Our Ref: EPC Rate Capping Inquiry Submission August 2017

25 August 2017

Mr Michael Baker
Secretary - Legislative Council Committees
Department of the Legislative Council
Via email: epc@parliament.vic.gov.au

Dear Mr Baker

Thank you for the invitation to make a submission to the Environment and Planning Committee’s rolling inquiry into the Fair Go Rate Capping System, and to inform the Committee’s Fifth Report due for release in December of this year.

**Growth Category**
The Committee would be aware of Council’s continuing advocacy for there to be a ‘growth category’ within the rate capping system.

The Committee may not be aware that this position was supported at the May State Council Meeting of the Municipal Association via a Wyndham City Council resolution as follows.

**Motion 50. Establish a Growth Category (Two Tier System) for the Victorian Government’s Fair Go Rates System**

1. That the MAV writes to the Minister for Local Government expressing its significant concern that the calculation of the rate cap increase set by the Minister each year does not sufficiently factor in the impacts on growth Councils in Victoria.

2. That the MAV advocates for the creation of a ‘growth rate category’ to form part of a review into the Victorian Government’s Fair Go Rates System framework. This category would consider factors that impact upon the service delivery capacity of Councils through rate capping in the deliberations of the Essential Services Commission (ESC) when Councils seek a rate rise exemption and or when the Minister sets rates per year.

There were many arguments in support of Wyndham’s resolution, including:

- The Victorian Government’s Fair Go Rates System and Framework does not adequately consider the long-term ramifications that record low rate maximums (caps) pose on Victoria’s growth Councils
• There is limited literature in Victoria to provide fair benchmarking amongst growth Councils based upon the relatively new introduction of the Fair Go Rates System framework, however NSW has implemented rate capping (referred to as rate-pegging) some years ago

• Numerous academic literature has been developed over the years highlighting the challenges ‘rate-pegging’ has had on infrastructure up-keep. A report in 2001 by the Rate Pegging Taskforce commissioned by the NSW Local Government and Shires Association determined significant merit in a two tier pegging system whereby the second element considered circumstances beyond the standard variation rate set by the Minister that took the circumstances of individual Councils into account above the first tier level to a stipulated maximum, and

• The development of a ‘growth rate’ category would enable Councils experiencing above average population growth & the relative impact on service delivery and asset renewal does not equate to cutting or outsourcing vital services delivered by the sector due to rate capping constraints. A two tier rate capping model is a potential solution to this matter but at the very least the Victorian Government must recognise that it is critical to continue scrutinising the rate-pegging model to ensure it does not disproportionately impact upon growth Councils in Victoria.

Cash Surplus and Accounting Standards
Additionally, the Committee may not be aware that the same MAV State Council Meeting also passed the following related Wyndham City Council resolution.

Motion 25. VAGO Accounting Standards Must be Reviewed in a Rate Capping Environment
That the MAV:
(a) writes to VAGO expressing its significant concern that ‘contributions – non-monetary value’ are being incorporated as ‘revenue’ on the income statements of Council operating budgets thereby skewing the real value of operating surpluses, and
(b) requests VAGO review the presentation of Council financial statements to better reflect the nature and impacts of these contributions – i.e. that they are disclosed as ‘other comprehensive income’ in both the general purpose financial reports and budget statements.

There were many arguments in support of Wyndham’s resolution, including:

• The Victorian Auditor General’s Office (VAGO) must look to amend accounting requirements that currently see gifted assets (e.g. roads, parks or playgrounds from developers) being simplistically reflected as ‘revenue’, particularly on the balance sheets of growth Councils with greenfield developments underway in Victoria

• This accounting representation has the ability to significantly distort the public’s perception of the overall health of Council’s revenue base, with some Councils accounting for tens of millions of dollars of revenue each year that is attributable to gifted assets (particularly roads)

• It is grossly unfair to growth Councils to have to classify these assets as revenue, especially given such assets add to the maintenance and depreciation liabilities Councils have to grapple with in future budgets
• There is no logical basis for the public to see such assets as being simplistically represented as revenue, thereby significantly inflating Council operating surpluses, and
• Placing this in the context of a rate capping environment, growth Councils are exposed to the double political risks of delivering large capital works programs year after year, while also generating surpluses. These risks are now exacerbated by the Essential Services Commission (ESC) who factor the overall budget health of growth Councils (including the simplistic representation of gifted assets as revenue) in their assessment of applications for variations to the annual rate cap set by the Minister for Local Government.

Therefore, our resolution called upon VAGO to immediately review their accounting requirements of Councils and to report back to the MAV on alternate accounting representations that will better reflect the nature and impacts of these contributions – non-monetary value in future Council budgets.

**Essential Services Commission Growth Study**

The Committee would be aware that Arup was commissioned by the Essential Services Commission (ESC) in February this year to provide independent advice on:
• The impacts of growth on Council operations and finance
• Best practices in managing growth
• The role of rates in enabling Councils to respond to growth.

This ‘growth study’ supports the recommendations of the Fair Go Rate System Independent Review 2016 particularly:

‘Section 5.1 lv A review is undertaken into any special financial issues associated with growth area Councils.’

At the time of commissioning the growth study, the ESC stated the objective would be to develop a robust set of questions that the ESC can use to engage Councils in discussions about the efficiency and effectiveness of their growth management practices. This discussion would inform the ESC’s determination on rate cap variation applications.

At the time of writing this submission, Council is informed that the ESC may release this growth study in the same week submissions to your Committee close. This timing means that we are unable to provide commentary on the adequacy of the study.

Nevertheless, we submit that there may need to be additional thorough econometric and social impact assessments done on the impacts of rate capping on Victoria’s growth Councils. We recognise that this is a complex task and that it can only be achieved with the collaboration and support of the State Government and all growth Councils.

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This collaboration should include agreement on the scope, process and peer review opportunities.

**VAGO Audit - Effectively Planning for Population Growth**
Council would also draw to the attention of the Committee the recent publication by the Victorian Auditor General’s Office of the above audit into whether land use planning by the State Government is meeting the needs of Melbourne’s rapidly growing population for birth, Maternal and Child Health, funded kindergarten services, and related infrastructure. Council strongly agrees with the findings of the audit, in particular better coordination and clarification regarding roles and responsibility would better meet growing community needs.

**Conclusion**
Council believes that if current population and planning levers which see Victoria’s growth Councils carry a disproportionate share of population growth are to continue as preferred by the Federal and State Governments, there also needs to be a recognition of the greater infrastructure funding and partnership needs of growth Councils.

Once again, we thank you for the opportunity to make this submission and look forward to the Committee’s ongoing work.

Regards

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