

13 May 2015

Local Government Rates Capping and Variation Framework Review
Essential Services Commission
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Dear Essential Services Commission

Local Government Rates Capping Framework (Framework)

I support the proposal for local government rates and charges to be capped to the rate of inflation. We are concerned that the rise in rates over the last 10 years is excessive having increased by 100% which is more than the increase in the cost of nearly all other costs or services incurred by Victorians.

This exorbitant increase is placing a financial burden on families, individuals and businesses. Excessive rates increases have continually occurred over the last 15 years since Council amalgamation and simply cannot be justified or sustained into the future. Rates in Victoria have reportedly increased more than other states and this makes business uncompetitive.

Annual rate-pegging has been in place in New South Wales for more than 35 years, is supported by both sides of politics and this provides a **workable model** on which a rates capping framework can be based. The rate peg is set by the government's Independent Pricing & Regulatory Tribunal which determines the maximum percentage amount by which a Council may increase its general income for the year.

The NSW rate peg is based on a Local Government Cost Index (LGCI) which measures price changes over the past year for goods, materials and labour used by an average Council. A productivity factor is deducted from the LGCI to strike a balance between ensuring that councils can meet the increased costs of delivering services resulting from price changes and ensuring that Councils share productivity gains with ratepayers.

The Municipal Association of Victoria also prepares a Local Government Cost Index which used as a benchmark to measure rate increases. However in 2013 the Victorian Auditor-General (VAGO) indicated that Councils are generally dissatisfied with the existing Local Government Cost Index.

The Essential Services Commission's Framework for capping of rates should be consistent with the VAGO report which stated: "A suitable and agreed sector cost index should be developed and used by all councils to promote greater transparency and comparability of increases in rates and charges". The Framework must include a productivity factor as is allowed in NSW.

Rates and charges are not the only means by which Councils receive an increase in annual revenue. For example, Councils also receive the benefit of supplementary income from rates and charges as new subdivisions and/or new houses and developments are completed. These additional sources of revenue should be considered in the development of the Framework.

If Councils have special circumstances and wish to increase rates more than the cost of inflation then the Framework should ensure that Councils have to rigorously justify the increase. It should not be open slather like it is now. Any such increase should have a "sunset clause". That is, the increase should not continue ad-infinity but should be specific for the term of the special circumstance.

Additionally the Framework should ensure that Councils should not be able to subvert the rate cap using methods such as increasing or introducing new charges and/or increasing borrowings without rigorously justifying the increase.

Annual Rates Notices should itemise these special circumstances charges so that the cost is clearly indicated to ratepayers who would also be able to determine when a special charge should cease.

All Councils are required to submit their budget to the Minister before 31 August each year and the *Local Government Act 1989* (Part 8A, clauses 185B and 185C pages 254-256) states that the Minister may limit income from rates and charges, and councils must comply with the Minister's direction. However, successive Ministers have failed to limit rates and charges increases.

The *Local Government Act 1989* (Division 3, clause 208) also requires that a Council must comply with Best Value Principles which includes meeting with quality and cost standards, be responsive to the needs of the community, and achieve continuous improvement in the provision of services for its community, be responsive to the needs of its community, and must take into account an assessment of value for money in service delivery.

The Essential Services Commission must ensure that Framework mandates clauses 185 and 208 of the *Act* and includes a provision which will ensure that Local Government Victoria will carry out its responsibility in relation to these clauses and the Framework.

Yours faithfully



Sonja Terpstra