9 June 2015

Keir Delaney - Secretary
Environment & Planning Committee
Parliament House
Spring Street
Melbourne VIC 3002

Dear Mr Delaney,

Inquiry into Rates Capping Policy

Thank you for the opportunity to provide input into the Environment and Planning Committee’s Inquiry into the Rates Capping Policy.

Please find attached a copy of the submission provided by the Victorian Farmers Federation (VFF) into the Essential Services Commission on the development of the Rates Capping Framework.

While the VFF is supportive of rates capping, we firmly believe that Victoria’s overarching municipal rating system is imbalanced, unfair and unsustainable, and thus needs to be comprehensively reviewed.

Local government sustainability is of significant importance to the VFF and its members. In 2014 we presented a submission to the Victorian Parliament of more than 3300 signatures, calling for an inquiry into the fairness and equity of the local government rating system in rural and regional areas. Specifically, the VFF wish to find a more equitable way to apply rates to farmland. Our submission to the ESC process for implementing rate capping reflects this view.

The VFF would welcome the opportunity to meet with the committee and to further discuss our views on the equity of local government rating in rural and regional areas.

Yours sincerely,

David Jochinke
VFF Vice-President
Chair, VFF Farm Business and Regional Development Committee.
Submission to the Essential Services Commission on the Rates Capping Framework

Date: 15 April 2015
The Victorian Farmers Federation

The Victorian Farmers Federation (VFF), Australia’s largest state farmer organisation and only recognised consistent voice on issues affecting rural Victoria, welcomes the opportunity to comment on small business in Victoria.

Victoria is home to 25 per cent of the nation’s farms. They attract neither government export subsidies nor tariff support. Despite farming on only three per cent of Australia’s available agricultural land, Victorians produce 30 per cent of the nation’s agricultural product. The VFF represents the interests of our State’s dairy, livestock, grains, horticulture, flowers, chicken meat, pigs and egg producers.

The VFF consists of a nine person Board of Directors, with seven elected members and two appointed directors, a member representative General Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers’ views on hundreds of industry and government forums.

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Introduction

The Victorian Farmers Federation has welcomed the Labor Government’s commitment to cap council rate rises at the Consumer Price Index (CPI). We look forward to assisting the ESC in developing the rate capping framework and process for reviewing above-CPI rate variations.

Capping rates is only one step in the journey towards delivering a sustainable rating system and viable local government. The VFF has repeatedly highlighted that many local councils are facing massive infrastructure gaps and looming funding crises. The Victorian Auditor General and independent consultants have issued reports over the past decade indicating that between 18 and 21 of Victoria’s rural councils are simply unviable.

Hard-hit rural councils have responded to the funding crisis by cutting infrastructure spending, mainly road replacement and repairs, and raising rate revenue. Unfortunately a large proportion of that increased rate burden has fallen on farmers shoulders.

Victorian farmers face unsustainable and excessive rate hikes, which are in large part driven by the erosion of state and federal funding to local government.

In 1996, the funding provided to local governments across Australia by the Federal Government was equivalent to 1.3 per cent of the Federal Governments tax take. Today that figure has slumped to 0.6 per cent, resulting in a $728m annual shortfall in grant funding for local government. Rural councils have been hardest hit by this shortfall, given that the local roads and general funding formulae of the Commonwealth Grants Commission are heavily weighted in favour of rural councils.

More recently the Federal Government has frozen indexation of the local government grant scheme, putting a $134 million black hole in Victorian council budgets over three years.

We need governments – state and federal, to bite the bullet and commit to a bipartisan inquiry that finds long-term solutions to the local government funding, rather than engaging in finger pointing and a political blame game.

The VFF sees regional Victoria’s municipal rating system as unbalanced, unfair and in need of a major review.

While many local governments have applied differential rates to farms, analysis conducted by the VFF shows that farm differentials need to be used more effectively to address inequity issues around land valuations. The VFF has argued the average rate bill paid by farm businesses in 2014-15 was $6699, far more than the average commercial business assessment of $2691. And many of our farmers are paying well in excess of $10,000 in rates. In some shires, farm businesses are paying upwards of 60 per cent of the total council rate revenue, but represent less than 10 per cent of ratepayers.

We need a full review looking into the fairness and equity of the rating system and options to address local government sustainability is urgently required.
Last year the VFF presented a petition to Parliament calling for a parliamentary Inquiry into Local Government Rates and Sustainability. It received more than 3,600 signatures.

The VFF urges the Victorian Labor Government to take the next step, beyond capping rates, to find a long-term and sustainable solution to rural and regional Victoria’s rating crisis.

The VFF calls on the Government to mount an Inquiry into the fairness, equity of the local government rating system and sustainability of local government.
Response to review questions

The form of the cap

1. While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?

The cap should only apply to local government rate revenue, not the municipal charge or other service charges. This keeps it simple and clear.

Ratepayers will see their rates rises vary from the cap, due to variations in valuations. However it would be a simple matter to print the CPI Rate Cap on all rate notices, with a secondary calculation of that individuals rate rise. A simple statement should be included that explains how the cap is applied. These simple measures would deliver some transparency to the process.

2. What are some ways to refine the cap (for example, alternative indices), in line with the Government’s objectives?

Most Victorian’s expect the Government to meet its commitment to deliver a CPI cap on rates, using the existing national or city indices.

The VFF is aware that some lobby groups are calling on the government to abandon its election promise to a cap rate rises at CPI.

The Municipal Association of Victoria calculates its own Local Government Cost Index, which is well above CPI.

The VFF would argue against such a proposal and would highlight that even NSW’s IPART uses a Local Government Cost Index, which is well below that calculated by the MAV. IPART independently calculates the LGCI and deducts a productivity factor to calculate its final rate peg.

Any rates cap should be focused around CPI as a consistent base for comparison within the local government sector and between rate payers and local government.

3. Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative caps for the next two to three years to assist councils to adopt a longer term view in their budgeting and planning, particularly when maintaining and investing in infrastructure often takes a longer term perspective? How should such a multi-year cap work in practice?

The CPI cap should be set annually. Providing indicative caps would be useful, with some council already producing longer-term budgets based on the current CPI.
The VFF believes all councils that apply for above-CPI variations should be required to produce 10-year financial plans, which includes forecast rate revenue. These plans should be revised annually and be subject to public consultation.

Such plans would give ratepayers and the ESC greater certainty that councils applying for above-CPI variations are capable of moving back within the cap in consequent years.

4. Should the cap be based on historical movements or forecasts of CPI?

The most practical option would be to use the previous year’s CPI. However it may be worth investigating a forecast, based on an average of previous years CPI changes.

The VFF supports the inclusion of a productivity factor, when applying the CPI cap. The NSW rate pegging approach already uses a productivity factor, which is used to lower its rate peg and encourage councils to implement efficiency gains that are shared with ratepayers.

5. Should a single cap apply equally to all councils?

Yes, a single cap should apply. Differences in rating requirements between rural, regional and urban councils should be considered as part of the variation process.

The base to which the cap applies

6. What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?

As stated in the response to question one - The cap should only apply to rate revenue, not the municipal charge or other service charges. This keeps it simple and clear.

What should the base year be?

The ESC needs to be wary of councils increasing their rate revenue levels in this coming financial year, to compensate for the restrictions which would be placed on them through the implementation of a CPI cap. Some councils are proposing rate hikes of 5-6 percent in the draft 2015-2016 budgets.

2015-16 should be considered the base year.

Trying to incorporate the latest round of rate increase into the capping framework, from 2014-15 to 2015-16, would be difficult to manage and in some cases force councils to abandon any rate increase in 2016-17 (Based on the fact that many councils are proposing rate hikes of 5-6 per cent in their draft 2015-16 budgets).
7. **Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?**

This is a complex issue, given the interaction between rates, differentials and other council charges. The VFF wishes to prevent the local government rating burden from increasing.

The VFF would ideally like to see the rate cap applied to the revenue generated by each category – farm, residential, commercial/industrial.

Applying a CPI cap in an environment where properties are revalued every second year would ensure councils adjust the rate in the dollar they apply to each category to ensure the additional revenue generated falls within the CPI cap.

The VFF believes it is not an overly onerous task for councils to simply vary the rate in the dollar on each valuation pool – farm, residential, commercial – to ensure they each fall within a CPI cap.

However such a strategy is not without risks, given any attempt to provide farmers with a greater rate differential will be hampered by the inability of councils to redistribute a greater share of the rates’ burden on other categories – residential and commercial.

For example, a council may agree to extend the farm differential from 60 to 55 per cent of the residential rate, but is unable to re-cover additional revenue from the CPI-capped residential and commercial categories.

This is particularly relevant to shires where farmers pay a significant share of the rates. The CPI category cap would effectively deter some councils from extending differentials.

Of course councils can offset the revenue lost in applying a greater differential to farmers by generating more revenue from fees and the municipal charge or cutting its own costs.

8. **How should we treat supplementary rates? How do they vary from council to council?**

No response

9. **What are the challenges arising from the re-valuation of properties every 2 years?**

Variations in valuations have and always will result in variations in rate rises. Ultimately the best the state government and the ESC can do is ensure rate revenue generated from each category is kept within the CPI cap.
**The variation process**

10. **How should the variation process work?**

As already mentioned in response to question five the variation process needs to account for costs beyond a council’s control.

The VFF believes above cap variations fall into two categories:

- Costs not within a council’s control – leads to simplified approval process.
- Costs within council’s control – Full ESC approval and open for submissions.

11. **Under what circumstances should councils be able to seek a variation?**

**Exceptional circumstances**

Rural councils are far more vulnerable to the impacts of natural disasters, such as flood and fire. While any rate capping system needs to account for the cost of such disasters to councils, the VFF expects the Federal and State Governments offset the bulk of recovery and reconstruction costs.

Any council submitting an above-CPI application to the ESC in response to a natural disaster must include a 10-year financial plan outlining how it will bring its rates at or below the CPI cap.

**Cuts to Local Government Grant Funding**

The 2014 Federal Budget froze the indexation of Local Government Grants, costing Victorian councils $134 million over three years. Much of the impact has been on rural councils, who are more reliant on the grants funding.

The VFF accepts that any above cap variation based on factors outside a council’s control should go through a simplified approval process, while those such as increases in labor and service costs must be subject to far more scrutiny.

Above cap variations fall into two categories:

- Costs not within a council’s control – leads to simplified approval process.
- Costs within council’s control – Full ESC approval and open for submissions.
12. Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, changes in funding levels from the Commonwealth Government, changes in State Government taxes and levies, increased responsibilities, and unexpected incidents such as natural disasters), are there any other circumstances that would justify a case for above cap increases?

Firstly the VFF does not agree with the Government that “increased responsibilities” are exceptions that would justify above cap increases. There is a long history of local government taking on ever greater responsibilities for services that were previously funded by State and Federal governments. Often Federal or State funding is allocated to create a new council service, but then wound back over time. Too often local government responds by trying to meet community expectations on the continuation of this service by coving the funding shortfall at a significant cost to ratepayers.

By far the biggest cost to local government is employment benefits and on-costs, making up more than 40 per cent of most councils expenses. It is in this area that the VFF feels the ESC and government need to focus.

The VFF is concerned that many councils have EBA’s with staff already exceed the CPI. The VFF would also like to see greater scrutiny of management numbers and costs.

13. What should councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation? A possible set of requirements could include:

The VFF believe that the following considerations need to be made when the ESC is providing a variation:

- The council has effectively engaged with its community
- There is a legitimate case for the council requiring additional funds, as per comments in question 12.
- The proposed increase in rates and charges fits into its longer term plan for funding and service, for example the 10 year financial plan proposed in question three.
- The council has made continuous efforts to keep costs down and provides evidence on how it will do so in the future via its 10-year plan.
- The community should also be given the opportunity to submit direct to the ESC on any council’s above CPI variation.

Community engagement

14. What does best practice in community engagement, process and information look like?

Are there examples that we can draw from?


The VFF believes community engagement in regard to councils’ development of budgets is only one step in the process. The VFF believes the community should be given further
opportunity to submit their views on above-CPI applications direct to the ESC, given its role as the independent regulator.

Incentives

15. How should the framework be designed to provide councils with incentives to pursue ongoing efficiencies and respond to community needs? How could any unintended consequences be minimised?
As already mentioned the inclusion of a productivity factor, as used in NSW, is a valuable mechanism to promote greater council efficiencies.

The ESC should also publish a list of all councils’ annual rate rises, with links to the ESC’s determination on any council that gained an above-CPI variation.

Timing and process

16. A rates capping and variation process should ensure there is enough time for councils to consult with their ratepayers and for ratepayers to provide feedback, and for us to review councils’ applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with councils’ budget processes. We are interested in stakeholders’ views on how this can be achieved.

From the VFF’s investigation, the procedure employed in NSW via IPART for consultation and consideration of rates seems appropriate.

Transitional arrangements

17. What transitional arrangements are necessary to move to the new rates capping and variation framework? Is there merit in phasing in implementation over a two year period to allow for a smooth transition?

There is no need for any transition, given the CPI cap will not apply until 2016-17.

Roles

18. What are stakeholders’ views on the respective roles of the key participants? Should the Commission’s assessment of rates variations be advisory or determinative?
The VFF believes the ESC’s decisions should be independent and determinative. Ratepayers should have the opportunity to provide feedback to both council and ESC as deemed necessary in any one year.
Other matters

19. Is there a need for the framework to be reviewed to assess its effectiveness within three years’ time?
Yes, the VFF supports a review, which would report prior to the 2018 State Election.

20. How should the costs of administering an ongoing framework be recovered?
The State Government must fully fund the ESC to administer the framework. This is the case with IPART in NSW.

Other matters raised in earlier chapters

21. We are interested in hearing from stakeholders on:
   • whether we have developed appropriate principles for this review
   • whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important
   • supporting information on the major cost pressures faced by councils that are beyond their control and the impact of local government rates and charges

Of particular importance to the VFF through this rate capping investigation is a strong understanding of the difference in revenue and rate raising between councils in metropolitan areas against those councils functioning in regional areas. The sustainability of rural and regional local government revenue and services needs to be considered when rates capping is applied. Council rates are in effect a wealth tax, but for agricultural enterprises land values does not correlate to capacity to pay.