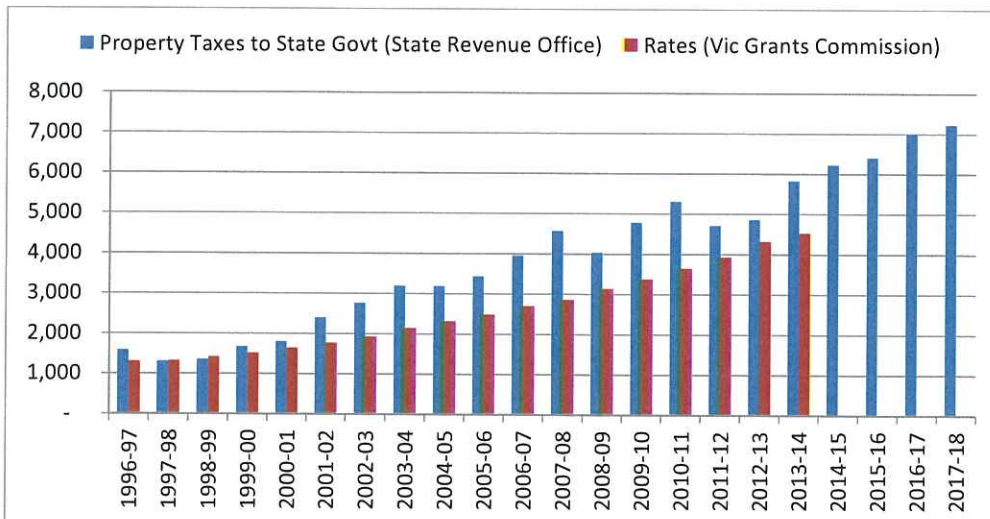
**Recommendation: That planning application fees for developments over \$1m be immediately increased to at least 80% of the cost of processing, or to the levels set for VCAT, whichever is the higher.**

**Recommendation: That all fees which pay for Council services which would otherwise have to be funded by rates should**

- a. be set by Councils or
- b. be indexed annually by an appropriate index (in the case of fees for development, the Construction Index) or
- c. the State Government be required to review the level of each fee annually and either increase it or refer it to the ESC as a factor to be taken into account in rate setting.

#### Response 1.6 Revenue Projections

DTF published its Mid-Year Budget Review on 23 December 2014. DTF projects an increase in nominal revenue from Land Tax and Stamp Duty for 2016-17, the first year of rate-capping, of 9.15%.



Victoria's population grew by 23% (1.1m people) between 2000 and 2014.



This council's projections are for increases in rates and charges per property of approximately 3.4% pa from 2016-17 onwards.

**Recommendation:** That, in considering estimates for Council property taxation in 2016-17, the ESC have regard to the DTF projected increase in its property taxation of 9.15%, or approximately CPI+7%.

**Recommendation:** the ESC publish an estimate of the "magnitude" of rate increases excluding the

- i. rates supplementing State government programs,
- ii. the State Landfill Levy,
- iii. the fully funded Defined Benefit Superannuation Scheme and
- iv. the rates which subsidise town planning applications.

Response 1.7 State Government could reduce the impact of rates by increasing the pensioner rebate

Ratepayers pay the rates and charges less any rebate. The State Government provides a pensioner rate rebate. The rebate increased annually for many years up until the early 1980s. In 1983 the State Government capped the rebate on general rates and charges at \$135 (letter of 10 October 1983 from the then Minister for Local Government). The rebate stayed at \$135 for twenty one years. In 2004, the State government increased the rebate to \$160 and instituted annual indexation by CPI.

The State pensioner rebate in 2014-15 is \$208.00. Our calculations are that if the rebate had been maintained in real terms since 1983, it would now be \$512.31.

**Recommendation:** that the ESC consider recommending that, in order to relieve cost of living pressures on pensioners, the State Government lift the pensioner rate rebate towards the 1983 level in real terms.

- 2) Finance Reference: Implementation of the Government's commitment to cap annual council rate increases at the Consumer Price Index (CPI) with councils to justify any proposed increases beyond the cap, including advice on the base to which the cap should apply (e.g. whether to rates or to general income.)

Response 2.1 The Australian Bureau of Statistics (ABS) has stated in writing that the CPI does not reflect the costs of organisations such as Councils.

The ABS states:

*"A consumer price index measures the change in the prices paid by households for goods and services to consume. All expenditures by businesses and expenditures by households for investment purposes, are out of scope of a consumer price index" (copy attached).*

In calendar year 2014, the main factors in the CPI included

- *domestic holiday travel*
- *tobacco*
- *fruit*
- *medical and hospital services*
- *pharmaceutical products.*

These factors do not feature in Councils' services, expenditures or revenues. The CPI is not a measure of the costs of Councils providing services or assets to residents.

It is accepted that the CPI is a measure of the cost of living. It reflects residents' capacity to pay.

Maximising the standard of living of all residents is an important objective of all levels of government. The standard of living includes

- the cost of living (as indicated by the CPI) but also
- the range and quality of services and
- the range and condition of infrastructure and community facilities<sup>3</sup>.

Public policy needs to have regard to all three elements, not one to the exclusion of the others.

A sophisticated approach is required in order to provide essential local services and assets with the greatest positive impact on standards of living and least impact on the cost of living.

An evidence-based assessment of the work of local government (across aged care, children's services, recreation, business development, employment, provision of infrastructure, community safety and so on) would show a net highly favourable contribution to the standard of living in Victoria. This has been built up over many years and ought not lightly to be dismantled.

**Recommendation: That the ESC find that CPI is an established measure of consumers' cost of living but is not a measure of Councils' costs of performing their functions.**

**Recommendation: That the ESC have regard to the whole contribution by local government to the standard of living in Victoria.**

Response 2.2 many people do not pay rates in the capacity as a "consumer".

In this municipality:

- 61,658 properties are rateable,
- 17,680 pay Land Tax
- 8,091 receive the government pensioner rebate.

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<sup>3</sup> The current imperative for State government of grade-separating roads and railway lines is a good illustration of this.

In the case of the 17,680 properties which are assessable for Land Tax, the owners generally pay rates as a business expense (which would in many cases be deductible for tax purposes). They do not pay those rates as a “consumer”.

A further 8,091 receive the government pensioner rebate at the level judged appropriate by the relevant State agency to address the cost of living.

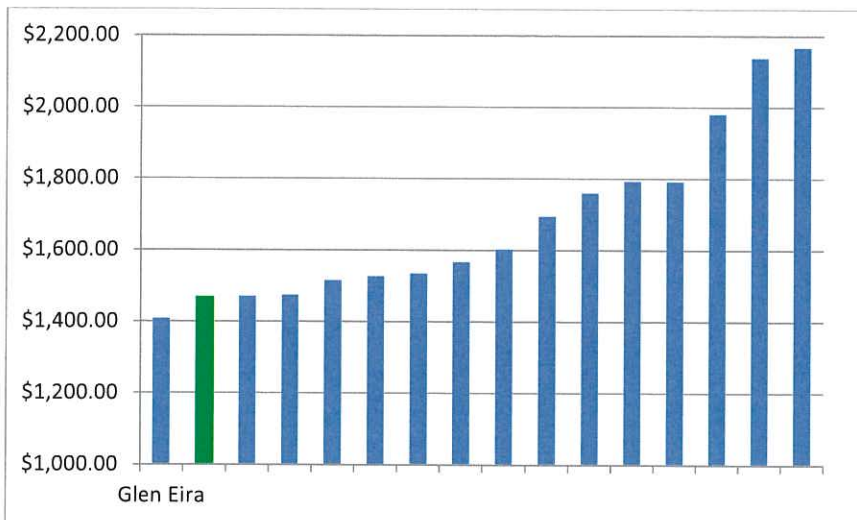
These two categories account for 25,771 properties or 42% of all properties in this municipality.

**Recommendation: That the ESC note that for 42% of properties in this municipality, the ratepayers either don't own the property in their capacity as consumers or are already in receipt of rate relief from the government.**

Response 2.3 The base is not uniform.

The actual average rates and charges per property for 2013-14 are set out below for all inner-metropolitan councils. The highest is 50% more than the lowest. This municipality is the second-lowest.

It would not be a safe assumption that the current levels are an appropriate base on which to assess or cap future movements. Applying a percentage in such circumstances could disadvantage those which have been able to keep rates and charges relatively low (eg 4% of \$1400 would be \$56 while 4% of \$2,100 would be \$84).



Treating all councils as if they were the same would be like treating all States as if they were the same: not valid.

**Recommendation: That the ESC not assume that current levels are an equitable or sustainable base for the assessment of future rates and charges.**

- 3) Finance Reference: Any refinement to the nature and application of the cap that could better meet the Government's objectives.

Response 3.1 Develop an index which measures Councils' costs

Given that the ABS has stated that investment and business expenditures are out of scope of its consumer price index, the CPI cannot validly be used as an index of Council costs.

A different index should be identified or constructed. It should give particular attention to the development, maintenance, upgrade and renewal of \$73 billion of infrastructure and community facilities. The community is highly dependent on councils discharging this function. Standards of living would be adversely affected if the funds to support this were run down.

Adverse impacts include to community safety; efficient movement by car, bicycle or on foot; inability to remedy environmental hazards (eg contaminated sites) or mitigate risks of more intense weather events that are expected (eg storms, floods, fires).

In the meantime, council property taxation should be compared with a range of indicators including the CPI but also levels of property taxation considered reasonable by DTF / SRO.

**Recommendation: That the ESC develop an index of council costs, paying particular attention to the stewardship and management of \$73 billion of community assets.**

Response 3.2 Any numerical cap set by the government will only be reflected in individual rate notices every second year.

Councils used to revalue all properties every four years. In 2000 the legislation was changed to require revaluation every two years. The valuation process is overseen by the Victorian Valuer-General.

- Higher values did not generate any automatic increase in rate revenue for Councils as Councils lowered their tax rate ("rate-in-the-dollar")
- Higher values did generate increased Land Tax for the SRO because DTF did not reduce the Land Tax rate.

In this municipality, the tax rate has been cut from 5.2718 of Net Annual Value in 1999-2000 to 3.312 in 2014-15. This is a reduction of 31%.

The marginal rate of Stamp Duty on purchase of a property has changed from

- 1998: 5.5% on properties purchased for more than \$870,000 to
- 2014: 5.5% on properties purchased for more than \$960,000.

This is a negligible reduction and explains why revenues paid to SRO and managed by DTF have outstripped local rates and the CPI by very large margins. (For example, if this Council had maintained its 1996 tax rate, an additional \$280m would have been raised from rates over the last eighteen years.)

Every second year, the property base on which all rates are levied changes. That drives a different *distribution* of the rates. (Your rates are not determined by the

value of your property. They are determined by the value of your property *relative* to the value of all property in your municipality.)

The last revaluation was with effect from 1 January 2014. In this municipality

- The average increase overall since the previous valuation two years before was 6.1%
- The average for houses was 7.9%
- The average for flats and units was 4.4%
- The average for commercial / industrial was 1.0%
- Increase by suburb ranged from 2.4% in Elsternwick to 13.4% in Bentleigh East.

It follows that for any given overall rate increase, the actual impact on individual properties will range from an increase of more than 10% in some cases to a decrease in other cases. This happens every second year.

The classic examples would be a traditionally industrial area undergoing “gentrification” or a rural area undergoing urbanisation. Property values would rise much more sharply in some localities than in others. Even in a hypothetical municipality with a zero increase in rate revenue, there would be rapid changes in property values leading to big swings in the distribution of rates involving both increases and decreases.

The next revaluation is fixed by State legislation for 1 January 2016 and will apply for the first time for 2016-17, which is the first year of rate capping. In 2016-17, the majority of properties in Victoria will *not* experience the rate increase published by the ESC for their municipality. Some will be higher than the 'headline' figure and some lower. Care would need to be exercised in managing expectations.

**Recommendation: That the ESC disclose the movements in rates of taxation in the last ten years of**

- Local rates
- Land Tax and
- Stamp Duty.

**Recommendation: That the ESC note that every second year, actual rates are influenced significantly by State government mandated revaluation of all properties and that any given rate increase at Council level may not be reflected at the level of individual properties.**

Response 3.3 The State Fire Services Levy is also on the Rates Notice.

Rate Notices set out

- Council Rates and Charges and
- The State Fire Services Levy (FSL)

The Fire Services Levy may experience cost pressures of various kinds involving the MFB and CFA.

**Recommendation: That the ESC advise whether proposed movements in the FSL will be subject to the same Essential Services Commission process as for rates?**

- 4) Finance Reference: Options for the rate capping framework should be simple to understand and administer, and be tailored to the needs of the highly diverse local government sector. The framework should take into account factors that may impact on local governments' short and longer term financial outlook such as:
- a) actual and projected population growth and any particular service and infrastructure needs:

Response 4(a).1 This should recognise projected growth in dwellings.

There has been a building boom in Victoria for some time. In 2013-14 1,714 dwellings received planning permission in this municipality either from Council or from VCAT.

Average household size has been steadily declining. The number of dwellings required for a given population is continuing to increase.

Extra dwellings lead to more area under hard surfaces such as rooves or paving which means more run off of rainfall into drains. Melbourne Water has identified more than 15% of properties in this municipality as being subject to overland flows of water. In the major storm of February 2011, properties were flooded above floor level and some were uninhabitable for months. During the last four years, Council has spent \$12,000,000 to mitigate risks of local flooding while Melbourne Water has spent \$15,000.

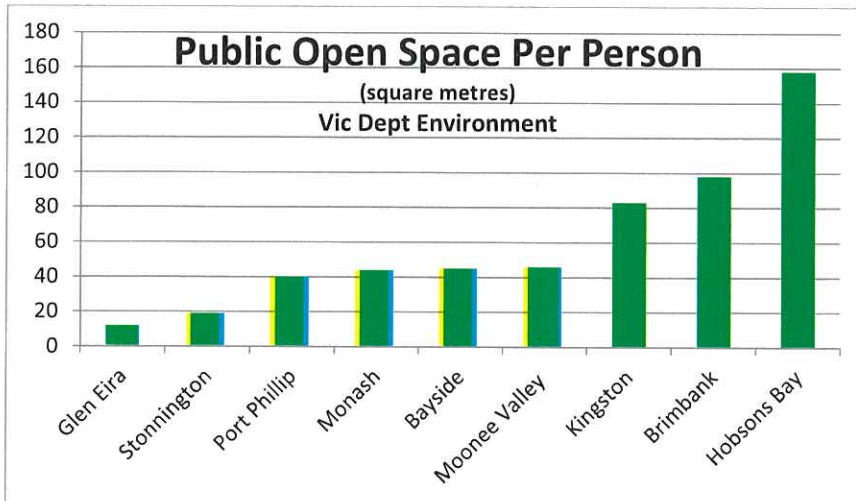
Almost all new dwellings include off street car parking. Traffic management is a major challenge for Councils and changes in the number of dwellings is a more accurate indicator of changes in the number of vehicles than population.

Rates can only be levied per property. Population could increase or decrease significantly and not precipitate any change in rate income.

**Recommendation: That the ESC recognise growth in dwellings as a factor in rate setting.**

Response 4(a).2 This should recognise the need for Open Space

This community has the least open space per person of any Victorian municipality.



Glen Eira's ratio is very low. With the proliferation of apartments and extra residents, it is getting lower.

The Victorian Minister for Planning was quoted in The Age on 9 March 2015 as saying: *"Height in appropriate settings is a good thing. But we all live on the ground. We all get about the place on the ground. So what's happening on the ground? Is it an activated space? Is it a space that is pleasant?"*

In April 2014, following independent analysis and widespread consultation, Council adopted a 300 page *Open Space Strategy* to remedy this very high Community priority. The *Strategy* calls for expenditure during the period 2013-26 of \$201,296,600. This is made up of

- \$124,648,500 for land and
- \$76,648,100 for capital works.

As this council has already implemented the maximum achievable levy on developers, the majority of the resourcing needs to come from rates.

In the event that this Council was prevented from providing more and better open space, there would likely be an extreme community reaction against State planning strategies and policies which are facilitating high density development without commensurate infrastructure or facilities.

**Recommendation: That the ESC recognise lack of open space per person as a factor in rate setting.**

- b) Finance Reference: any relevant Commonwealth Government cuts to Local Government grants;

Response 4(b).1 This should include State Government cuts to Local Government grants, too.

There are many local facilities which were built with the assistance of significant government capital grants. Over time, Treasuries have convinced governments to cease providing capital grants or to provide grants for a much smaller proportion of the cost. The result is that government funding which supported the initial development is not available to support the redevelopment or upgrade of the facility. The liability has effectively been shifted on to rates.

**Recommendation: That the ESC consider cuts to local government grants from all quarters and withdrawal of grant support without withdrawal of Council responsibility.**

- c) Finance Reference: any additional taxes, levies or increased statutory responsibilities of local governments as required by the State or Commonwealth Governments;

Response 4(c).1 The ESC should identify the cost impacts on local government of any proposed additional taxes, levies or responsibilities before they are authorised and implemented.

The House Of Representatives Standing Committee on Economics, Finance and Public Administration conducted an Inquiry into Cost Shifting onto Local Government. In February 2003 the Committee reported to the Commonwealth Parliament:

*"3.10 The submissions make a strong case that there has been cost shifting from the States and the Commonwealth to local government.*

*States (and to a lesser extent the Commonwealth) have legislated for local government to assume additional responsibilities, or changed regulatory frameworks in such a way as to impose additional costs on councils, without providing matching resources.*

*3.26 if resources have to be diverted from vital activities such as infrastructure maintenance to support previously Commonwealth or State funded programs, then perhaps councils should simply say no."*

Examples of such cost shifting have already been given including the State landfill levy, withdrawal of capital grants, town planning application fees etc.

There are more shifts in prospect.

- Energy Safe Victoria (ESV) is finalising new regulations governing the management of street trees near power lines. It has had regulations before which have generally not been enforced in suburban areas but ESV is proposing to enforce the new regulations. That has the potential to require councils to remove thousands of street trees and prune thousands more to



the point of disfigurement. The costs to the affected councils could range from hundreds of thousands of dollars to millions.

ESV advised this Council on 19 February 2015 that “*we would expect to be consulted by the ESC if they receive a reference by the Victorian Government in relation to the setting of Council rates*”.

- The Victorian Building Authority is contemplating placing obligations on Councils for the performance of private building surveyors registered by the Authority.

**Recommendation: Government should require all agencies to notify the ESC before any proposed additional taxes, levies or responsibilities on local government before they are authorised and implemented and the ESC should quantify the costs that may be shifted on to ratepayers before the proposed change is approved by Government.**

d) Finance Reference: any extraordinary circumstances (such as natural disasters); and

Response 4(d).1 This should include prevention of natural disasters, not merely recovery after disasters have happened.

Local government is in a position to mitigate the risk of some natural disasters eg

- levee banks or drainage capacity to reduce the risk of flooding,
- management of vegetation under council control to reduce the risk of bush fires,
- services to vulnerable clients to reduce the risk of heat stroke.

Financial pressure could cause these sorts of activities to receive lower priority than would otherwise be the case.

Preventative measures are a high priority for the community. It is also more economical to prevent than to recover.

Projections are for extreme weather events to become more common in Victoria.

**Recommendation: That the ESC recognise preventative expenditure to mitigate the risk of natural disasters.**

e) Finance Reference: other sources of income available to councils (for example, ability to raise user fees and charges from non-residents).

Response 4(e).1 The ESC should recommend reforms to the current situation in which fees designed to pay for local services are not increased by State government.

As stated in section 1.4 above, significant upwards pressure is being placed on local rates because fees intended to pay for local services are not increased by State government.

The obvious example is town planning application fees where ratepayers are subsidising property developers – in this municipality by more than \$1m pa.

As recommended in section 1.5 above, “all fees which pay for Council services which would otherwise have to be funded by rates should

- a. be set by Councils or
- b. be indexed annually by an appropriate index (in the case of fees for development, the Construction Index) or
- c. the State Government be required to review the level of each fee annually and either increase it or refer it to the ESC as a factor to be taken into account in rate setting.”

If the objective is to take upwards pressure off local rates, this should be an area of special study by the ESC or the Victorian Competition and Efficiency Commission (VCEC).

**Recommendation: as already recommended in section 1.4.**

#### Response 4(e).2 Rate exemptions

Section 154 of the Local Government Act prescribes exemptions from paying any rates on the basis of the use of the land.

The impact is that those uses receive the benefit of Council assets and services which are paid for by others. In economic terms, rates on properties which do pay rates are higher than they would otherwise be because some properties are exempt from paying any rates at all.

The State Fire Services Levy (FSL) is administered through the rates system. Exemptions from the FSL are not consistent with exemptions from the rates system.

In this municipality, there are 491 properties which are exempt from paying any rates. 405 of them are liable to pay the State FSL. The result is that these 405 properties help to fund the fire brigade but not the roads on which the fire brigade travels.

It is another example where State agencies have given higher priority to revenues that flow to the State than revenues that flow to local councils.

One approach would be to move some uses to partial exemptions under which they would contribute something as opposed to the present 100% exemptions.

**Recommendation: That the ESC note that rates are higher than they would otherwise be because some uses are exempt, note that this is not consistent with charges by State agencies (eg Fire Services Levy) and take that into account when assessing rates.**

#### Response 4(e).3 Cash Flow Management

Section 167 of the Local Government Act provides that Councils must allow payment of rates in four instalments and may allow payment by a lump sum. The dates for the instalments and the lump sum are set by the Minister by Notice published in the Gazette. The current dates are lump sum 15 February (the eighth month of the financial year) and instalments on 30 September, 30 November, 28 February and 31 May.

The effects include:

- on a discounted cash flow basis, lump sum payments reduce resources available to councils when compared with instalments
- funds available to pay for capital works are often available for only four and a half months of the year.
  - Tendering is concentrated in the second half of the year which puts upwards pressure on prices
  - It can make it more difficult to complete capital works programs by 30 June.
- local government should be seen as a set of 365-days-a-year services but lump sum presents local government as a tax.

By contrast, Land Tax is payable to the State Government on

- Lump Sum on 26 June or
- Instalments on 13 March, 29 May, 14 August and 30 October.

This represents no discount to the State Revenue Office.

It is another example where arrangements are more favourable for revenues which fund State agencies than revenues which support local services.

State water corporations require quarterly payment and no lump sum.

Electricity companies require quarterly payment and no lump sum.

Gas companies require payment every second month and no lump sum.

Direct debit provides a simple payment option by instalment at no cost to the ratepayer.

**Recommendation: That the ESC recommend that payment terms for rates should be consistent with other public utilities.**

- 5) Finance Reference: Consider how local governments should continue to manage their overall finances on a sustainable basis, including any additional ongoing monitoring of council service and financial performance to ensure that any deterioration in the level, quality or sustainability of services and infrastructure and councils' financial position is identified and addressed promptly.

Response 5.1 The Auditor General has consistently reported to Parliament that local government finances, particularly as they relate to community assets and facilities, are not on a sustainable basis.

In December 2013, the Victorian Auditor General tabled a Report to Parliament on Councils' 2012-13 financial statements. He said:

*"Financial sustainability of councils*

*The sector as a whole has maintained its financial sustainability year on year. Analysis of the six indicators shows that councils as a whole had a low financial sustainability risk assessment. The overall results*

*for 2012–13 were affected by early repayment of defined benefit superannuation funding obligations and the timing of infrastructure works associated with natural disaster government funding. Councils continue to face the ongoing challenge of maintaining spending on capital works and existing assets at sufficient levels.” [page vii]*

And

*“Inner metropolitan councils and regional city councils with an established asset base face longer-term pressures in maintaining and renewing existing assets or paying down existing debt while outer metropolitan and large shire councils face an ongoing challenge of maintaining spending on capital works and future renewal works to maintain their assets at serviceable levels. Small shire councils continued reliance on government funding exposes them to higher financial risks in the future.” [page 21]*

In a separate report on Asset Management on 19 February 2014 the Auditor General reported to the Parliament:

*“Victorian councils manage around \$73 billion of infrastructure assets. Council spending on renewing or replacing existing assets is not keeping pace with their rate of deterioration, resulting in cumulative renewal gaps that grow each year”.*

Both Reports were Tabled well before the policy announcement on proposed rate capping in May 2014.

On 26 February 2015 the Auditor General Tabled his report on the results of the audits of all local governments for 2013-14. Appendix E contains forecasts for financial years 2014-15, 15-16 and 16-17 against six indicators of financial sustainability.

One of the indicators is “*capital replacement*” it compares the rate of spending on infrastructure with the rate of depreciation of infrastructure. For 2016-17, the forecasts for *capital replacement* for the 79 councils are

- 24 low risk (coloured green)
- 43 insufficient spending (amber) and
- 12 at high risk (red).

This includes assets such as roads (both sealed and gravel), bridges, drainage systems etc. It also includes buildings which used by the community (eg senior citizens centres and recreational services) and outlets for services (eg maternal and child health). These facilities need to be actively managed, not only for deterioration for age but for

- Access for all abilities
- Provision of facilities for both genders (eg facilities for girls and women in sports facilities originally providing only for boys and men)
- Management of asbestos or other contaminants.

This municipality manages buildings with a value of some \$250m.

The following for small shire councils is at page 92 of the Auditor General's Report.

Forecast		Future trend
2016	2017	
1.27	1.18	▼
1.51	1.14	▼
0.92	0.99	▼
1.02	0.61	▼
0.82	0.82	▼
1.44	1.10	▼
1.66	1.04	▼
2.46	2.05	-
1.77	1.01	-
1.11	1.03	-
1.40	1.27	▼
1.28	0.91	-
1.26	1.27	▼
1.87	1.85	-
0.59	0.59	▼
1.11	0.94	-
0.77	0.82	-
1.36	1.47	▼
1.07	1.05	▼
1.16	0.76	-
1.05	1.04	-
1.28	1.09	-

In many of these municipalities, the asset base exceeds the rate base. Their viability depends on Financial Assistance Grants by Federal and State government.

The Finance Reference to “*continue to manage overall finances on a sustainable basis*” is inconsistent with the three Reports by the Auditor General. On the contrary, the Auditor General has three times advised that assets are not on a financially sustainable basis at current levels of investment.

**Recommendation:** That the ESC note that the Auditor General has reported to Parliament that current forecasts for capital replacement in 2016-2017 include 43 councils with insufficient spending and a further 12 at high risk.

**Recommendation:** That more accurate measures of the asset renewal gap be developed and that each Budget, Strategic Resource Plan and Annual Report disclose actual and planned Renewal Gaps.

Response 5.2 Recommendations listed above provide many opportunities for State agencies to remove upwards pressure on local rates.

See previous recommendations.

Response 5.3 impact of rate capping on Statutory obligations

Part 7 of the Local Government Act place obligations on Councils eg, s136:

*"manage financial risks faced by council prudently, having regard to economic circumstances, ... including the management and maintenance of assets; the management of current and future liabilities".*

**Recommendation: That the ESC advise councils whether the Act will be amended to make these obligations 'subject to the level of rates allowed by Government' or whether an Indemnity will be given to all Councils in relation to the impacts of rate capping?**

Response 5.4 Impact of rate capping on risk profile

If Councils believe that expenditures are required and then are prevented by a rate cap from undertaking those expenditures, it could increase the Council's risk profile.

That could result in councils being classified at a higher risk and increases made to their insurance premiums and / or credit ratings. Over time, this could become a factor in the State's AAA credit rating.

In some instances, there may be the potential for the State Government to be joined as a defendant to a claim where the Council contends that it was prevented by rate capping from meeting its obligations (eg non-remediation of infrastructure, non-response to requests for works, non-immunisation of eligible persons, non-provision of care, non-meeting of staff ratios).

**Recommendation: The ESC should consult the insurance industry and credit ratings industry to ascertain any likely imposts on insurance premiums or borrowing costs if councils are prevented from taking measures which they believe are necessary or on the State's credit rating?**

**Recommendation: That the ESC advise Government to seek advice concerning any potential liability on State government.**

Response 5.5 Impact on employment and industrial relations

A large component of Council services and asset management are delivered by employing staff. The Reference to the ESC is silent on questions of maintaining, increasing or reducing employment and silent on the questions of rates of pay. The government has expressed interest in employment in local councils.

**Recommendation: That the ESC address the implications for employment.**

#### Response 5.6 Impact on participation by the Community

Residents and community groups have views about the balance between the services and facilities which councils should provide and the contributions that should be made in rates. In this council, far more suggestions are made for increased services than for decreased rates.

Attention needs to be given to how residents or groups will be able to advocate for their points of view if rates are determined by a body other than the elected council.

It is also essential that councils adopt their budgets before the financial year starts on 1 July. The Act currently requires councils to give 28 days' public notice of their proposed budgets. Will the ESC process occur after community input or before? If after, what notice will the ESC take of community views? If before, community consultation would be constrained by the finalisation of rates revenue on the assumption of particular expenditures.

**Recommendation: That the ESC advise on the sequence and timing of its process relative to community consultation and before 30 June each year.**

#### Response 5.7 Implications under the State Constitution

The Victorian Constitution states:

*“Local government is a distinct and essential tier of government consisting of democratically elected Councils having the functions and powers that the Parliament considers are necessary to ensure the peace, order and good government of each municipal district.*

*Each Council—*

- (a) is responsible for the governance of the area designated by its municipal boundaries; and*
- (b) is constituted by democratically elected Councillors as the governing body which is accountable for its decisions and actions”*

Some of a council's most important decisions are what money to spend and how much to ask residents to pay in rates. The Local Government Act prohibits this power being delegated. It can only be exercised by the Council itself. Elected councils generally go to considerable lengths to decide where this balance should be struck.

If a State agency is to determine every council's income, how is local government “*distinct*” or “*essential*” or “*responsible*” or the “*governing*” body?

Response 5.8: Alternative policy frameworks could respond to the different situations of different councils.

There are alternative policy approaches.

There is ample evidence that council spending on the maintenance, upgrade and renewal of assets needs to be increased and that money spent now will avoid the need for more money to be spent later. To achieve this with least impact on residents:

- operating costs need to be kept as low as possible and / or
- non-rate revenues need to be increased.

It would be good policy to require that Councils published their infrastructure renewal gap as at 30 June in their Annual Reports, Strategic Resource Plans and Annual Budgets. (Better definitions need to be developed. The Auditor General should be involved.)

Guides could be published about good practices in operating costs. For example,

- This council has a prohibition on funding any overseas travel by anybody under any circumstances
- Expenditure above specified thresholds should require a business case in a standard form
- Benchmarking of remuneration
  - this Council's average salary is 18.1% below the average of the Victorian Public Sector as reported by the ABS;
  - this council's ratio of executive to non-executive staff is also much lower than in the Victorian Public Service).

This paper sets out numerous ways in which non-rate revenues could be made more sustainable. Most opportunities lie with the State agencies. To the extent that rates underpin important social programs, those flows should also be protected in the public interest.

Criteria could be established to classify councils into categories eg

- Renewal gap (and operating result) and assessment by the Auditor General
- Community satisfaction (this Council 96 / 2, June 2014)<sup>4</sup>
- Indicator(s) of good governance
- Average rates per property relative to an appropriate benchmark
- Possibly other indicators.

Government resources could be directed towards the lower-classified municipalities ranging from

- a. pairing with a higher-classified municipality for information and support,
- b. closer monitoring and requirements to seek approval of specific actions from the Minister, Department or Essential Services Commission through to
- c. direct involvement through Monitors, Inspectors of Municipal Administration or other means.

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<sup>4</sup> Very Good 21%, Good 47%, Average 28%, Poor 2%, Very Poor 0% Can't Say 2% - Community Satisfaction Survey June 2014, conducted by JWS Research under contract from the Department of Transport, Planning and Local Infrastructure.



Amongst other things, that would allocate government resources to those councils where resources could achieve the best results.

**Recommendation: That the ESC develop frameworks to safeguard asset management and social programs in future local government financial management.**

6) Finance Reference: The processes and guidance to best give effect to the recommended approach for the rates capping framework and a practical timetable for implementation, including:

a) the role of councils, the ESC and the Victorian Government and the expected time taken by local governments and by the Victorian Government or its agencies, for each step in the rate capping process;

Response 6(a).1 \$73 billion of assets cannot be managed one year at a time.

Councils are responsible for \$73 billion of community infrastructure and facilities which councils manage on behalf of current and future generations. Asset management needs to be planned and managed on a long term basis. The lifecycle of assets should be optimised by the appropriate mix of maintenance, upgrading and renewal. Failure to do so risks assets having to be replaced earlier than would otherwise be necessary at increased cost.

Complex projects typically involve: consultation and design, town planning permission, contractual documentation and tendering, construction and commissioning. This typically takes approximately four years.

If councils only know their revenues one year at a time, the asset base cannot be managed in the most efficient way and complex projects could not be committed. This includes for example children's services hubs, libraries, aquatic centre redevelopments, major sporting venues, drainage projects and so on. The Glen Eira Sports and Aquatic Centre (GESAC) is the most successful centre of its kind in Victoria. It opened in 2012. It attracts 1.1m visits a year and covers all of its costs including interest and repayment of borrowings. If rates were determined one year at a time, GESAC would not have been attempted.

Councils need to have a reasonable degree of certainty of their revenues over at least a rolling four year period. That suggests that the ESC should examine Councils' four-year Strategic Resource Plans (section 126 of the Local Government Act), not Councils' Annual Budgets (section 127 of the Local Government Act).

This is the most important point in this entire Paper.

**Recommendation: That the ESC expressly consult with the Auditor General on the need for asset management to be planned more than one year at a time.**

**Recommendation: That the ESC recommend assessing Councils' finances on the basis of**

- **Councils' obligations under s126 of the Local Government Act, a Strategic Resource Plan over at least four years,**
- **rather than Council's obligations under s127 of the Act, a Budget over 12 months.**

Finance References:

- b) any technical requirements including the information requirements on councils that request exemptions from the cap;
  - c) any guidance required to give effect to the rate capping options (including in relation to consultation with ratepayers) and to improve accountability and transparency; and
  - d) any benchmarking or assessment of the effectiveness of the regime, including options to continuously refine the regime and improve council incentives for efficiency.
- 7) Options for ongoing funding to administer the rate capping framework, including the potential for cost recovery.

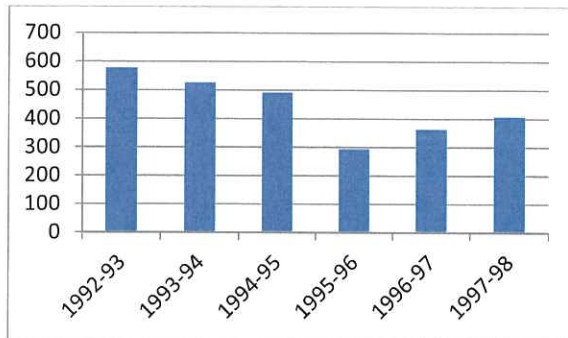
In conducting the inquiry and providing its advice, the ESC will have regard to:

- the role of local government in the provision of infrastructure and services to the community and the general efficacy with which they currently perform this task;
- the differences between rural, regional and metropolitan local councils in terms of costs, revenue sources and assets maintained;
- the Revenue and Rating Strategy guide and Local Government Performance Reporting Framework to be administered by the Department of Environment, Land, Water and Planning;
- matters regarding rate practices and asset renewal gap raised by the Victorian Auditor-General's Office (VAGO);
- Department of Treasury and Finance's Victorian Guide to Regulation and Victorian Cost Recovery Guidelines; and
- any relevant insights from the experience of rate pegging in New South Wales, including any reviews or evaluations that can suggest ways to minimise any unintended consequences."

Response "experience": should include the experience of rate capping in Victoria in the 1990s.

Before looking at NSW, the ESC should look closer to home.

Victorian councils were rate capped by the Victorian government for many years in the 1990s. Reduced rate revenue led to reduced asset spending. The ABS reported that capital formation over the following five years was a total of \$804m lower in nominal terms (more in real terms).



Rate capping contributed to the Infrastructure Renewal Gap.

On 7 February 1997 this Council's Commissioners wrote to the State Government that

*"If Council is to*

- maintain services*
- restore failing infrastructure, and*
- manage its assets cost effectively, including optimising the useful life of the assets,*

*the financial resources available need to be increased."*

The signatory was the Chairperson of Commissioners, who was a former Finance Director of Cadbury Schweppes.

In their public exit report in March 1997, Glen Eira's Commissioners outlined the rate cuts and capping and then advised:

*"Glen Eira City Council has one of the lowest rate levels in the State, continuing the low rates charged in the antecedent cities.*

*Past Councils have left the burden of remedial works on future generations.*

*While the rate cuts during the transition period have benefitted ratepayers, it has also limited Council's capacity to fund vital infrastructure works throughout the City over the next few years."*

Council's Annual Reports disclosed that all categories of assets were unsustainable in 1999, following years of rate capping. It also disclosed that between 1999 and 2003, investment had increased and the condition of assets had improved.

### Sustainability of assets at rate of expenditure

Community asset	1999-00	2003-04
Footpaths	Possibly	Yes
Roads	No	Probably <sup>(a)</sup>
Drainage	No	No
Residential aged care	No	Yes
Children's services	No	Yes
Libraries	No	No <sup>(b)</sup>
Public toilets	No	No <sup>(c)</sup>
Pavilions	No	No
Pools	No	No
Shopping strips	No	Yes
Playgrounds	No	Yes

(a) Subject to government funding.

(b) Carnegie and Elsternwick are poor.

(c) Each would have to last 40 years.

Annual Report 2002-03

*"Everyone is always in favour of general economy and particular expenditure."*  
 - Rt. Hon. Anthony Eden (UK Prime Minister), The Observer, 17 June 1956



## Australian Bureau of Statistics

### 6461.0 - Consumer Price Index: Concepts, Sources and Methods, 2011

Latest ISSUE Released at 11:30 AM (CANBERRA TIME) 19/12/2011



#### CHAPTER 2 PURPOSES AND USES OF CONSUMER PRICE INDEXES

##### WHAT CONSUMER PRICE INDEXES MEASURE

2.1 As the name suggests, a consumer price index measures the change in the prices paid by households for goods and services to consume. All expenditures by businesses, and expenditures by households for investment purposes, are out of scope of a consumer price index. In this regard, expenditure on housing presents particular difficulties as it can be considered as part investment and part purchase of shelter-related services.

2.2 There is currently no single, universally accepted definition of a consumer price index. The often quoted description of a CPI is the following statement from the Resolution concerning consumer price indices released in 2003 by the Seventeenth International Conference of Labour Statisticians convened by the International Labour Organization (ILO) (the Resolution is reproduced in Appendix 4):

**"The CPI is a current social and economic indicator that is constructed to measure changes over time in the general level of prices of consumer goods and services that households acquire, use or pay for consumption. The index aims to measure the change in consumer prices over time. This may be done by measuring the cost of purchasing a fixed basket of consumer goods and services of constant quality and similar characteristics, with the products in the basket being selected to be representative of households' expenditure during a year or other specified period."**

##### PRINCIPAL PURPOSES OF A CONSUMER PRICE INDEX

2.3 A consumer price index may serve several purposes. However, three principal purposes are generally recognised, namely to measure:

- changes in the purchasing power of money incomes;
- changes in living standards; and
- price inflation experienced by households.