



Submission to the Essential Services Commission on “A Blueprint for Change” – Local Government Rates Capping and Variation Framework Review.

Date: 28 August 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 VFF welcomes the opportunity to provide comment on the draft report of the Local Government Rates Capping and Variation Framework Review.

The VFF has long advocated for change to the municipal rating system. The foundation of the rating system in Victoria is the principal that property value is a good measure of capacity to pay. There are fundamental problems with this principle when applied to farm land, including:

- Farming generally utilises a large amount of 'unimproved' land, and as a result municipal rates are a tax on a means of production.
- The value of farm land does not necessarily reflect the income potential of the land - agricultural land is not always valued on the basis of productivity. For example peri-urban land may be valued according to future development potential, while coastal land may be valued for aesthetic reasons rather than productive agricultural reasons.

As farm businesses have become increasingly aggregated the rating burden faced by individual farm operators has been compounded. Council budgets do not generally reflect the true cost of rates imposed on farm businesses. Councils only report on the average farm assessment, but most farm businesses receive more than one rates assessment. VFF analysis of this fact has shown that farm businesses on average pay 2.5 times more rates than other commercial businesses.

In its previous submission, the VFF argued strongly that there is a requirement to ensure that the burden of local government rates is not pushed back to farmers, who already shoulder a large rating burden in many rural and regional councils. The approach taken in the Draft Report, to cap local government rates at the average ratepayer, does not provide any assurance to farmers that the high rate bills that they are currently paying will be kept in check.

**Rate capping is only one component of the local government funding picture. Undertaking this review highlights the broader scope of funding than what comes from ratepayers alone. 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 through an inquiry into the fairness, equity of the local government rating system and sustainability of local government.**

## **Comments on the ESC draft recommendations**

### ***Draft recommendation 1 – One rate cap which applies equally to all councils***

The VFF is supportive of a single cap being utilised across all councils in the state for consistency and clarity.

We support this where individual councils have not been consistently rating above the long term average. Councils whom have a historical record of increasing their rates year on year, need to be looked at closely to consider if they are simply continuing on this trend unimpeded.

Our greater concern surrounds how the cap is applied – see recommendation 3.

### ***Draft recommendation 2 – General rates and municipal charges only to be subject to the rates cap***

The VFF supports the application of the cap to general rate.

We are comfortable with leaving service rates and charges, special rates and revenue in lieu of rates outside of the cap.

Under the proposal that compliance with the rate cap is decided on the basis of total revenue and the average ratepayer we so not oppose the inclusion of the municipal charge within the rates cap per se. However, the VFF believes that there is capacity for the flat charge applied on all properties in a municipality to be increased, to offset revenue collection through the various categories of general rates. NSW, South Australia and Tasmania have a maximum of 50%, with no maximum in W.A. and QLD.

Victoria is currently constrained through the Local Government Act to a maximum of 20% of revenue. We believe that this flexibility should remain within the cap and through the Local Government Act review, the VFF will advocate for Victoria having a minimum requirement of a 20% municipal charge with no maximum.

### ***Draft recommendation 3- Cap to be applied to the rates and charges paid by the average ratepayer***

The VFF do not support the application of the cap to the average ratepayer.

As the ESC accurately convey in their paper, taking this approach to the generation of the cap does in no way provide farmers with the confidence that their rate bill will be capped. The VFF agree that

there will be “many ratepayers who experience higher and lower rate changes than the notional ratepayer”<sup>1</sup>.

As the representative body for farmers we seek to ensure that the local government rates paid within the farm rating categories are limited, that large increases are not placed on farmers in any one year and that the overall revenue of the council is not unjustly shifted to the farm rate. The large proportion of our members hold large parcels of rateable land, but due to the land size and proximity to towns do not receive greater levels of service for the rates which they are paying. There is a clear equity imbalance.

Experience from caps that have previously been applied to local government rates have not operated in the favour of those ratepayers contributing under the farm rate. A total cap provides the ability for local councils to shift the rating distribution between categories of ratepayers. The VFF argue that to ensure that the municipal rating burden not unduly placed onto the farm rate, that the cap should be applied at each rating category. This would see the rate in the dollar within the category vary to reflect, at a maximum, the cap imposed for that one year.

***Draft recommendation 4- The annual cap should be a function of the increase in Consumer Price Index, Wage Price Index and an efficiency factor***

The VFF is supportive of a cap with a CPI base.

In our previous submission to the ESC, the VFF outlined our concern about the fact that many councils have pre-existing Enterprise Bargaining Agreements with their staff, with wage increases in excess of CPI. We have cautioned against the use of a differentiated factor as this is not clearly apparent to the ratepayer what the cap is and why it is applied and may result in a higher percentage increase than that allowed for under CPI.

This is exemplified in the introduction of the Wage Price Index (WPI) into the cap formulation. Introducing the WPI, with its rate of increase slightly higher than that of CPI, will for the next three years boost the rate cap applied to council budgets above that of CPI- and above the suggested pre-election cap committed by the Andrews Government.

The use of an efficiency factor is strongly supported by the VFF. It is general good business practice to ensure that an operation is running as efficiently and effectively as possible. Local council operations should be no different. Over time, the efficiency factor should be reviewed and increased where necessary to ensure continued streamlined council budgeting.

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<sup>1</sup> Draft report volume I; page 10

***Draft recommendation 5- The 2015-2016 rates (general rates and municipal charges) levied on an average property should be adopted as the starting base of 2016-2017***

It is difficult for the VFF to provide comment on the starting year as a base for the application of the rating cap. In selecting any year, we are by default accepting that the rates which were being levied on farmers in that year are deemed to be acceptable. Largely, this would not be the case if the 2015-2016 year was selected. Despite farm differentials being utilised by some regional and rural councils, there is still much more work to be done to bring local government rates in the farm zone to an equitable level.

For rural and regional councils, we need to find a long-term and sustainable solution to rural and regional Victoria's rating crisis. This can only be achieved through an independent inquiry into the fairness, equity of the local government rating system and sustainability of local government.

***Draft recommendation 6 – The framework should not specify individual events that would qualify for a variation, discretion to apply for a variation to remain with councils***

It is appreciated that there will be substantial variation between councils across the state in terms of the types of events, infrastructure and pressures which they will face and seek to pursue a rate variation.

Rural councils are far more vulnerable to the impacts of natural disasters, such as floods and fire, than their metropolitan counterparts. Some flexibility and support needs to be provided to local councils when events like this, which are well beyond their control occur. Where capital is required for the upgrade and reconstruction of damaged assets, financial support must be forthcoming from both State and Federal governments to ensure that there is not an unfair burden placed onto Councils – and consequentially ratepayers- for the reconstruction of capital assets.

Rather than specifying specific events that can be considered to be reasonable cause for seeking a variation, the VFF believes that there should be some parameters in place around the circumstances that councils should not be eligible for exemptions.

The VFF views the following events as circumstances which councils should not be eligible to seek a variation for:

- Increases to staffing costs.
- Non-legislated service provision – outside of the core business of local government
- Increases to general operating costs

***Draft recommendation 7 – Five matters to be addressed in each application for a variation.***

The VFF supports a high degree of transparency in any application made by a council for a variation to their budget, which will see them raise rates above the cap. The VFF support the five requirements to be provided before a variation above the cap could be considered:

- The reason a variation from the cap is required
- The application takes account of ratepayers and communities views
- The variation represents good value for money and is an efficient response to the budgeting need
- Service priorities and funding options have been considered
- The proposal is integrated into the council’s long –term strategy

Council must further provide evidence that they have made continuous efforts to keep costs down. It is essential that this is not just for the short term, but also takes a wider view into the forthcoming years. A 10 year financial plan should be required by all councils, but specifically required to be prepared and provided to the ESC to accompany any variation application. The plan must outline how it will continue to keep costs low into the future and to bring its rates back in line with the cap if a variation has been approved.

***Draft recommendation 8 – One year variations would be accepted by the ESC in the 2016-2017 year, with variation approval lengths increasing in subsequent years***

It is essential that there is a feedback loop process in place which provides community with the confidence that a one off variation will not spell the start of a gradual escalation of costs to ratepayers.

The community must be provided with the opportunity to provide direct feedback as ratepayers to the ESC as they are considering a draft budget put forward by any council.

If there is community support for a project that would require the local council to pay for that asset over a period of years, the ESC would need to consider the ongoing financial impost of this decision for ratepayers. As discussed earlier, a long term financial plan for the council should be mandatory.

The VFF does not believe that the length of time that the rates cap has been operational for should be a default for the ESC approving variations which may extend over more than one year.

***Draft recommendation 9 – ESCs decision making powers limited to accepting or rejecting an application***

The VFF supports the ESC in adopting an accept or reject approach to applications from local government on their annual budgets. The ESC is unlikely to be well placed to decide the best outcomes for a local government without a direct link to the community or indeed the resourcing to undertake this heightened level of assessment.

However, the ESC should play a role in providing clear advice to councils on the reason their budget or above cap variation may have been rejected. This will require the ESC to be adequately resourced by State government to respond to this need and provide effective support to local councils in putting forward an acceptable annual budget.

***Draft recommendation 10 – Monitoring and reporting annually on council’s adherence to the cap***

Of vital importance to the development of the rates capping framework will be the ability of ratepayers to have a clear understanding of how their local council is adhering to the cap.

The VFF are supportive of the publication of an annual rates report. Transparency through the application of the rates cap is vital and a compiled document of the trends across the state will be beneficial information – especially with a review to occur after the first years of the operation of the cap.

This reporting could complement the mandatory Local Government Performance Reporting Framework which will be able introduced in 2016

***Draft recommendation 11 – Monitor and publish and annual monitoring report on the overall outcomes for ratepayers and communities.***

The VFF are supportive of the publication of an annual monitoring report.

## **Detailed VFF Comments**

### **Adherence to the cap following a variation occurring**

Further guidance needs to be provided on how adherence to the cap will be achieved if councils are seeking variations to their budgets, to generate revenue above the level permissible under the cap.

If a variation is granted in any one year, the additional revenue which is above the designated rate cap must not be considered to be the baseline for the following years assessment. Assessment for compliance with the cap in the subsequent year must be based solely on the maximum permissible revenue under the cap in the previous year, plus the current years cap increase. It should not be permitted for variations above the cap to be used to boost rate revenue higher and higher.

To illustrate the above comments, we provide the following explanation where a 2% increase in revenue above that year's rate cap is sought in year two.

*Year One:* 2016-2017 year

Rate revenue set at 2015/2016 year revenue plus cap increase.

*Year Two:* 2017-2018 year

Rate revenue of the previous year, plus rate increase 2% over the rate cap

*Year Three:* 2018-2019 year

Rate revenue must revert back (at maximum) to the maximum cap compliant revenue of 2017-2018, plus the cap increase for the 2018-2019 year.

Notwithstanding this, local councils should be encouraged to further refine and streamline their revenue decisions.

### **The requirement for a review of the framework**

The VFF strongly supports the requirement for a mandatory review of the rates capping framework to occur. The VFF concur that a review after three budgetary periods with the cap in place would be reasonable to have sufficient qualitative and quantitative data available to sufficiently review the operation of the rate cap. Formal feedback from ratepayers and industry should be encouraged through any such review.

### **State government needs adequately resource the ESC**

Ratepayers should not have to shoulder any additional costs which may be applied to councils for the work which the ESC must undertake to assess compliance with the cap. State Government must ensure that the ESC is adequately resources to conduct the work which they have been charged with undertaking.

### **Allow ratepayers to forward submissions to the ESC**

Ratepayers should be provided with the opportunity to provide advice to the ESC on their views of their local council budget – especially if they have specifically provided a submission to their local council in the first instance. This does not need to be a formal assessment process, but rather provide a structure that allows the ESC to consider broader views than those of just specifically the local council. This can provide another source of information for the ESC to ratify how councils have sought the views of their community.

### **Local government needs to be actively liaising with their community of ratepayers to demonstrate community support.**

Where local government is seeking to pursue particular projects within their region, it is essential that their community of ratepayers are engaged in the deliberation and implementation process. The onus needs to remain with local councils to demonstrate that they have actively engaged with their ratepayers to explain their proposal, and provided ratepayers with the opportunity to understand why actions are taking place.

The VFF suggest that a sensitivity analysis could be utilised by local government and the ESC to undertake an assessment of the capacity of ratepayers in a region to be able to reasonably afford any hike in rates.