

28th August 2015

The Essential Services Commission
Attention: Ms Robyn Keely & Mr Andrew Chow
Email: localgovernment@esc.vic.gov.au

Dear Ms Keely and Mr Chow,

Re: On behalf of the ESC local Government Rate Cap & Variation Framework Review.

1. Thank you for providing a copy of the Blueprint for Change, Local Government Rates Capping and Variation Framework Review Draft Report, Volume 1, July 2015.
2. This followed earlier publications and publicity from the Chairman, Dr Ben David and discussed - Emerging Issues, "*What should the Cap be?*", "*Variation Process*", "*Cost Recovery*", "*Why is it important to get it right*".
3. Accordingly, I have read the Terms of Reference as set out under Items 1 to 4 inclusive and 5 to 7 inclusive, and further comments including those of the Minister for Finance, dated the 16th of January 2015 last. In particular, the Draft Report Volume 1 has been most helpful.
4. While not wishing to deal individually with many of the Items within the Draft Report, I now refer to Page 42, 6.2, "*What is still required to really drive efficiency*".
5. In reaching this stage of your process, I think it may be of assistance to you to extend your review of the available literature back to prior publications and I refer you to:
 - I. The Commonwealth Grants Commission – review of States and Territories General Revenue Grant Relativities Discussion Paper – November 1991.
 - II. Extract from the Valuer – January 1984, published by the Australian Institute of Valuers – the contents by the then Honourable Mr Justice-Else Mitchell – "*The Evolution of Local Government Rating Systems in Australia*".
 - III. The Commonwealth Grants Commission Report on the Interstate Distribution of General Purpose Grants for Local Governments- published 1991.

- IV. The Commonwealth Grants Commission Report on State Tax Sharing Entitlements 1981, Volume 1 – Main Report.
 - V. Transcript of Proceedings – Local Government into the 1990s Economic Development Conference held at the Heidelberg Centre, July 1987, with the undertaking from Jim Symons, the then Minister for Local Government, to again work together in bringing to Local Government and the State the benefits of the outcome of such a conference.
 - VI. Assessment of Local Government Revenue Raising Capacity – Productivity Research Report – April 2008, - setting out Terms of Reference, the number of the assumptions and outcomes thereof (a most useful document).
 - VII. Forward Direction Statement for the Valuer General Victoria – Property Valuations for the State of Victoria and the Valuation for Rating and Statutory Purposes Best Practice Process.
6. The benefit and background of these various Reports brings us to the present and it is important to note, and your Review Process would benefit from, the relevant experience from the Valuer General's Office – Victoria and their insights and supervision over the period from 2000 to 2002, 2002 and 2004 and on a biannual basis up to the present date, and now at levels of value to be finalised and returned as at the first of January 2016 next.
 7. This experience and the details thereof and the insights over the various municipalities, both within Melbourne and Metropolitan Areas, Regional Centres and Rural Areas take into account the Application of the Valuation of Land Act and the Local Government Act, and show the Valuation Process of Rateable Property being captured and the consequences of variables and market forces, leading to Capital Appreciation (?) and different levels of growth, together with expenditure, population growth, rate number and value of building permits issued, supplementary valuations and the like.
 8. Thus it will be seen from a careful review of the above information that Council Rates on a biannual basis usually have the benefit of addressing a rateable and taxation base, showing substantial capital appreciation and growth.
 9. This growth can be captured in the Rating Process, not necessarily by an increase in the rate in the dollar or the application of special rates, differential rates or further charges or capping. This is an area that Page 42 at Item 6.2 points to, and beyond to 6.4, seek to deal with.

10. However, in the context of Local Government, the argument will always continue that in the context of adequate funding, that Local Municipalities again and again, are being required to pay for many of the services, supply and reticulation of infrastructure and other charges, which more properly should be supported by State and Commonwealth Grants or Tax Rebates.
11. Thus in terms of the relativity of the interests over Victoria of Municipalities in various stages of their development and needs, clearly there are a number of municipalities who cannot enjoy the benefit of the Urban Metropolis, nor indeed it needs to be said, some of the difficulties of that Urban Metropolis.
12. Thus in general, Rating Strategies adopted by Council have two levels of application:
 - a) the Rateable Base, i.e. the valuation under the provisions of the Valuation of Land Act and the Local Government Act of all rateable property, within that particular municipality, and having regard to:
 - b) the application of the Rate based upon the different classes and description of property, together with additional charges appropriate to cost recovery, based upon administration and associated costs by the Council, and applicable to each rateable property.
13. Within these principles, unless they are clearly adhered to, then double-dipping will occur, and the efficiency and effectiveness of a special rate or charge, or indeed rate capping will be diminished and be regarded as an unfavourable constraint or impost to people and rate payers so affected.
14. Within the Local Government Act there are provisions for rebates and/or incentives in terms of the economic development and the particular desire to encourage property owners and investors to improve and invest in commercially-zoned areas and industrial development and become a feature of a growing and supportive community commitment.
15. However, unless they are of a wide community benefit in terms of increasing employment and of lasting investment, it is submitted that Councils would be well-advised to be most selective in entering into any such Rating Agreement or Rate Offset.
16. However, I do not agree on the limiting features as proposed within the Draft Documents, as one of the benefits of a soundly-based Rating Agreement, to encourage economic development and employment, is certainty over the period of time of the construction phase, completion phase, commissioning phase and mature phase of major plant and process systems. Over the years I have been involved in such negotiations and the completion of favourable outcomes on behalf of major industrial process, plant and the like within a number of municipalities in Victoria.

17. The remaining point, I wish to suggest a further discussion being required is in relation to the interface between Urban Planning Boundaries. This creates conflict of interest and other disadvantages, and the Development and Planning Process for soundly-based investment becomes prolonged, difficult and expensive. Councils, within their structure, have an obligation to property owners and rate payers to deal fairly and promptly with Development and Planning Applications.
18. An attitude has crept in of delay, lack of clarity and dissension. The Planning and Development Process has become notorious for delays. The VCAT process in many respects does not perform well and there seems to be a complete disregard of the time value of money, talent, work and productivity.
19. People will vote with their money, and where difficulties appear beyond reasonable resolution there will be a sequential shift to Municipalities which are more supportive and sympathetic to growth in its various forms. Thus, a substantial shift in the Rateable Base can occur, e.g. the closing down of the Car Industry and the closing down of the Point Wilson Aluminium Plant. Thus Draft Recommendation 7 and Draft Recommendation 8 and 9 require substantial reworking. Nobody wants another layer of administration if it cannot deliver benefits such as higher productivity, equity and fairness in a timely manner.

I should be pleased to discuss a number of the above suggestions with you if so required, and wish you well in your continuing endeavours in these matters.

Please acknowledge receipt of this letter.

Yours sincerely,

John Wallace.