Dear Mr Delaney,

Re: Inquiry into Rate Capping Policy

Thank you for providing the Property Council of Australia with the opportunity to comment on the Environment and Planning Committee’s Inquiry into Rate Capping Policy.

The Property Council is the nation’s peak representative body of the property industry. Our 2,200 member companies are Australia’s major investors, developers and owners of property which contribute $182.5 billion to the Australian GDP. Approximately 500 of these members are part of the Victorian Division.

Members of the Property Council are major contributors to municipal rates, particularly within the inner metropolitan area and the CBD. We therefore take great interest in the Government’s efforts to develop a robust, fair and reasonable framework for local government rate setting procedures.

The Terms of Reference raised a number of relevant issues regarding local council rates policy, which we respond to below:

Successive above CPI rate increases by Victorian councils on ratepayers

The Property Council commissioned Urban Enterprise to provide a side-by-side comparison of changes in rate revenue for four inner metropolitan municipalities within the past five financial years. With one exception in 2012-13, all rate increases have surpassed changes to CPI for the same financial year.
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<td>City of Melbourne</td>
<td>6.7%</td>
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<td>City of Port Phillip</td>
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<td>City of Yarra</td>
<td>4.5%</td>
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<td>Change in CPI</td>
<td>3.1%</td>
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Note: Rate revenues shown for 2014-2015 for the City of Melbourne and the City of Yarra are based on budget projections.

Source: Property Council of Australia, 2015, “Inner Melbourne Rates Comparison”

The following figure shows the amount of revenue generated from rates for the four municipalities, which has increased steadily over the previous financial years.
Modernising valuation practices at local council level

Rates make up a significant portion of local government revenue and the outgoings paid by commercial building owners.

The Property Council’s Survey of Operating Costs (2014) shows that, for the Melbourne markets surveyed, local government rates and charges make up 14 to 20 per cent of the cost of operating a commercial building.

The Property Council therefore welcomes the State Government’s commitment to cap annual council rate increases at the Consumer Price Index (CPI).

However, to meet the State Government’s objectives in local government budgeting and service delivery, we believe this Inquiry also should seek to address the following issues:

- The lack of transparency around the methodology and evidence base for rate setting procedures, and,
- The absence of systematic monitoring of local government rating practices to ensure accountability.

In 2013, a Victorian Auditor General audit into the rating practices of local governments found “inconsistencies in the rating practices of councils and the quality and soundness of council rating decisions” (VAGO, Rating Practices in Local Government). Anecdotal evidence from our membership also confirms that similar commercial properties are being levied significantly different rates across municipalities.

In many cases, this variation in rating practices adds to the cost of doing business, which inhibits Victoria’s ability to compete for investment dollars both domestically and internationally.

A second concern around rating practice relates to the over-reliance of many local governments on rate revenue. An example is Victoria’s differential ratings framework, which targets particular property types on the basis of a perceived ‘ability to pay’.

This is problematic because:

- Asset wealth is not a clear determinant of capacity to pay. An owner occupier, unlike a landlord, would have fewer avenues for passing on additional rates to tenants through the building’s outgoings.
Asset wealth does not imply a bigger draw on resources. Indeed, many businesses make efforts to minimise usage of municipal services. Self-sufficient ratepayers which fall into this category include retirement villages, shopping centres and self-contained residential apartments to name a few.

There is little evidence available to suggest that the reasoning of local governments in relation to differential rates is supported by research or evidence, contrary to the best practice standards published in *Developing a Rating Strategy: A Guide for Councils* and *Victorian City Council Model Budget 2012-13*.

The Property Council represents a significant number of commercial property owners within the City of Melbourne, which operates a differential rating scheme favouring residential property owners. This structure is not only inequitable, but by placing pressure on commercial owners also undermines Victoria’s business competitiveness.

Victoria is already recognised for having some of the most punitive business taxes in the country, many of which are borne by the property sector. The impacts of increased taxes on commercial property will include the distortion of investment away from the CBD, as well as weaker returns on investments, to the detriment of millions of retirees who invest in property through their super funds.

**Recommendations for Local Government Rate Capping Policy**

The Property Council calls on the State Government to:

- Work with local governments to develop and implement a simpler and flatter differential rate structure that ensures greater equity across the business community.

- Commence a standard review cycle to monitor and evaluate public reporting and strategy setting by local governments, whilst clarifying best practice approaches.

- Apply a regulatory impact statement discipline to assess the financial impact of any decision by council to increase rates above CPI. Any local government wishing to increase rate revenue at a level greater than CPI should outline their record of responsible financial management and accountability.

- Initiate an asset recycling audit of all local government owned public buildings to identify all buildings, businesses and land holdings in local council ownership which could be sold to unlock funding for infrastructure investment.
The Property Council welcomes the Government’s commitment to improving local government rating practices through this Parliamentary Inquiry.

Should you have any queries on our recommendations, please do not hesitate to contact me at 03 9650 8300 or jcunich@propertyoz.com.au

Yours Sincerely,

[Signature]

Jennifer Cunich  
Victorian Executive Director  
Property Council of Australia