

28 August 2015

Local Government Rates Capping and Variation Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

By email: localgovernment@esc.vic.gov.au

Dear Sir/Madam,

Re: Local Government Rates Capping and Variation Framework Review

The Property Council is pleased to provide comment to the Essential Services Commission on implementing a Rates Capping and Variation Framework.

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 Australia's GDP. Approximately 500 of these members are part of the Victorian Division.

Each year, the property industry in Victoria contributes \$4.3 billion in council rates and charges. The experience of our members is that council rates are spiraling upwards at an alarming rate and that this trend must be urgently addressed using a fair, robust mechanism to keep rate rises at a reasonable level and encourage greater fiscal responsibility at council level.

We strongly welcome the proposal for rates to be capped at CPI and call for an independent government authority, such as the ESC to administer the cap and assess requests for variation.

Our response to the proposed design of this framework can be found below.

Response to Recommendation 1:

The Property Council is aware that the demographics of councils vary and would support a rate capping framework that does not extend to growth area councils. According to recent Government estimates, around half of the growth in Greater Melbourne to 2031 will occur in Victoria's designated growth area councils. Growth affected councils are therefore likely to face greater pressures on infrastructure spending and service provision relative to established areas. This projected impact should be factored into the rate capping framework to avoid a funding shortfall.

Response to Recommendation 2

Any exclusion for rates and charges under the rate capping framework is not supported by the Property Council as this undermines the framework's objectives of promoting greater accountability.

Since the purpose of rate capping is essentially to control the cost burden on the community, it should not leave rate setting decisions for certain charges open to discretion by exempting them from scrutiny.

A capping framework that is applied universally to all council rates would prevent councils from offsetting revenue shortfalls by increasing or introducing new rates and charges which fall outside of an otherwise limited scope.

We believe the cap should apply to general and municipal rates, special rates and charges, as well as service rates and charges.

Response to Recommendation 3

The Property Council favours a rate capping framework which keeps future rate rises as low as possible.

Response to Recommendation 4

The Property Council does not support an additional refinement to address council expenditure based on the Wage Price Index (WPI) increases reported by Department of Treasury and Finance.

Firstly, the proposed weighting of 40 per cent to the WPI in the calculation of the rate cap might be problematic as it does not adequately account for future fluctuations in the average labour component of council budgets. For example, this weight may grow should labour costs, on average, increase as a proportion of council expenditure (especially also if other costs, such as technology for example, decline). Under these circumstances, the weighting applied to the rate of increase in CPI should theoretically decrease.

The Property Council believes that in addition to a price control, the rate cap should encourage greater savings in labour costs, which constitutes a significant part of council expenses. In particular, accounting for labour costs explicitly may reduce the incentive for councils to consider alternative ways of reducing overall costs, for example, increasing the level of capital investment to achieve long run productivity dividends.

Secondly, it is unclear whether DTF adjustments to the WPI are made with reference to labour market estimates in the private sector, public sector, or both. For the purpose of a council rate cap, a WPI that includes private sector labour costs is perhaps not the best measure in understanding local governments' labour cost base.

Thirdly, it is considered that the efficiency factor of 0.05% is too insignificant to provide councils with sufficient incentive to pursue considerable cost savings and may actually understate the potential efficiency gains.

We encourage the ESC to adopt a simple rates cap based on adjusting the previous year's rates to the CPI which is a measure of price increase well understood by the general public relative to the WPI:

Annual Rate = (Previous year's rate) + (Previous years' rate x CPI)

Response to Recommendation 5

The Property Council supports this proposal, however, we call on the ESC to monitor those councils that substantially increase rates for the 2016 financial year ahead of the introduction of the rates capping and variation framework.

Response to Recommendation 6

The Property Council supports this proposal.

Response to Recommendation 7

Aside from the possible set of requirements proposed by the ESC, we encourage the ESC to 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. This could involve:

- Evidence that the council has first explored savings measures;
- Evidence that council has undertaken an audit of existing assets which could be recycled to unlock funding for investment; and,
- Evidence that the council expenditure over the past five years has not consecutively exceeded revenue forecasts.

Response to Recommendation 8

The Property Council supports this proposal.

Response to Recommendation 9

The Property Council agrees that the ESC should be the independent authority responsible for assessing all applications for variation; we believe its authority should be granted directly, rather than under delegation from the Minister for Local Government.

Response to Recommendation 10

The Property Council supports this proposal.

Response to Recommendation 11

The Property Council supports this proposal.

The Property Council looks forward to working with the ESC in addressing the issues outlined in the draft framework report. Should you have any questions relating to our submission, please feel free to contact me at 9650 8300 or jcunich@propertycouncil.com.au.

Yours sincerely,



Jennifer Cunich

Victorian Executive Director
Property Council of Australia