

Response to Local Government – Rates Capping and Variation Framework

Introduction

The aim of this response is to respond to Rate Capping and Variation Framework document.

Rather than oppose the proposed changes, it seeks to identify, and perhaps quantify how the existing property taxing system (Rates) included within a Council's revenue system, might be addressed within the constraints of a CPI (Consumer price Index) cap, but also taking into account the increasing use of solar PV by the community, and Councils' carbon reduction efforts .

This proposed solution may provide a new addition to Council revenue, that can leverage from existing State and Federal initiatives to support the wider implementation of renewable energy to replace existing fossil fuelled electricity generation by 2030.

The writer :

- has been a resident of the Mornington Peninsula since 1997.
- spent two years running a small business on the Mornington Peninsula.
- was employed as a senior manager and consultant in local government.
- Was employed as a technology architect and consultant with a major university.
- Was a Contractor with and consultant to various State Government Departments.
- Spent more than 10 years in strategic information roles in the finance industry.
- Completed Tertiary and Post graduate qualifications in banking, business technology and strategic and knowledge management .

Current Situation Local Government

Local governments in Victoria (and elsewhere) derive the majority of their revenue from property taxation.

The Mornington Peninsula Shire Council, for example, in its 2014/15 budget will derive, from all sources \$201.9 million, of which \$140.2 million is land and property based rates and charges, representing over 69% of their income.(Figure 1).¹

¹ Mornington Peninsula Shire is used throughout as an example

5.1 Operating Income

Income types	Ref	Adopted	Forecast	Budget	Variance	Variance to
		Budget	2013/14	2014/15	to Budget	Forecast
		2013/14	2013/14	2014/15	2013/14	2013/14
		\$'000	\$'000	\$'000	\$'000	\$'000
Rates and Charges	5.1.0	131,708	132,223	140,124	8,416	7,901
Statutory Fees and Fines	5.1.1	3,916	3,910	4,088	172	178
User Fees	5.1.2	23,269	23,604	23,639	370	35
Contributions	5.1.3	2,827	3,825	2,265	(562)	(1,560)
Contributed Assets	5.1.4	6,500	6,500	6,500	0	-
Grants - Operating (recurrent)	5.1.5	11,712	12,153	12,535	824	382
Grants - Operating (non-recurrent)	5.1.5	10	489	-	(10)	(489)
Grants Commission	5.1.6	6,466	6,610	6,516	50	(94)
Interest	5.1.7	1,700	1,568	1,525	(175)	(43)
Operating income before capital		188,108	190,881	197,193	9,085	6,312
Grants - Capital (non-recurrent)	5.1.8	1,450	4,330	4,758	3,308	428
Special Charge Schemes Income	5.1.9	1,354	1,484	-	(1,354)	(1,484)
Operating income after capital		190,912	196,695	201,951	11,039	5,256

Figure 1. Extract Mornington Peninsula Shire Council Budget 2015-15

Councils, in the past have generally increased their property rates every year, by Council determination based on property valuations usually based on the local area property market values.

The decision to cap rates at the Consumer price Index, whilst superficially attractive to the average householder, fails to take into account the fact that Councils have over time, acquired a burden of ageing infrastructure as identified by the Asset Renewal Gap confirmed by the Auditor General, a backlog of unpaid defined benefits superannuation, and increasing services in health and community care, and well as other initiatives devolved from State and Federal Governments.

At the same time, according to the MAV (Municipal Association of Victoria), "Federal funding cuts to financial assistance grants have had a massive impact on council budgets, with the government announcing a freeze on indexation of the grants, commencing 1 July."

Current Situation Renewable Energy

Solar PV²

According to Tony Seba³, “solar has passed the early stage of the adoption lifecycle in Australia and Germany. In Australia, solar has a national penetration of 11 percent. Green Energy Trading⁴, Victoria states penetration is a little over 17% and climbing.

Battery Storage

The State Government is well aware of the developing advantages of energy storage: <http://reneweconomy.com.au/2015/victoria-energy-minister-signals-focus-on-battery-storage-44817>

Current Situation Fossil Fuel Electricity Generators

The SRMC (short run marginal cost) of Australia's coal fired power stations, Hazelwood, Loy Yang A and B, are revealing.

According to the "Fuel resource, new entry and generation costs in the NEM" report⁵ prepared for the Inter-Regional Planning Committee in 2009, the SRMC without carbon costs in 2014-15 for Hazelwood was \$2.30 per MW generated (with carbon cost \$43.57), Loy Yang A, \$2.08 without carbon, \$35.30 with, and Loy Yang B \$ 5.70 without carbon cost and \$40.23 with carbon cost included.

In other words, the cost of carbon per MW generated in 2014-15 is expected to total for these three power stations, a total of \$119.20. What is worse, this cost is estimated to increase to \$156.54 in 2020, and \$210.63 in 2029.

The recent closure of Anglesea power station brings these costs into focus. Anglesea's SRMC without carbon was \$5.73, and its SRMC with carbon was \$38.40, which is very close to Loy Yang B's costs. After Anglesea, it is the highest polluting, highest cost power station in Victoria, although Hazelwood is still the worst in terms of volume of CO2 emissions.

By closing, Anglesea would have received approximately \$53 million in compensation. In comparison, closing Hazelwood, Loy Yang A & B will attract nearly \$1.25 billion in compensation under ESAS (electricity sector adjustment scheme).

Current Situation Local Government Carbon Neutral Schemes

Several Councils have implemented Carbon neutral schemes. Many resemble the City of Moreland's “Zero Carbon Evolution”⁶, and that Council is currently credited a carbon neutral.

The Mornington Peninsula Shire is currently calling for public input to its “Achieving Carbon Neutrality” options paper, to move toward its long term commitment to carbon neutrality.⁷

2 Disclaimer: The current situation in Renewable energy is changing daily due to rapid and ongoing development in solar PV and battery technologies.

3 Tony Seba: Clean Disruption of Energy and Transportation. Published 2014.

4 <http://greenenergytrading.com.au/news-events/solar-trends-across-australia>

5 <http://www.aemo.com.au/~media/Files/Other/planning/419-0035%20pdf.pdf>

6 <http://www.energymatters.com.au/renewable-news/moreland-victoria-solar-em4807>

7 http://www.mornpen.vic.gov.au/Whats_On/Your_Say/Have_Your_Say_-_Carbon_Neutral_Options_Paper

The Shire's current emissions profile is made up of 48% landfill emissions, 20% electricity use, 28% streetlighting and 4% miscellaneous according to a consultants report.

The aim of the program is to become accredited by the Federal Government using the National Carbon Offset Standard⁸, which involves purchasing offsets that provide no direct benefit to the Shire.

What the analysis of the paper has shown is that “significant carbon reductions can be made through actions which require significant capital investment but lead to energy and operational cost savings that pay for themselves over time.”⁹

It was estimated that to achieve carbon neutrality would cost Mornington Peninsula Shire approximately \$15.5 million in capital expenditure over the next 10 years.

Issues

State/Local Government

1. Councils will potentially lose revenue by basing rate income on CPI rather than property valuations.
2. Councils need to reduce their reliance on rating income over time.
3. Council revenue has been reduced by cuts in Federal grants.
4. State Government provides grants for capital expenditure, rather than operating expenditure, except in cases where there is a specific target that requires human resources and operating costs are known.
5. State Government has indicated a commitment to renewable energy investments.
6. Local Government is actively seeking carbon neutrality.
7. Carbon neutrality is generally an expenditure reduction project rather than a revenue raising project.
8. Purchasing Federal Government Offsets does not benefit Council residents.
9. Councils need to source capital funding from revenue to achieve carbon neutrality.
10. There is no financial recognition at local government level of resident's investment in solar PV.
11. Councils need to maintain revenue to maintain services.
12. Currently there are few opportunities for Councils to develop new sources of revenue collection.

⁸ <http://www.environment.gov.au/climate-change/carbon-neutral/carbon-neutral-program>

⁹ Page 29 – Mornington Peninsula Shire Carbon Neutral Options Report

Opportunity

It is important to understand that profits from solar PV power generation come almost exclusively from capital expenditure whereas profits from coal power generation come from land and capital.

Rates based on land collect some of the profit in the ground, through higher rates charges on the value of the land, whereas rates based on CPI collect some of the profit from human endeavour, and would have a profound economic effect on Council revenue, as outlined on page 8 of the Consultation paper.

This shifting of the tax base creates an economic impact which clearly impacts councils when the CPI index inflates and conversely, when it deflates. Whilst such an arrangement might be appropriate for services associated with tourism, health and education, it substantially affects urban renewal, in terms of capital expenditure.

The process of urban renewal is vital, and often more appropriate buildings are constructed that take advantage of modern design and energy requirements. Renewable energy, particularly solar PV provides a means of shifting the tax base, as it's marginal cost is nearly NIL, i.e. it is now competing almost on level terms with fossil fuels.

By linking municipal rates in part to renewable energy, and promoting urban renewal, the behaviour of ratepayers can be changed to one that is more environmentally sustainable. In addition, by linking land rates to solar development, economic development will also be stimulated.

Methods

The costs of fossil fuel generation continue to increase, but is gradually giving away to renewable energy. The old centralised power architecture of the 20th century is giving away to renewable energy architectures, where everyone is financing everyone to build smaller, distributed power plants everywhere.

Similarly, Councils must move with the times and develop new ways of leveraging these new architectures. Because renewable energies require only capital, and operating costs are nearly ZERO, Councils are uniquely placed in their communities to firstly, reduce their carbon footprint, but more significantly, to develop new fee paying services and rating strategies based around renewable energy.

Carbon Neutrality

These initiatives are welcome but, as with purchasing external carbon credits, tend to be inwardly focussed on council and reducing its expenditure.

Solar PV Bulk Buying

This has been tried in various forms but has not always been successful. Whilst it attracts ratepayers' capital, the feed in tariffs are fairly poor. Councils could supplement the feed in tariffs, by providing direct incentives to buy solar PV by providing a rates discount.

Capital Projects

There are two types of capital projects that could directly benefit Councils

These facilities, once built, can place a Council in a position where it can generate a revenue stream to either support its operating costs (in the case of solar, almost NIL), and to supplement its rating income.

1. Waste Disposal Facility

These come in many forms ranging from landfill, to incineration. All produce the means to generate renewable energy that can be used to power the facility or to be sold back into the grid.¹⁰ A further saving is the reduction of emissions from council vehicles needed to transport the refuse, often to distant landfills.

2. Solar/Storage Facility

Councils generally have swathes of land available, such as old landfills that cannot be built on. With access to capital, Councils are therefore in a very good position to build solar farms to either manage directly, or to outsource to an electricity provider. It also provides Council with an avenue to directly benefit its community by using the provider to sell the electricity to its ratepayers and residents at a discount.

The Sunshine Coast Council¹¹ in Queensland is one interstate council that is taking up this initiative. The project details are published on its website and lay out in detail, the requirements for the project to progress.

Conclusions

There is no doubt that, given the state of the property market, the increasing burdens on ratepayers, and the “locked-in” revenue stream, Councils have to reduce their reliance on land based rates. However, there is a clear price to pay for shifting the local government tax base from property rates.

That price is potentially poorer services to residents, decaying infrastructure and burgeoning debt fuelled by dead money commitments and legacies such as defined benefits superannuation.

Until now, renewable energy, particularly solar but also wind, have not been cost competitive with fossil fuels. Now that that stage has been reached, the only impediment to the implementation of renewable energy to replace costly fossil fuelled power has been capital, as operating costs, unlike fossil fuels are nearly zero.

This places renewable energy squarely within the ambit of State Government to provide access to capital, that will provide revenue opportunities for local government to offset the revenue reduction brought about by the removal of land based rates as revenue.

This is an opportunity to turbo charge the widespread application of solar PV and energy storage technologies by shifting the local government tax base into an revenue structure suitable for the 21st Century.

¹⁰ <http://www.r-e-a.net/pdf/energy-from-waste-guide-for-decision-makers.pdf>

¹¹ <http://www.sunshinecoast.qld.gov.au/sitePage.cfm?code=solar-farm>

Submitted by:

Ken Dyer
Rosebud West

13th May 2015