July 2015

Mr Keir Delaney  
Secretary  
Environment and Planning Committee  
Parliament House  
Spring Street  
MELBOURNE VIC 3002

<epc@parliament.vic.gov.au>

Dear Mr Delaney

Inquiry into Rate Capping

I note that on 27 May 2015, the Legislative Council resolved that the Environment and Planning Standing Committee of Parliament inquire into and report on the outcome of the State Government policy of local government rate capping on council viability, and the provision of services and local infrastructure.

While recent audits have not dealt directly with the matter of rate capping, I refer the Committee to the following audit reports that I consider relevant to the Inquiry:

- *Local Government: Results of the 2013-14 Audits* (February 2015)
- *Asset Management and Maintenance by Councils* (February 2014)

The *Rating Practices in Local Government* audit found inconsistencies in the rating practices of local councils and the quality and soundness of council rating decisions. These inconsistencies would need to be addressed before the government could obtain consistent information into the outcomes of its rate capping policy. The audit found:

- variation in how councils reported average rates and charges – VAGO experienced difficulty in identifying directly comparable data and benchmarks for rates and charges across councils due to the different ways in which councils reported average rates and charges. The report outlined the importance of having standardised rates and charges data across municipalities so that ratepayers and the general community can readily interpret the data.
- variation in how councils interpreted and applied the key rating principles, particularly in relation to equity and stability, and variation in the content and quality of rating strategies across the councils that had a strategy at the time of the audit. The report outlines key rate setting considerations for councils to consider when developing rating strategies.
- variation in the depth and quality of community engagement and communication on rating matters with councils not properly explaining the basis for their decisions when responding to rate-related ratepayer submissions.
The report also noted that the governing legislation and guidance material relating to rates and charges at the time lacked clarity, detail and direction. VAGO notes however that the former Department of Transport, Planning and Local Infrastructure revised its Revenue and Rating Strategy Guide in 2014.

As part of the Responses to 2012–13 Performance Audit Recommendations audit, local councils reported that they were responding to and monitoring progress against the majority of recommendations from the Rating Practices in Local Government report, with the exception of the recommendation that councils develop and implement comprehensive ratepayer communication and engagement strategies, where progress by some councils had been slow. It is likely that the capacity of some councils to effectively engage with the community on rating decisions will be important in the context of the government’s rate capping policy.

Each year, my Office tables a local government sector financial report in Parliament. The report provides authoritative independent assurance regarding the accuracy of the financial, standard and performance statements which have been prepared by local councils for the preceding financial year. This report also refers to other work that VAGO undertakes as part of its audit process, including a review of council financial sustainability.

The Local Government: Results of the 2013-14 Audits found that local councils continued to face the challenges of delivering quality services to their community, maintaining their existing assets and funding future capital works. VAGO’s analysis of the six financial sustainability indicators found that while local councils as a whole had a low financial sustainability risk assessment, there had been an increase in financial sustainability risks, with five local councils assessed as high risk in 2013-14 compared with two in 2012-13.

The audit also found that some local councils continued to face the ongoing challenge of maintaining spending on capital works and existing assets at sufficient levels and that councils were slow to rectify a number of high and medium risk internal control deficiencies which reflected on the poor management and governance of some councils. The asset management practices of councils were also considered as part of the Asset Management and Maintenance by Councils audit (February 2014) which found that council spending on renewing or replacing existing assets was not keeping pace with their rate of deterioration despite several audited councils having significant under expenditure on their capital works budgets.

Without concerted effort to effectively prioritise spending and determine sustainable rates in line with the government’s rate capping policy, councils will continue to struggle to meet the growing challenges of delivering quality services and local infrastructure to their community.

All VAGO reports are available at www.audit.vic.gov.au.

My Office is available to provide further assistance to the Committee in relation to this inquiry, including providing evidence at public hearings. If my Office can be of any further assistance, please contact Ms Jacquie Stepanoff (8601 7056).

Yours sincerely

John Doyle
Auditor-General