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28 August 2015

Local Government Rates Capping and Variation Framework Review
Essential Services Review
Level 37, 2 Lonsdale St
Melbourne VIC 3000

RE: Submission to the Draft Report for the Local Government Rates Capping & Variation Framework Review

We are writing on behalf of the Revenue Management Association (RMA) and its members in response to the Draft Report for the Local Government Rates Capping & Framework Review.

The RMA's Membership is made up of rate administrators from almost all Councils across Victoria, plus other related industry service providers. The RMA provides support and advice to our Members through the dissemination and communication of information. We actively participate in forums and working parties with various State Government Departments (LGV, OVG, SRO, DTF, DHS, VEC) and Local Government Bodies (MAV, LGPro), on matters relevant to our area of responsibility and expertise.

Please find below the RMA's responses to the draft recommendations.

THE CAP

1. *Draft Recommendation 1 – The Commission recommends that there should be one rate cap that applies equally to all councils in Victoria.*

   Agree – Consistency across councils provides better surety for ratepayers and application of the rate cap by councils.

2. *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 cap and;*

- *Service rates and charges should not be included in the rate cap, but be monitored and benchmarked*

  Agree on all three points. Robust and consistent benchmarking and a monitoring framework needs to be developed and used by Councils to examine service charges and cost of service delivery.

3. *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 a year.*

   Disagree. The term average ratepayer has many variances dependent on the rating structure of a Council. Those councils with a flat charge i.e. a general rate and no municipal or service charges yes, the average ratepayer calculation applies however those with differential rate types and with or without municipal charges determining what is an 'average ratepayer' becomes blurred.

   Take for example an outer metropolitan council using figures from their adopted budget. The table below shows what the 'average ratepayer's' Capital Improved Value (CIV) is when totaled together versus the average CIV by differential rate type:

Rate Type	2015/16 Total CIV	Count	2015/16 Average CIV
Total	**33,100,142,200**	**76,000**	**436,000**
Residential	25,854,784,000	67,303	**385,000**
Commercial/Industrial	6,056,315,700	5,858	**1,034,000**
Farm	32,903,000	31	**1,062,000**
Vacant	1,007,793,500	2,313	**436,000**
Retirement	125,757,000	492	**256,000**
Cult. Rec. Land	22,589,000	3	**7,530,000**

The variations are marked. Using the term 'average ratepayer' encompassing all properties and then trying to explain to a bill holder how council arrived at a rate in the dollar and rates charged is difficult to relay. This is exacerbated further in a revaluation year where a properties valuation shift again impacts on rates charged.

Further to this is the reporting of an average property valuation. Councils generally report on median values and the median shifts by rate type through budget cycles and provide median valuation figures to other bodies on median residential valuations such as the MAV.

Using a median valuation as opposed to an average calculation counter balances shifts in low or high end markets and any dramatic movements in property counts.

Example of the variance between average and median, based on the above criteria, is outlined below:

Rate Type	2015/16 Average CIV	2015/16 Median CIV
Total	436,000	366,000
Residential	385,000	365,000
Commercial/Industrial	1,034,000	490,000
Farm	1,062,000	943,000
Vacant	436,000	275,000
Retirement	256,000	309,000
Cult. Rec. Land	7,530,000	3,097,000

The application of median valuation calculation provides for a flatter, even base for reporting and provides clear indication to ratepayer of where there valuation sits in a Councils make up i.e. either above or below the median value.

In setting an annual rate and charge Council's will work off a base starting with the total of the previous year's rates and charges, annualize the rates for any supplementary adjustments through the year and then apply an increase/decrease as determined.

The key is the annualizing of the rates before applying the increase/decrease.

This enables council to have a solid income base to determine the rating structure in line with the Local Government Differential Rating Guidelines as set down by the Minister.

Therefore, in a non-revaluation year, rates and charges are annualized and then the rate cap applied and in a revaluation year rates and charges are calculated and distributed across varying rate types taking into account any valuation shifts in sectors working back to the annualized rate total.

Rate Type	2016 Budget	2016 Annualised Rates	Rate Cap	2017 Yield	2017 Rate Charge
Residential	$ 75,608,956.43	$ 75,832,081.47	3.05	$ 78,144,959.96	0.002418
Commercial/Industrial	$ 28,606,086.61	$ 28,900,738.52	3.05	$ 29,782,211.05	0.004352
Farm	$ 82,386.45	$ 84,363.29	3.05	$ 86,936.37	0.002298
Vacant	$ 5,453,367.11	$ 5,248,588.55	3.05	$ 5,408,670.50	0.004548
Retirement	$ 341,178.74	$ 341,178.74	3.05	$ 351,584.69	0.002431
Cult. Rec. Land	$ 54,121.64	$ 53,897.35	3.05	$ 55,541.22	0.002235
Municipal Charge	$ 5,292,854.58	$ 5,305,560.00	3.05	$ 5,467,379.58	$71.94
	$115,438,951.55	**$115,766,407.93**	**3.05**	**$ 119,297,283.37**	

Again, as in this case, council would be working towards a yield of $119.3m and can than apply the distribution by rate types in accordance with the Differential Rating Guidelines but always landing on the same yield.

It is a simpler messaging to relay to a community on how council arrives at a bottom line for rates, demonstrating the rate cap application, than working off an 'average ratepayer' base.

We again reiterate that in a revaluation year the new CIV or NAV are used and in essence are an annualized starting base thus the preceding year's rate income base must be from an annualized rate figure.

Messaging from councils, with solid media support from the State Government explaining how the cap is applied and the fact that the bottom line will vary due to property revaluations is critical in the rate cap process.

4. *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)

   With: CPI = DTF's forecast published in December each year
   WPI = DTF's forecast published in December each year

   The efficiency factor will initially be set at zero in 2016-17 but increasing by 0.05 percentage points each year from 2017-18. The Commission will undertake a detailed productivity analysis of the sector to assess the appropriate long-term rate for the efficiency factor.

   Agree.

5. *Draft Recommendation 5 – The Commission recommends that the 2015-16 rates (general rates and municipal charges) levied on an average property should be adopted as the starting base for 2016-17.*

   Disagree. If a base valuation is to be used it should be the median property value as outlined in response to Draft recommendation 3.

VARIATION

6. *Draft recommendation 6 - The Commission recommends that the framework should not specify individual events that would qualify for a variation. The discretion to apply for a variation should remain with councils.*

   Agree

7. *Draft recommendation 7 - The Commission recommends that the following five matters be addressed in each application for a variation:*
   - *The reason a variation from the cap is required*
   - *The application takes account of ratepayers' and communities' views*
   - *The variation represents good value-for-money and is an efficient response to the budgeting need*

- *Service priorities and funding options have been considered;*
- *The proposal is integrated into the council's long-term strategy.*

Agree however it should be noted that the timelines are very tight and a reliance on an early turnaround by the ESC is required for council to meet is legislated timeline for budget adoption of 30 June.

8. *Draft recommendation 8 - The Commission recommends that in 2016-17, variations for only one year be permitted. Thereafter, councils should be permitted to submit and the Commission approve, variations of the length set out.*

   Agree.

9. *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.*

   Agree. Justification, in the event the variation is rejected, is required from the ESC to communicate to council's community.

On behalf of the RMA we thank you for the opportunity to respond to the draft report and should a member of the ESC wish to discuss this matter further or require additional information the RMA would be delighted to hear from you.

I can be contacted via email Petergh@brimbank.vic.gov.au or by phone on 9249 4000.

Yours sincerely,

Peter Horne

President – Revenue Management Association