State Government of Victoria: Department of Jobs, Precincts and Regions

Final Report: Local Government Rate Capping Mechanism Review

December 2021

VICTORIA State Government | Jobs, Precincts and Regions

Grosvenor™ PUBLIC SECTOR ADVISORY

FINAL | CONFIDENTIAL

Executive Summary

A statistical review triggered the review of the rate cap mechanism, administration and process

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INTRODUCTION AND BACKGROUND

The Local Government Rate Cap was legislated in Victoria in 2016 and is intended to balance the long-term interests of ratepayers with the financial sustainability of Victorian Councils. Local Government Victoria, an arm of the Department of Jobs, Precincts and Regions (DJPR, hereon referred to as the Department), is responsible for the legislative mechanism for rate caps as set out in Part 8A of the Local Government Act 1989 (LG Act 1989).

It works closely with the Essential Services Commission (ESC) which administers the system by:

> providing annual advice to the Minister for Local Government on the setting of the rate cap; and,
> assessing applications for a higher cap.

Part 8A of the LG Act 1989 sets out the functions, responsibilities and powers of the Minister, the ESC and councils. Section 185G requires that a review of Part 8A of the Act is completed by 31 December 2021, and each four years after that, to determine:

> whether the mechanism for setting a cap on rates set out in Part 8A of the LG Act 1989 is still appropriate; and,
> whether Part 8A of the LG Act 1989 is effective or needs to be amended.

Grosvenor Performance Group (GPG) was engaged by the Victorian Government to conduct an independent review based on a defined scope. The review sought to review the **rate cap mechanism, administration and process** addressing the scope specified.

PROJECT SCOPE

Part 8A, Section 185G Review, states:

(2) The purpose of the review is to determine—

(a) whether the mechanism for setting a cap on rates set out in this Part is still appropriate; and

(b) whether this Part is effective or needs to be amended.

In addition, to assess all parts of the rate cap framework, and make findings and recommendations with specific reference to:

1. **the provision of advice by the ESC and Government agencies to the Minister for Local Government in the setting of the rate cap (s 185D of the Act);**
2. **the use of the base average rate as the basis for applying the rate cap (s 185B of the Act); and,**
3. **the process by which councils apply to the ESC for a higher cap and a decision is made by the ESC, including the timing, appropriateness of guidance and other communications provided by the ESC as part of the process (s 185E of the Act).**

OUT OF SCOPE

The review will not consider:

> the Government's policy of capping local government rate increases in line with the Consumer Price Index (CPI);
> the quality or merit of previous individual applications by councils to the ESC for a higher cap (both successful and unsuccessful) or a review of any decisions by the ESC with regard to individual applications by councils;
> the previous decisions by the Minister for Local Government in setting the rate cap amount;
> the matters that were within the scope of the 2019-20 Local Government Rating System Review including:
- current local government rates and charges levied under the LG Act 1989 and a number of other pieces of State legislation;
- the rating system's interaction with the State's taxation, valuation and other systems;
- current rating exemptions and concessions;
- the autonomy of councils to apply the rating system to meet local needs; and,
- current exemptions and discounts for local government rates.

Source: Part 8A, Local Government Act (1989), Specification of Requirements (2021),

Overall, the findings support that the rate capping mechanism, process and administration is appropriate, efficient and effective

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OVERVIEW OF KEY FINDINGS

Overview of the rate cap mechanism

> the rate cap mechanism drove impacts aligned to the policy objectives whereby greater revenue and cost management was reported without placing councils in a position of distress. The mechanism is flexible and enables other levers including the option to apply for variation

> outside factors such as the valuation process have a great impact on the rates charged at the individual ratepayer level, contributing to the lack of understanding by ratepayers of the mechanism. This is further exacerbated by a lack of understanding of how the rate cap announced each December is implemented

> a consequence to the rate cap mechanism is that it encourages the separation of rates and charges (e.g., waste charges as a separate line item on the rates notice). Councils who have ratepayers that can pay more have access to more services than their lower socio-economic counterparts

> the provision of the review in the LG Act 1989 was appropriate. Another review is recommended to assess long-term impacts with particular focus on the financial position of councils. Particularly, as most councils reported increased trade-offs between CAPEX and OPEX[1] spend, there is a greater need to monitor this and consider its impacts in the long-term

> barriers to effectiveness of the variation process included political roadblocks and possible media repercussions, as well as stigma surrounding the ESC (for those that have not worked with them) and the perceived difficulty of the variation process. The short timeframes to apply also serves as a barrier for some councils. As a result, councils are more likely to use alternative revenue raising and cost-cutting measures

> the variation process allows councils to apply based on their long-term financial needs. However, it was reported that councils are reluctant to commit to wage increases up to three years in advance due to income uncertainty driven by annual rate cap announcements. This reflects that there may be a lack of maturity (in whole or in parts of) the sector, or in understanding of alternative options

> the mechanism requires councils to slow down the implementation of supplementary valuations in April or May in order to ensure compliance with the ESC resulting in less supplementary incomes. The compliance process is associated with negative repercussions, resulting in fear of non-compliance

> ESC is viewed as consistent, positive and enabling to the sector (to those that have worked with them) and is overall appropriate to providing support to the sector.

Setting of the rate cap

> the legislative provision of the LG Act 1989 for setting of the rate cap is:

— appropriate to the mechanism and the process of setting the rate cap is followed in line with the provision of the LG Act 1989

— flexible as it allows for the change in announcement dates as well as the provision of a rate cap or multiple rate caps per council type or groups of councils should it be required

> largely, councils, sector stakeholders and some government representatives suggested a change in timelines in some form or the other to reduce the pressure on councils, and provide more certainty

> the provision of advice to the Minister in setting the rate cap is appropriate and effective. However, transparency and demonstrated consideration for the advice provided by the ESC was mentioned as an area for improvement

> furthermore, stakeholders reported a lack of consultation by the ESC in informing the provision of advice to the Minister.

Calculation of the rate cap

> councils reported that CPI[2] did not represent their cost drivers. A comparison of whether other indices outside of CPI could be used were explored to augment the current base. The modelling of other standard indices was found inappropriate as it creates greater variance and therefore, greater uncertainty in the rate cap calculated

> efficiency factors were originally included within the ESC's advice to the Minister. Similarly, the Wage Price Index (WPI) was previously included as a weighted item. The Minister had elected to exclude the efficiency factor and WPI weighting in setting the rate caps of previous years. The ESC conducted a review of the calculation and found that using CPI alone had the same net effect as the inclusion of WPI with a discounted efficiency element in FY16/17 and 2017/18[3]

> a historical review of rates and charges income in relation to expenses showed that rates income has always required additional revenue in order to meet expenditure costs prior to the introduction of the rate capping framework. Since its introduction, rates have remained relatively stable with an increase in waste charges noted[4].

Process and administration

> guidance provided by the ESC is clear that applications must demonstrate the statutory objectives and address the required legislative matters. The ESC's interpretation of the legislation and its expectation of applicants consistently references the legislation when explaining the application process to illustrate its alignment to the legislation

> the language used in the guidance and support material is appropriate for a layperson without specialist knowledge on the rate cap process to understand and it provides clarifying statements. The ESC are aware of factors outside the application process that can aid or burden the application process and address them in their guidance. The material also contains a multitude of previous application examples and samples of the ESC's expectations. The ESC provides guidance in varying forms for councils in all stages of application. Uncertainty was raised in future applications regarding the community consultation provisioned for in the LG Act 1989 will align with the community consultation provision of the LG Act 2020.

Notes: (1) CAPEX: Capital Expenditure; OPEX: Operational Expenditure; (2) CPI: Consumer Price Index; The CPI utilised is the forecast CPI in the State Government Budget Papers (released in December); (3) However, the ESC recommended an inclusion of the WPI up to FY20/21 to account for inflexible fixed costs and labour costs
Source: Grosvenor analysis; (3) Advising a local government efficiency factor – final paper. ESC (2018); (4) See Appendix E

Three key options are available to alleviate timeline pressures while enhanced communication can create shared understanding across the sector…

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THEMES		RECOMMENDATIONS:
A Time pressures experienced between the period of the variation process and finalisation of the budget that Councils adopt	1	**The Minister for Local Government to announce an earlier cap using the forecast Consumer Price Index (CPI) published in the Victoria State Government Budget Papers (released in May)[1]:** The May CPI forecast should replace the CPI forecast published in Victoria State Government Budget Papers (released in December)[2] in informing the rate cap. Variance between the two figures are relatively minimal[3]. This would allow for up to an additional seven months for the application for variation to the ESC allowing both Councils as well as the ESC more time before the budget is finalised in June. Additionally, an announcement in May would allow for the rate cap to be used as an input into the council's budget planning process noting that the process varies council to council (typically commencing between September and November for the following financial year).
	2	**Councils to begin their planning earlier and utilise a projected value:** Aligned to the LG Act 2020, councils are required to complete long-term financial planning (10 years). Part of this process would require councils to make assumptions on the forecasted CPI published in the Victoria State Government Budget Papers, in order to account for the rate cap. Similarly, should the ESC allow for earlier applications, applications can be based on the long-term financial needs as well as the May CPI forecast as an indicator for the December CPI forecast as these figures have historically been closely aligned[3].
	3	**ESC to review applications for variation all year round:** To allow councils to apply to the ESC for variation ahead of the January timeframe, providing more time for application submissions as well as application processing ahead of the June date for budget finalisation.
B Communication and understanding of the sector	4	**The Department to provide clear terminology and an explanation of the mechanism:** The current terminology utilised differs across stakeholders. For e.g., the ESC refers to the mechanism as the Fair Go Rates System. It is recommended that the Department clarify and use the terminology and explanation to enhance understanding of the mechanism by the sector (inclusive of ratepayers). The explanation should also clearly delineate roles and responsibilities amongst stakeholders. This should facilitate shared understanding across the sector.
	5	**The Department to centralise communication resources of the mechanism at Minister or State level:** The current scenario requires all stakeholders to explain the rate capping mechanism, which is not executed consistently. It is recommended that the information is best placed to be centralised through the Department (all resources utilising the same terminology, explanations and videos) that other stakeholders could reference and share.
	6	**The Department to strengthen support and education around the variation process by supporting the ESC in its annual roadshows:** Currently, there is a stigma surrounding both the ESC (as an enforcement agency) as well as the variation application process. The Department should show visible support of the variation process through joining the ESC in its annual roadshows as well as to engage with councils on the rationale behind the variation process and facilitate greater understanding of the rate capping mechanism. This may reduce barriers to application by councils that may be blocked politically (at council-level) or fear media repercussions by encouraging the use of the process. Political and media barriers may continue to persist; however, education and engagement efforts may reduce the reluctance to apply for variation.
	7	**The Minister for Local Government to communicate rationale behind rate cap decision:** The Minister currently requests advice from the ESC on setting the rate cap, which is provided to the Minister in December prior to the announcement. The Minister then announces the rate cap through a general or special Order. However, the announcement has historically stated the rate cap with no explanation. To enhance transparency and support additional buy-in, the Minister should provide an explanatory note to clarify the advice considered in arriving at the final rate cap.

Note: (1) the figure is typically released in May each year, and will be referred to as the May CPI forecast hereon. However, the May CPI could also be released at a later date due to special circumstances; (2) heron referred to as the December CPI forecast
Source: Stakeholder analysis, Grosvenor data analysis; (3) see evaluation area 2 and appendix F

…with greater engagement with, and continued monitoring of, the state of councils is required to ensure long-term sustainability

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THEMES		RECOMMENDATIONS:
C Greater engagement of the sector	8	**ESC to include sector feedback in the provision of advice to the Minister on setting the rate cap:** The current advice from the ESC to the Minister in setting the annual rate cap does not include any feedback from the sector. The ESC could note feedback from consultations held throughout the year or the feedback from the biennial report (if stakeholder feedback was collected) in the provision of advice to the Minister in setting the rate cap. This would allow for greater sector buy-in as the views of the sector would have been captured as an input.
D Continued monitoring of the state of councils	9	**The ESC to conduct 10 yearly assessments of the financial state of the sector:** The current scenario allows for a four-yearly government review of the impact of the rate cap mechanism. As the ESC conducts the biennial reviews, it is recommended that the ESC would be best placed to also conduct the four-yearly review. However, it also recommended that the next review should take place in 2026, measuring the impact at the ten-year mark instead of in year eight (2024). Specifically, the ten-year review should also include the financial state of the sector (including the spend spread of CAPEX and OPEX historically and projected) and the impacts thereof. Other stakeholders (such as VAGO) already monitor and report on financial sustainability of councils. It is recommended that the ESC engage with and incorporate these indicators into their existing reports and processes to provide a holistic view on the financial state of the sector. The ESC is best placed to complete this as they already run a biennial process. Further reviews could take place at ten-year intervals accommodating for the maturity of the sector and length of time for changes to be experienced.

Source: Stakeholder analysis, Grosvenor data analysis

A statutory review triggered the review of the rate cap mechanism, administration and process

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INTRODUCTION AND BACKGROUND

The Local Government Rate Cap was legislated in Victoria in 2016 and is intended to balance the long-term interests of ratepayers with the financial sustainability of Victorian Councils. Local Government Victoria, an arm of the Department of Jobs, Precincts and Regions (DJPR, hereon referred to as the Department), is responsible for the legislative mechanism for rate caps as set out in Part 8A of the Local Government Act 1989 (LG Act 1989). It works closely with the Essential Services Commission (ESC) which administers the system by:

- providing annual advice to the Minister for Local Government on the setting of the rate cap; and,
- assessing applications for a higher cap.

Part 8A of the LG Act 1989 sets out the functions, responsibilities and powers of the Minister, the ESC and councils. Section 185G requires that a review of Part 8A of the Act is completed by 31 December 2021, and each four years after that, to determine:

- whether the mechanism for setting a cap on rates set out in Part 8A of the LG Act 1989 is still appropriate; and,
- whether Part 8A of the LG Act 1989 is effective or needs to be amended.

Grosvenor Performance Group (GPG) was engaged by the Victorian Government to conduct an independent review based on a defined scope. The review sought to review the **rate cap mechanism, administration and process** addressing the scope specified.

PROJECT SCOPE

Part 8A, Section 185G Review, states:
(2) The purpose of the review is to determine—
(a) whether the mechanism for setting a cap on rates set out in this Part is still appropriate; and
(b) whether this Part is effective or needs to be amended.

In addition, to assess all parts of the rate cap framework, and make findings and recommendations with specific reference to:

1. **the provision of advice by the ESC and Government agencies to the Minister for Local Government in the setting of the rate cap (s 185D of the Act);**
2. **the use of the base average rate as the basis for applying the rate cap (s 185B of the Act); and,**
3. **the process by which councils apply to the ESC for a higher cap and a decision is made by the ESC, including the timing, appropriateness of guidance and other communications provided by the ESC as part of the process (s 185E of the Act).**

OUT OF SCOPE

The review will not consider:

- the Government's policy of capping local government rate increases in line with the Consumer Price Index (CPI);
- the quality or merit of previous individual applications by councils to the ESC for a higher cap (both successful and unsuccessful) or a review of any decisions by the ESC with regard to individual applications by councils;
- the previous decisions by the Minister for Local Government in setting the rate cap amount;
- the matters that were within the scope of the 2019-20 Local Government Rating System Review including:
  - current local government rates and charges levied under the LG Act 1989 and a number of other pieces of State legislation;
  - the rating system's interaction with the State's taxation, valuation and other systems;
  - current rating exemptions and concessions;
  - the autonomy of councils to apply the rating system to meet local needs; and,
  - current exemptions and discounts for local government rates.

Source: Part 8A, Local Government Act (1989), Specification of Requirements (2021),

The review evaluated key areas through a defined set of evaluation questions seeking an understanding of appropriateness, efficiency and effectiveness

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REVIEW REQUIREMENTS

1

(2) The purpose of the review is to determine—
(a) whether the mechanism for setting a cap on rates set out in this Part is still appropriate; and
(b) whether this Part is effective or needs to be amended.

2

i. the provision of advice by the ESC and Government agencies to the Minister for Local Government in the setting of the rate cap (s 185D of the Act);

3

ii. the use of the base average rate as the basis for applying the rate cap (s 185B of the Act); and,

4

iii. the process by which councils apply to the ESC for a higher cap and a decision is made by the ESC, including the timing, appropriateness of guidance and other communications provided by the ESC as part of the process (s 185E of the Act).

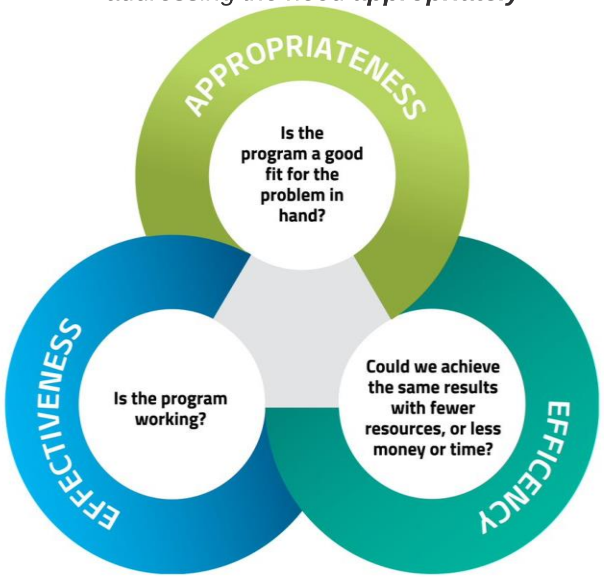
EVALUATION QUESTIONS

1. To what extent have the mechanism's policy objectives been achieved?
2. What factors have contributed to achieving or not achieving intended objectives?
3. What were any unintended impacts of the mechanism, including consideration of the risk of councils' raising costs in other aspects of their operations to compensate for the rate cap?
4. How appropriate was the design of the mechanism and its components?
5. How appropriate was the design of the administration and process supporting the mechanism?
6. To what extent are the mechanism's policy objectives consistently implemented in its administration and process?
7. To what extent does the administration and process support the achievement of the intended outcomes set out in the implementation framework?
8. To what extent are the provisions of the Act relevant and appropriate for setting the rate cap? (appropriateness)
9. To what extent is the actual administration and process operating in accordance with the legislation (use of terms, application of calculations, etc.)?
10. How efficient and effective is the provision of advice by the ESC and Government agencies to the Minister for Local Government in the setting of the rate cap?
11. What were the unintended impacts (positive and negative) of using the base rate?
12. How efficient is the use of the base average rate?
13. To what extent is the process by which councils apply to the ESC for a higher cap appropriate, efficient and effective?
14. What are the barriers to councils applying for a higher cap when they perceive that they require this, and how could these barriers be mitigated?
15. To what extent is the process by which a decision is made by the ESC appropriate, efficient and effective?

(factors including the timing, appropriateness of guidance and other communications provided by the ESC as part of the process (s 185E of the Act) are to be specifically considered, in addition to other factors identified through the review)

EVALUATION PURPOSE

understanding the reason for the program's existence (the program need), and whether the program is addressing the need ***appropriately***



understanding the goals the program is trying to work towards to address the program need (the outcomes), and whether the program is achieving those outcomes ***effectively***

understanding the resources and other elements going into and out of the program (the inputs and outputs), and whether the program is using those inputs and producing those outputs ***efficiently***

Source: Part 8A, Local Government Act (1989), Specification of Requirements (2021),

Seven stakeholder groups were engaged applying random, stratified and purposeful sampling approaches

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STAKEHOLDER GROUPS

1	STATE GOV REPRESENTATIVES	THE DEPARTMENT DPC^ DTF^
2	ESSENTIAL SERVICES COMMISSION (ESC)	ESC EXECUTIVES & PERSONNEL
3	SECTOR PEAK BODIES	MAV^ LGPro^ VLGA^
4	SECTOR STAKEHOLDERS	ASU^ FinPro^ RMA
5	LOCAL GOVERNMENTS	79 COUNCILS
6	RATEPAYER ASSOCIATIONS	RATEPAYERS VICTORIA & OTHER RATEPAYER ASSOCIATIONS
7	INDIVIDUAL RATEPAYERS	INDIVIDUAL RATEPAYERS

SAMPLING STRATEGIES

	SAMPLING STRATEGIES		METHOD OF COLLECTION	STAKEHOLDER GROUPS
Probability sampling (representative of population)	Random sampling	Each individual in the population of interest has an equal likelihood of selection	Survey; Focus groups	5, 7 — Individual ratepayers were engaged through surveys only
	Stratified sampling	Before sampling, the population is divided into characteristics important for the evaluation	1:1 interview	1, 3, 2, 4, 6
Non-probability sampling (non-representatives of population)	Purposeful sampling	Evaluation constructed to serve a specific need or purpose	Survey; 1:1 interview	5 — Sample of six determined through selection criteria to obtain explore varying case studies

Note: The Minister will be presented findings of the review. See appendix C for detailed information on project plan, sample collected and limitations of the review.
^ Department of Premier and Cabinet (DPC); Department of Treasury and Finance (DTF); Municipal Association of Victoria (MAV); Local Government Professionals (LGPro); Victorian Local Governance Association (VLGA); Australian Services Union (ASU); Local Government Finance Professionals (FinPro)

Rate capping was introduced in 2016 through Part 8A of the LG Act 1989 Act to limit the burden which ratepayers need to pay

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RATE CAPPING FRAMEWORK

Policy objectives

- to put downward pressure on rate increases as council rates are a significant contributor to cost of living
- to impose financial discipline on councils in utilising their revenue raising authority
- to facilitate greater transparency and accountability in local government governance
- to encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians
- to encourage more certainty in the rating system.

Implementation framework design principles

- simple and easily understood
- requirements are clear and compliance can be easily determined
- minimises administrative burden for councils
- can be consistently applied by all councils while having sufficient regard to differences between councils
- encourages ratepayer and community involvement
- allows for consideration of key relevant and related factors including municipal circumstances, community needs and aspirations, council priorities and operating environment, and Victorian Government priorities and policy objectives.

LEGISLATIVE PURPOSE

LG Act 1989
Part 8A— Rate caps
185A. Purposes of this Part:

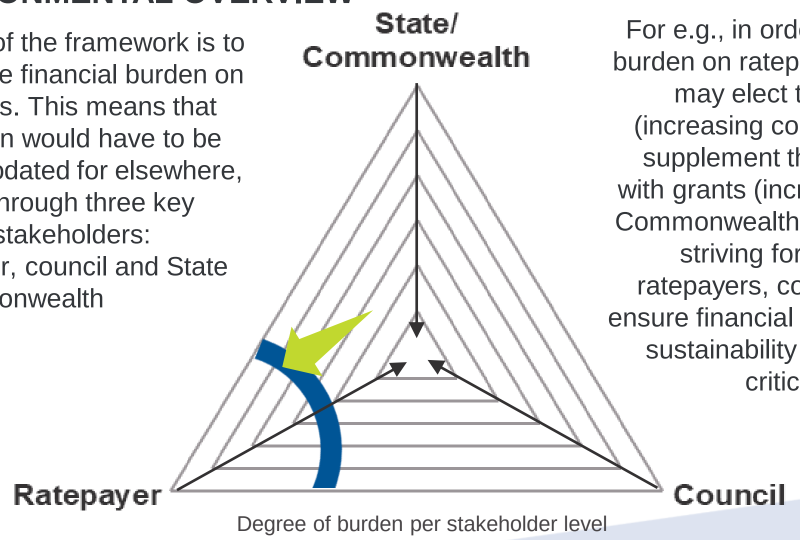
The purposes of this Part are —

(a) to promote the **long term interests of ratepayers and the community** in relation to **sustainable outcomes in the delivery of services and critical infrastructure**; and

(b) to ensure that a Council has the **financial capacity to perform its duties and functions and exercise its powers**.

ENVIRONMENTAL OVERVIEW

The aim of the framework is to reduce the financial burden on ratepayers. This means that the burden would have to be accommodated for elsewhere, namely, through three key levels of stakeholders: Ratepayer, council and State or Commonwealth



For e.g., in order to reduce the burden on ratepayers, a council may elect to increase debt (increasing council burden) or supplement the rates income with grants (increasing State or Commonwealth income). While striving for less burden on ratepayers, councils must still ensure financial viability and the sustainability of services and critical infrastructure

Source: LG Act 1989, Fair Go Rates Framework (2015)

The Rate Capping Mechanism (RCM) refers to the annual process of setting the rate cap and including compliance activities

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BASE YEAR

Dec — Jan — 30 Jun

a. Minister announces the **average rate cap**

average rate cap *means an amount expressed as a percentage amount, based on the change to* ***CPI*** *over the financial year to which the cap relates, plus or minus any adjustment.*

Council applies for higher cap?

NO

b1. Councils who do not apply for a higher rate cap, may calculate their budgets using the **base average rate** (Jan – Jun)

BASE AVERAGE RATE

$$\frac{\text{Total revenue leviable from general rates and municipal charges as at 1 July of the base year} + \text{Annualised supplementary revenue for the same year}}{\text{Number of rateable properties as at 30 June of that year}}$$

YES

b2. Councils may apply for a **higher cap** and receive approval of the higher rate cap (Jan – May)

CAPPED YEAR

Time

1 Jul — Sep — Oct — Dec

Councils adopt budget in line with **capped average rate**

CAPPED AVERAGE RATE

$$\frac{\text{Total revenue leviable from general rates and municipal charges as at 1 July}}{\text{Number of rateable properties as at 30 June of that year}}$$

All councils must submit compliance information to the ESC (Sep)

ESC publishes compliance report (Oct – Dec)

Source: Grosvenor analysis

The LG Act 1989 and ESC Act 2001 guide the roles and functions of the Minister, councils and the ESC regarding rate capping

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LEGISLATION AND FUNCTIONS OF KEY STAKEHOLDERS

The governing legislation that informs the functions of the Minister, the councils and the ESC in executing the mechanism are the:

> Part 8A of the Local Government Act (No. 11 of 1989) (LG Act 1989)

> Essential Services Commission Act (No. 62 of 2001, as amended) (ESC Act 2001)

In addition, the Local Government Act (No. 9 of 2020) (LG Act 2020) has amendments that indirectly influence the achievement of Part 8A. Part 8A of the LG Act 1989 is yet to be provisioned for in the LG Act 2020.

The functions and authorities of the respective parties can be summarised as follows:

The Minister:

- to elicit advice on the setting of the rate cap
- to set the rate cap for all councils, a class of councils or a specified council on or before 31 December in the financial year before the capped year; or on or before such other date fixed by the Minister by notice published in the Government Gazette in the financial year before the capped year
- the Minister may, by Order published in the Government Gazette, declare a council's rate or charges levied in respect of a financial year, or part of the council's rate or charges levied for all purposes of that financial year, invalid for all purposes if the Minister is satisfied that the council has repeatedly and substantially failed to comply with a general Order and any special order
- ensures that a review of Part 8A takes place before 31 December 2021

Councils:

- to exercise its right to apply for a higher cap for one or more specified financial years (up to a maximum of four years) before 31 March before the first capped year to which the application relates; or by another date fixed by the Minister by notice published in the Government Gazette that is in line with the requirements set out by the ESC
- to ensure compliance with Part 8A of the LG Act 1989, and ensure annual compliance requirements are met and sufficient evidence is provided in this regard

The Essential Services Commission:

- in light of a higher cap application, the ESC may:
  - make guidelines specifying any further matters in respect of applications for a special Order
  - direct the council to submit the application in a manner and form determined by the ESC
  - direct the council to provide the ESC with any information that the ESC considers relevant to the application
  - provide any further advice or guidance to the council in relation to the application
  - make a decision and release a special Order that is not higher than the proposed rate by council and published with relevant details in the Government Gazette
- to monitor and review councils' compliance with the rate caps
- to assess the outcomes as a result of the general Order or special Orders
- to identify trends across the local government sector arising from the caps, and any other impacts of the caps on the sector
- to prepare an annual report on councils' compliance with the cap (published on the ESC website)
- to prepare biennial reports containing the following (published on the ESC website):
  - as assessment of outcomes as a result of general Orders and special Orders
  - the identification of any trends across the local government sector arising from the caps, and of any other impacts of the caps of the sector
- to publish notices of the publications of the above reports in the Government Gazette and in a newspaper generally circulating in Victoria, also specifying where copies of the report may be available for inspection

Sources: LG Act 1989; ESC Act 2001

The RCM process occurs in parallel with other government processes with clear dependencies impacting the variation process of the rate capping mechanism

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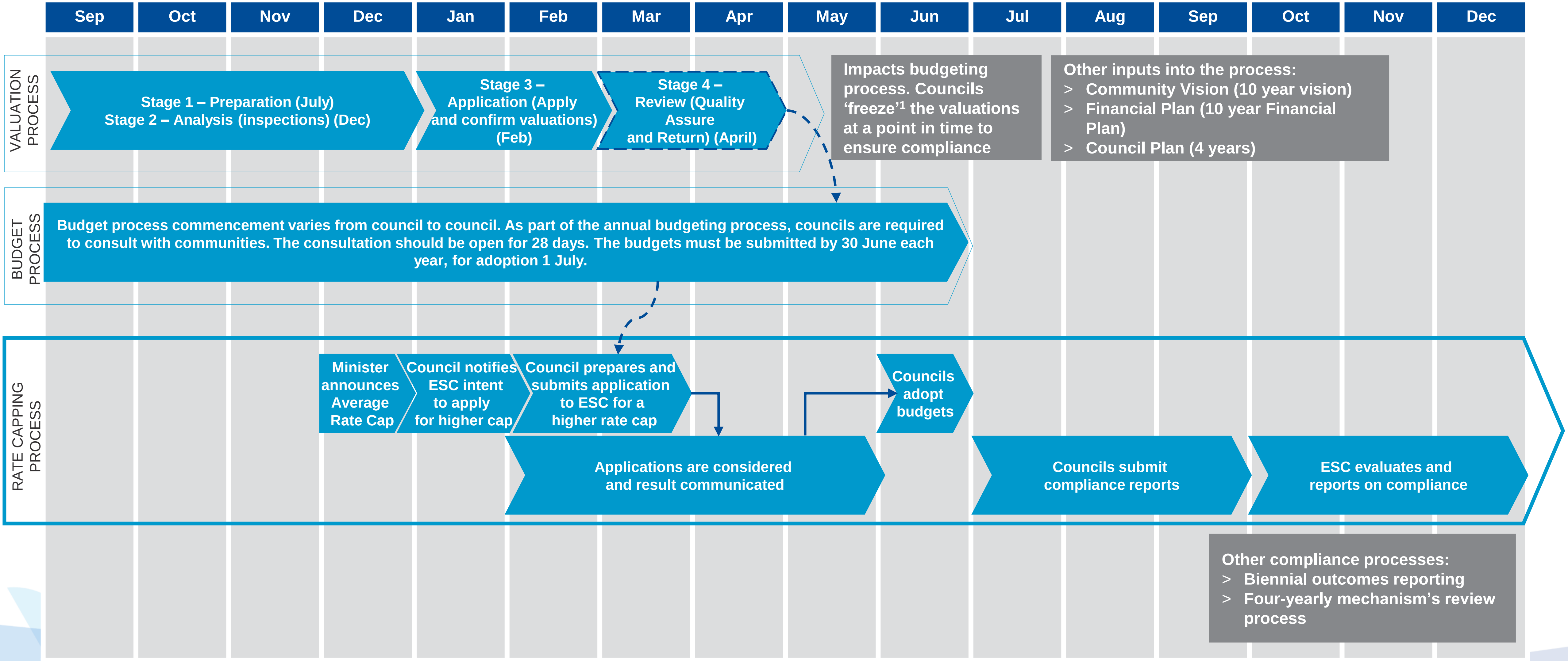

Notes: ARC: Average Rate Cap;
Sources: https://www.land.vic.gov.au/valuations/; Valuation Best Practice Specifications Guidelines 2022; https://www.viccouncils.asn.au/what-councils-do/council-responsibilities/key-council-documents;
RCM: Rate Capping Mechanism; (1) 'freeze' is a common term referred to as slowing down or minimising the implementation of late valuations

The rate cap mechanism was designed to reduce the burden on ratepayers, whilst allowing for flexibility through uncapped portions of the mechanism

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SUMMARY OF THE RATE CAPPING MECHANISM FRAMEWORK

Rates and charges (capped)[3]

Refers to ***general rates*** as well as ***municipal charges*** (where applicable)[1, 3]

Policy objectives

- to put downward pressure on rate increases as council rates are a significant contributor to cost of living
- to impose financial discipline on councils in utilising their revenue raising authority
- to facilitate greater transparency and accountability in local government governance
- to encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians
- to encourage more certainty in the rating system

Summarises the intent of the RCM

Implementation framework design principles

- simple and easily understood
- requirements are clear and compliance can be easily determined
- minimises administrative burden for councils

Design intention of the framework to add the least amount of burden and still achieve policy objectives

- can be consistently applied by all councils while having sufficient regard to differences between councils
- encourages ratepayer and community involvement
- allows for consideration of key relevant and related factors including municipal circumstances, community needs and aspirations, council priorities and operating environment, and Victorian Government priorities and policy objectives.

Provisioned for through variation process. Variation process deployed as a 'failsafe' should other options be insufficient

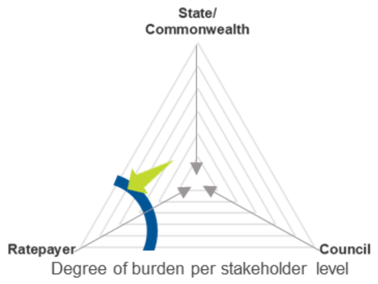
Contributes to the legislative purpose and balance of burden between the ratepayer, council and state/ Commonwealth[2]

LEGISLATIVE PURPOSE
Part 8A—Rate caps
185A. Purposes of this Part:

The purposes of this Part are —

(a) to promote the **long term interests of ratepayers and the community** in relation to **sustainable outcomes in the delivery of services and critical infrastructure**; and

(b) to ensure that a Council has the **financial capacity to perform its duties and functions and exercise its powers**.



Notes: RCM: Rate Cap Mechanism
Sources: Stakeholder analysis; Grosvenor analysis; (1) LG Act 1989; (2) through the use of special rates and charges, Councils have the further flexibility to shift the burden between ratepayers and commercial entities; (3) See Appendix D for detailed explanation of the rates

Key feedback associated the mechanism with positive and negative impacts, with key barriers centred on communication and understanding…

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KEY FEEDBACK CONSIDERED

Impacts

> key positive impacts reported across stakeholder groups include:

— the pursuit of alternative revenue streams, innovative cost-sharing and cost-saving measures and limited expenditure growth

— some councils, sector peak bodies and state government representatives reported greater accountability and enhanced financial discipline

— the mechanism is seen as an incentive to keep rates low for ratepayers

— the mechanism promotes greater rigour and long-term planning than previously as councils had greater flexibility with increasing the rates.

> key negative impacts reported include:

— forgone income beyond April or May to ensure compliance with the ESC compliance process (ensuring that councils meet the rate cap set)

— spend changes have been reported as there have been increasing trade-offs that resulted in greater operational expenditure (OPEX) spend forgoing capital expenditure (CAPEX) spend. This may have negative long-term impacts on the delivery of services and infrastructure and has been raised as a concern by councils

— greater uncertainty in the rating system was reported for both ratepayers (due to impact of valuations) as well as councils (due to annual announcement of the rate cap)

— quality of services was reported to potentially have been negatively affected by sector stakeholders and councils.

> rate capping has not been able to address cross-council discrepancies (e.g., higher rates in lower socio-economic areas).

> a consequence to the rate cap mechanism is that it encourages the separation of rates and charges (e.g., waste charges as a separate line item on the rates notice). For councils that have the waste charge included in the rates amount, creation of separate charges has been reported as a challenging change to action fearing ratepayer and media recourse. Councils with ratepayers who can pay more have access increased services than their lower socio-economic counterparts. In addition, it is perceived that the ESC is driving the rate capping framework. This demonstrates a lack of understanding of roles and responsibilities with respect to the rate cap mechanism.

Policy objectives, barriers and enablers

> overall, there was consensus that the rate cap placed downward pressure on rate increases. Other objectives received mixed responses. Some of this may be attributed to the understanding of the various stakeholders of the mechanism and its components and the perception of the objectives within their subjective context.

> key barriers reported were:

— a recurring theme was the lack of understanding of the mechanism by ratepayers

— understanding is further inhibited by the need for councils, the state and the ESC to explain the mechanism, with varying terminology and explanations deployed[1]. Similarly, interpretation of the policy objectives and design principles varied across stakeholders

— some councils do not readily understand what's required to satisfy the community consultation requirement

— annual valuations (by the Valuer General) created greater uncertainty in the system, particularly for ratepayers. For example, higher valuations may result in an increase of rates greater than the rate cap percentage at individual ratepayer level creating confusion for ratepayers. The cap is applied at council level and this is not well-understood

— revenue-raising options for councils can be limited based on council type[2]

— disadvantaged those councils that commenced on a low-base or are already efficient

— cost drivers have remained high

> key enablers reported were:

— there is moderation of rate cap increases by the ESC to ensure compliance

— sufficient time for councils to implement measures that manage the effects of the rate cap mechanism

— accounting systems that streamline effort (change to rate cap percentage is managed more easily)

— guidance and templates provided by the ESC and improvement of support from first year of implementation

Administration of the mechanism by the ESC

> ESC is viewed as an enabler to some, and hinderance to others. The difference can be attributed to exposure to the ESC. Those that have worked with the ESC tended to report them as consistent and supportive, while those that have had exposure to the ESC through the compliance process rate them less favourably. The ESC takes a legislative stance of zero tolerance when implementing the framework which is not well received by councils. Similarly, those councils that have not worked with the ESC have a negative view of them. There is a stigma surrounding the ESC as it is known as an enforcement agency with zero tolerance for special circumstances.

***Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints**; see appendix E and I for detailed stakeholder analysis and data analysis*

Note: Capex: capital expenditure; OPEX: operational expenditure; (1) e.g., ESC refers to it as the Fair Go Rates System; (2) e.g., metro councils have options such as parking fees, etc., while more rural councils do not. Sources: stakeholder analysis; Grosvenor analysis

…supported through observations, while additional analysis found that councils have not been financially distressed through the introduction of the mechanism

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DATA ANALYSIS

> lack of shared understanding and use of common terminology was observed across stakeholders

— e.g., the ESC refers to the rate cap mechanism as the Fair Go Rates System

— the rating system is difficult to understand with no clear explanation readily available

> the impact of the rate cap set from FY2016/17 was analysed using financial data across the councils. Key findings suggest that Small Shires and Regional Shires have greater dependency on grants. Overall, the implementation of the mechanism has not led to financial distress of councils

— data examining the financial positions of councils were analysed using VAGO audit data and data from the Know Your Council website supplemented by the Department's data. It must be noted all data (VAGO, Know Your Council and the Department) does not always fully align, which may be due to the differences in reporting standards and reporting timelines

— using VAGO indicators measuring financial health, councils, on average, do not appear to be financially distressed, as they have good net results and levels of indebtedness (however, some councils are at high risk of indebtedness)

— the Department's data provides insight into the trends of capped and uncapped rates and charges, showing there has been an increase in waste charges; however, the rates charges have remained relatively stable

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints*; see appendix E and I for detailed stakeholder analysis and data analysis*

Sources: stakeholder analysis; Grosvenor analysis

Overall, the mechanism is appropriate, efficient and effective, with implementation in accordance with legislation…

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EVALUATION AREA 1 OBJECTIVES

1 *(2) The purpose of the review is to determine—*
(a) whether the mechanism for setting a cap on rates set out in this Part is still appropriate; and ***(b) whether this Part is effective or needs to be amended.***

ELEMENT TESTED	FINDINGS	CONCLUSION
Appropriateness of the provision in the Act (Evaluation question 4)	> the components of the rate cap mechanism drove impacts aligned to the policy objectives whereby greater revenue and cost management was reported without placing councils in a position of financial distress. The mechanism is flexible and enables other efficiencies and offers the option to apply for variation should it be required > outside factors such as the valuation process (completed through the Valuer General) have a high impact on the rates charged at the individual ratepayer level, contributing to the lack of understanding by ratepayers of the mechanism. In addition, ratepayers do not understand how the rate cap is implemented from the time of its announcement each December to its implementation in July the following year > the mechanism incentivises councils to separate rates and charges, encouraging a service-cost model, with councils who have ratepayers that can pay more, accessing more services than their lower socio-economic counterparts > ESC is viewed as consistent, positive and enabling to the sector (to those councils that have worked with the ESC as well as state government representatives), and is overall appropriate to providing support to the sector > the provision of the review in the LG Act 1989 was appropriate. Another review is recommended to assess long-term impacts particularly on the financial position of councils. This could be informed by the biennial reports provided by the ESC and could be executed by the ESC.	The mechanism, as described in the Act, provides a sufficient mechanism to promote its objectives providing flexibility in how it is applied. For example, there is provision for rate caps to be tailored based on needs, or a variation process should the rate cap be insufficient. It is recommended that the next review be executed by the ESC.
Efficiency and effectiveness of the mechanism (Evaluation questions: 1, 2, 3)	> barriers such as political roadblocks and possible media repercussions, as well as stigma surrounding the ESC (for those who have not worked with them) hinders some councils from applying for variations. This is further deterred by the timelines for submission and the timeframe for implementation of the budget. Alternative revenue avenues and cost-cutting measures are preferred by councils in place of higher cap applications > the mechanism allows councils to apply for variation based on their long-term financial needs. However, the uncertainty expressed over the annual rate cap announcements and feedback from stakeholders on council reluctance to commit to wage increases up to three years in advance, reflects that there may be a lack of maturity (in whole or in parts of) the sector, or in understanding of alternative options > the mechanism requires councils to slow down valuations (in April or May) in order to ensure compliance with the ESC compliance process resulting in reduced supplementary income. The compliance process is associated with negative repercussions (that may not be accurate), resulting in fear of non-compliance.	Implementation of the mechanism has been in accordance with the Act. There is the opportunity to implement initiatives that reduce identified barriers, increase effectiveness and facilitate maturity of all stakeholders.
The extent to which the actual administration and process is operating in accordance with the legislation (Evaluation question 7)	> the process is followed in line with the provision of the LG Act 1989 > initiatives encouraging greater transparency were proposed to demonstrate the underpinning policy objective of transparency and accountability across all levels of the process.	Initiatives that promote greater transparency and accountability would provide additional value to the process.

Notes: refer to evaluation area four (4) for evaluation questions 5 and 6. Specific findings relating to setting of the rate cap, calculating the rate cap, and process and administration around the rate cap are included in the respective evaluation areas; ***see appendix E and I for detailed stakeholder analysis and data analysis***
Sources: Stakeholder analysis, Grosvenor analysis

...with room for improvement in creating a shared understanding of the sector by aligning terminology and communications...

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RATIONALE: THIS CHANGE IS NEEDED BECAUSE...		RECOMMENDATIONS: THERE IS A NEED TO...	CONSIDERATIONS: THE CHANGE CAN BE IMPLEMENTED BY...
Theme: Communication and understanding of the sector **Challenges:** > lack of understanding of the mechanism by ratepayers > the varied execution of various stakeholders in explaining the mechanism creating confusion > interpretation of the policy objectives and design principles varied across stakeholder groups > there is no clear or accessible articulation of the framework which clarifies the roles and responsibilities of various stakeholders (e.g., ratepayer associations attributed the design of the mechanism to the ESC) > it has been reported that high complaint volumes from ratepayers are being managed at the council level. Clear and consistent communication could partially address complaints regarding the understanding of how the mechanism is implemented > there are barriers to application for variation, suggesting that the mechanism cannot be used as intended when councils will not consider it due to stigma around the variation process. Note: Not all challenges noted in analysis could be addressed through changes to the mechanism or its components	I	**The Department to provide clear terminology and an explanation of the mechanism:** The current terminology utilised differs across stakeholders. For e.g., the ESC refers to the mechanism as the Fair Go Rates System. It is recommended that the Department clarify and use the terminology and explanation to enhance understanding of the mechanism by the sector (inclusive of ratepayers). The explanation should also clearly delineate roles and responsibilities amongst stakeholders. This should facilitate shared understanding across the sector.	> the sector could be consulted based on a first draft to ensure that it is clear to all stakeholder groups
	II	**The Department to centralise communication resources of the mechanism at Minister or State level:** The current scenario requires all stakeholders to explain the rate capping mechanism, which is not executed consistently. It is recommended that the information is best placed to be centralised through the Department (all resources utilising the same terminology, explanations and videos) that other stakeholders could reference and share.	> the Department could nominate that this is better placed with another stakeholder (e.g., the ESC). However, it is pertinent that the same information be shared. This would reduce the administrative burden of 79 councils to repeat the information, along with other stakeholders in the sector (e.g., MAV); and would enable the sharing of the same information communicating one unified explanation
	III	**The Department to strengthen support and education around the variation process by supporting the ESC in its annual roadshows:** Currently, there is a stigma surrounding both the ESC (as an enforcement agency) as well as the variation application process. The Department should show visible support of the variation process through joining the ESC in its annual roadshows as well as to engage with councils on the rationale behind the variation process and facilitate greater understanding of the rate capping mechanism. This may reduce barriers to application by councils that may be blocked politically (at council-level) or fear media repercussions by encouraging the use of the process. Political and media barriers may continue to persist; however, education and engagement efforts may reduce the reluctance to apply for variation.	> the Department and ESC could work closely together to identify other methods of reducing stigma and educating the sector on the mechanism

*Notes: specific findings and recommendations relating to setting of the rate cap, calculating the rate cap, and process and administration around the rate cap are included in the respective evaluation areas; **see appendix E and I for detailed stakeholder analysis and data analysis***
Sources: Stakeholder analysis, Grosvenor analysis

…and monitoring of the sector should continue, leveraging off existing indicators with specific focus on the long-term impact of CAPEX-OPEX spend

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RATIONALE: THIS CHANGE IS NEEDED BECAUSE…

Theme:
Continued monitoring of the state of councils

Challenges:

> concern of negative long-term impacts on the financial sustainability of councils. In particular, the continued trade-offs between CAPEX and OPEX is of a future concern

Note: Not all challenges noted in analysis could be addressed through changes to the mechanism or its components

RECOMMENDATIONS: THERE IS A NEED TO…

IV

The ESC to conduct 10 yearly assessments of the financial state of the Sector: The current scenario allows for a four-yearly government review of the impact of the rate cap mechanism. As the ESC conducts the biennial reviews, it is recommended that the ESC would be best placed to also conduct the four-yearly review. However, it also recommended that the next review should take place in 2026, measuring the impact at the ten-year mark instead of in year eight (2024).

Specifically, the ten-year review should also include the financial state of the sector (including the spend spread of CAPEX and OPEX historically and projected) and the impacts thereof. Other stakeholders (such as VAGO) already monitor and report on financial sustainability of councils. It is recommended that the ESC engage with and incorporate these indicators into their existing reports and processes to provide a holistic view on the financial state of the sector. The ESC is best placed to complete this as they already run a biennial process. Further reviews could take place at ten-year intervals accommodating for the maturity of the sector and length of time for changes to be experienced.

CONSIDERATIONS: THE CHANGE CAN BE IMPLEMENTED BY…

> the use of VAGO indicators (as well as information provided by other stakeholders in the sector) in the biennial reports could reduce any duplication of effort and align reporting standards

> possible challenges could include managing the varying datasets of information (e.g., data may vary based on reporting periods, specific information collected, and varying calculations).

Notes: specific findings and recommendations relating to setting of the rate cap, calculating the rate cap, and process and administration around the rate cap are included in the respective evaluation areas; ***see appendix E and I for detailed stakeholder analysis and data analysis***
Sources: Stakeholder analysis, Grosvenor analysis

The process for setting of the average rate cap by general Order is followed as per the legislation

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LEGISLATION GOVERNING THE SETTING OF THE RATE CAP

Annually, the Minister announces the average rate cap for the next Financial Year (FY).

Section 185D Minister may set average rate cap by general Order

(1) The Minister may by general Order published in the Government Gazette direct a Council that the capped average rate in respect of a specified financial year must not exceed the base average rate by more than the average rate cap specified in the general Order.

(2) A general order made under subsection (1) may be directed to –
- (a) All Councils; or
- (b) A class of Councils; or
- (c) A specified Council

(3) Before making a general Order, the Minister must –
- (a) Request advice from the Essential Services Commission for the purpose of adjustment in setting the average rate cap; and
- (b) Have regard to any advice received from the Essential Services Commission as requested under paragraph (a).

(4) The Essential Services Commission must provide advice to the Minister in accordance with a request made under subsection (3)(a).

(5) A general Order does not have effect in respect of a capped year unless it is published in the Government Gazette –
- (a) On or before 31 December in the financial year before the capped year; or
- (b) On or before such other date fixed by the Minister by notice published in the Government Gazette in the financial year before the capped year.

PROCESS FOR SETTING OF THE RATE CAP

Minister requests advice on the setting of the rate cap[1]

Estimated late Nov or Dec each year

The Minister formally requests advice from the ESC in the form of an official letter typically including:
- a recommendation for any adjustments to be applied to the CPI in setting the cap for all or any councils; and
- the rationale for any such adjustments and the quantum of such adjustments
- the preferred option if multiple options exist

ESC

ESC required to respond to the letter of request

2 – 3 weeks[1]

The ESC responds to the request with a letter that advises on the use of CPI. The ESC has been advising on the formula detailed below:
- 2015 – 2018[3]: *Average rate cap = (0.6 x CPI) + (0.4 x WPI) – efficiency factor*
- 2019 onwards: *Average rate cap =* $((1 - a) \times CPI_t) + (\alpha \times WPI_0)$

%

Minister announces the **average rate cap** for the next FY[5]

Typically announced between 13 – 22 December[2]

The Minister announces the average rate cap in the form of a general Order or special Order

Note: CPI: Consumer Price Index; WPI: Wage Price Index. Note: The consideration of the WPI served as a generalised acknowledgement of some costs such as direct and indirect labour costs that were inflexible during the short-to-medium term.[4]

Notes: (50: The Financial Year (FY) cycle begins 1 July to 30 June

Sources: LG Act 1989, ESC: Advising a local government efficiency factor (2018); (1): Stakeholder Analysis; (2):Victoria Government Gazette (http://www.gazette.vic.gov.au/); (3): A Blueprint for Change – Local Government Rates Capping and Variation Framework Review (2015); (4): Letters advising on the rate cap from 2015 – 2019;

Stakeholders proposed alternatives to alleviate the time pressures associated with the variation process and analysis explored viable options accordingly

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KEY FEEDBACK CONSIDERED

> the following gaps were highlighted by stakeholders:

> **provision of advice by the ESC:**

— it was noted that the ESC does not consult with councils as part of this process

— the legislation or Minister's request for advice could be more detailed in the matters for the ESC to consider as part of cap advice, to target specific concerns of the Minister or State

— the provision of advice by the ESC could be more specific, e.g., it could provide more information about the sector and the pressures it faces

> **Minister's decision on the cap:**

— the provision of advice by the ESC to the Minister was supported by stakeholders

— however, historically, the Minister's decisions on the rate caps set differed from the advice provided by the ESC without an explanation surrounding the rate cap set. This has led to stakeholders expressing a lack of transparency in the process

— despite this, the provision of advice by the ESC to the Minister was recommended as the correct mechanism that should continue.

> **timeframe considerations:**

— an earlier announcement was proposed to better align with the budgeting process of councils that commences around September or November. It was also posited that this would allow more time for applications for variation to occur

— longer rate caps were also posited as an alternative, with many of the stakeholders suggesting caps over a four-year timeframe, or an average cap over the four-years in line with budget-cycle. The rationale behind this supported greater certainty in the system

— setting different rate caps for councils that have commenced on a lower base rate or currently offer low rates to ratepayers were also posited as an alternative

— the annual setting of the rate cap has been reported to have an impact on multi-year wage negotiations attributed to the uncertainty caused by the annual release motivating for multi-year rate caps.

> **variation process:**

— stakeholders indicated that there should be a separate process to consider variations on a collective basis where multiple councils are affected by a particular event, policy change or issue, on the basis this would be more efficient than individual variation submissions

DATA ANALYSIS AND CONSIDERATIONS

> two key analyses were considered in the evaluation of timeline considerations for setting the rate cap:

The Consumer Price Index (CPI) is an inflation indicator measuring the change in the price of a basket of goods and services purchased by households.[2]

— first, it must be noted that both forecast Consumer Price Indices (CPI) published in the Victoria State Government Budget Papers (released in May and December)[1] are forecasted figures. An analysis was conducted to ascertain the difference and impact of December's CPI with actual CPI[2,3]. Using actual CPI from the previous year could allow for a greater accuracy in relation to actual changes in cost of living. The results revealed that at its smallest, this impact would be $0.58m less for the smallest income council over 10 years, and at its largest, this impact would be $23.85m less for the largest income council over 10 years. The use of actual CPI would reduce the income of the councils over a ten-year period even though it would support the downward pressure on ratepayers. It is not recommended that actual CPI be utilised

— second, the use of the May CPI was considered in place of the December CPI forecast. December CPI is utilised as it is the closest projection to the date of the capped year. The results revealed that, at its smallest, this impact would be $0.09m more for the smallest income council over ten years. At its largest, this impact would be $3.36m more for the largest income council over 10 years. These amounts would not be significant to the respective councils given the respective magnitudes of their budgets. Therefore, the use of the May CPI would be a viable option due to the minor impact

Note: forecasted CPI figures beyond the May or December CPIs were not considered due to the possibility of unforeseen macro-economic effects such as the current COVID-19 pandemic. Therefore, setting the cap for multiple years was not explored further as it was not deemed a viable option.

considerations

> use of the May CPI is not as accurate as the December CPI, however, the effects could be deemed minimal

> the change in the use of the CPI to May, may require a legislative amendment of the definition of CPI utilised in the LG Act 1989 or LG Act 2020 once the part related to rate capping is incorporated

> setting of an earlier rate cap could result in up to an additional seven months for councils to make an application for variation should they choose. An earlier announcement could have positive planning implications

> the impact may require the ESC to consider resource implications in its adoption as their five-month process would change to span across twelve-months

> change in the date of setting the rate cap will not alleviate pressures experienced in April or May prior to the capped year when annual valuations are finalised and have impact on the finalisation of the budget process. Setting the rate cap earlier will impact the application for variation process, provisioning more lead time to councils ,and review and response time for ESC.

***Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints**; see appendix F and I for detailed stakeholder analysis and data analysis*

Notes: (1) The forecast Consumer Price Indices in the Victoria State Government Budget papers will be referred to by their release dates (May CPI and December CPI), noting that the May CPI may sometimes be released at a later date due to special circumstances; (3) Note: Actual CPI is measured from September of the previous year to September of the current year.

Source: stakeholder analysis; Grosvenor data analysis; (2) Australian Bureau of Standards

Overall, setting of the rate cap was deemed appropriate and in accordance with the LG Act 1989, proposing efficiency and effectiveness remedies

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EVALUATION AREA 2 OBJECTIVES

2 **the provision of advice by the ESC and Government agencies to the Minister for Local Government in the setting of the rate cap (s 185D of the Act);**

ELEMENT TESTED	FINDINGS	CONCLUSION
Appropriateness of the provision in the Act (Evaluation question: 8)	> the provision for setting of the rate cap is appropriate to the mechanism > the legislation allows for the change in announcement dates as well as the provision of a single rate cap or multiple rate caps per council type or groups of councils should it be required	The mechanism is appropriate for outlining the process by which rates are set including sufficient flexibility to alter the timing of key processes and the provision of multiple rate caps if required
The extent to which the actual administration and process is operating in accordance with the legislation (Evaluation question: 9)	> the process is followed in line with the provision of the LG Act 1989	The process is followed in line with the act with room for improvement to improve transparency of the process and understanding by stakeholders
Efficiency and effectiveness of the mechanism (Evaluation question: 10)	> changes to timing were common suggestions to reduce the pressure on councils, and provide greater certainty > the provision of advice to the Minister in setting the rate cap was viewed as appropriate and effective. However, transparency and demonstrated consideration for the advice provided by the ESC was mentioned as possible improvements > furthermore, stakeholders reported a lack of consultation by the ESC in informing the provision of advice to the Minister	It would be feasible to change the announcement date of the rate cap to May Consideration could be given towards implementing processes that enable greater transparency in the advice provided by the ESC to the Minister and the basis of the Minister's final decision

Source: Stakeholder analysis, Grosvenor data analysis; ***see appendix F and I for detailed stakeholder analysis and data analysis***

Time-pressures could be alleviated through three key options actioned by the Minister, Councils and the ESC…

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RATIONALE: THIS CHANGE IS NEEDED BECAUSE…	RECOMMENDATIONS: THERE IS A NEED TO…	CONSIDERATIONS: THE CHANGE CAN BE IMPLEMENTED BY…
Theme: Time pressures experienced between the period of the variation process and finalisation of the budget that Councils adopt **Challenges:** > the timeline pressures between the period of the variation process and the finalisation of the budget that Councils adopt were reported as a challenge. The period of application (March – April), with an eight-week response time, may lead to outcome notices in June, providing councils with little time to finalise budgets > it must be noted that timeline pressures are also dependent on the following: — council methodology of planning for variation (e.g., incorporation of community consultation requirements during the budgeting process or as a separate process) — the use of systems (affecting effort required to action changes and meet timelines) — the date an application is sent	V **The Minister for Local Government to announce an earlier cap using the forecast Consumer Price Index (CPI) published in the Victoria State Government Budget Papers (released in May)[1]:** The May CPI forecast should replace the CPI forecast published in Victoria State Government Budget Papers (released in December)[2] in informing the rate cap. Variance between the two figures are relatively minimal[3]. This would allow for up to an additional seven months for the application for variation to the ESC allowing both Councils as well as the ESC more time before the budget is finalised in June. Additionally, an announcement in May would allow for the rate cap to be used as an input into the council's budget planning process noting that the process varies council to council (typically commencing between September and November for the following financial year).	> the LG Act 1989 provisions for the Minister to amend the date the rate cap is set[4]; however, further consideration must be given if there is a requirement to amend the definition of CPI. The change in the use of the CPI to May, may require a legislative amendment of the definition of CPI utilised in the LG Act 1989 or LG Act 2020 once the Part 8A related to rate capping is incorporated > use of the May CPI is not as accurate as the December CPI; however, the variance between the two could be deemed as minimal > setting of an earlier rate cap would result in the provision of an additional seven months for councils to decide and provision for an application for variation should they choose. Knowing the rate cap prior to the budgeting process could serve as an input with positive planning implications, for e.g., the community consultation that satisfies the requirements for variation could be held prior to December. However, this process could also occur based on long-term financial needs > this may counteract the shift towards long-term financial planning to inform annual needs beyond the cap with councils possibly becoming more dependent on the May announcement > the ESC may have to consider resource implications to offer a year-long process > change in the date of setting the rate cap will not alleviate pressures experienced in April or May when annual valuations are finalised and impact the finalisation of the budget process. Setting the rate cap earlier will impact the application for variation process, provisioning more lead time to councils and response time for ESC.
	VI **Councils to begin their planning earlier and utilise a projected value: Councils to begin their planning earlier and utilise a projected value:** Aligned to the LG Act 2020, councils are required to complete long-term financial planning (10 years). Part of this process would require councils to make assumptions on the forecasted CPI published in the Victoria State Government Budget Papers, in order to account for the rate cap. Similarly, should the ESC allow for earlier applications, applications can be based on the long-term financial needs as well as the May CPI forecast as an indicator for the December CPI forecast as these figures have historically been closely aligned.(See Appendix F for data analysis on this).	> assumptions around the forecasted CPI could change substantially and may not be accurate > as councils apply the provisions of the LG Act 2020, there will be a shift towards long-term financial planning (affecting councils who do not already practice this), the process will inherently assist in meeting of the requirements, should best practice be adopted > there may be challenges experienced in defining what is adequate community consultation that satisfies both the LG Act 2020 requirements as well as the six criteria in the LG Act 1989 that is assessed by the ESC > a challenge to this option may be that May CPI forecast is substantially different from the December CPI forecast.
	VII **ESC to review applications for variation all year round:** To allow councils to apply to the ESC for variation ahead of the January timeframe, providing more time for application submissions as well as application processing ahead of the June date for budget finalisation	> an extension of the timelines would have resource considerations for the ESC > a challenge with this option is that the cap may not yet be known, however, should be based on the long-term needs of the Council Note: the LG Act 1989 does not prescribe that applications may only be considered after the announcement of the cap, however, the current process and timelines follow this sequence.

Source: Stakeholder analysis, Grosvenor data analysis; ***see appendix F and I for detailed stakeholder analysis and data analysis***

Note: (1) the figure is typically released in May each year, and will be referred to as the May CPI forecast. However, the May CPI could also be released at a later date due to special circumstances; (2) heron referred to as the December CPI forecast; (4): see page 33 for more detail

…where, if all three options were adopted, councils could benefit in three main ways

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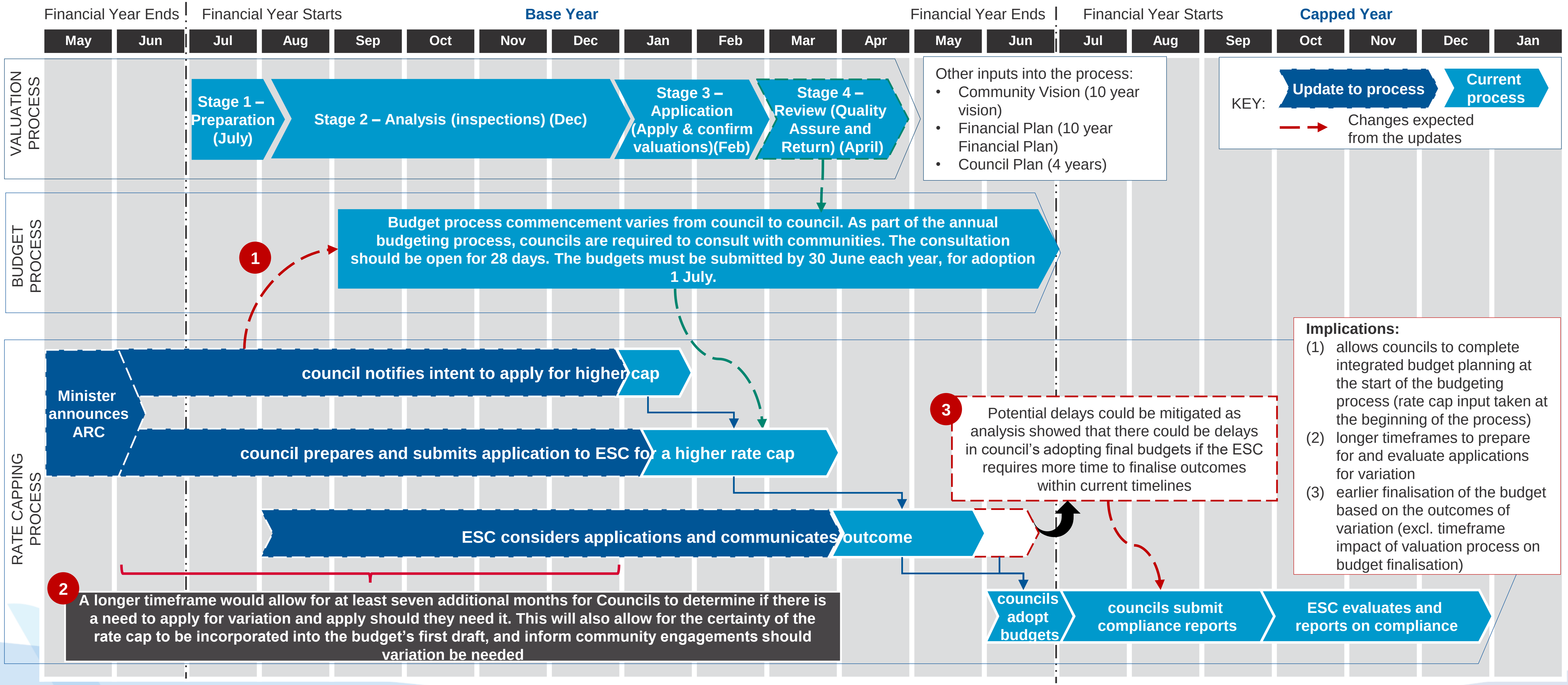

Notes: ARC: Average Rate Cap; RCM: Rate Capping Mechanism

Sources: https://www.land.vic.gov.au/valuations/; Valuation Best Practice Specifications Guidelines 2022; https://www.viccouncils.asn.au/what-councils-do/council-responsibilities/key-council-documents; stakeholder analysis; ***see appendix F and I for detailed stakeholder analysis and data analysis***

Additionally, greater communication and engagement can facilitate greater understanding and transparency of the mechanism

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RATIONALE: THIS CHANGE IS NEEDED BECAUSE...	RECOMMENDATIONS: THERE IS A NEED FOR...	CONSIDERATIONS: THE CHANGE CAN BE IMPLEMENTED BY...
Theme: Communication and understanding of the sector **Challenges:** > a lack of transparency in how the Minister makes a decision when setting the rate cap as the Minister has historically chosen a cap that had not been in line with the advice provided by the ESC	VIII **The Minister for Local Government to communicate rationale behind rate cap decision:** The Minister currently requests advice from the ESC on setting the rate cap, which is provided to the Minister in December prior to the announcement. The Minister then announces the rate cap through a general or special Order. However, the announcement has historically stated the rate cap with no explanation. To enhance transparency and support additional buy-in, the Minister should provide an explanatory note to clarify the advice considered in arriving at the final rate cap.	> the Minister may want to include additional input as an attachment to the special Order.
Theme: Greater engagement of the sector **Challenges:** > there is a reported lack of consultation of the sector by the ESC in providing advice to the Minister	IX **ESC to include sector feedback in the provision of advice to the Minister on setting the rate cap:** The current advice from the ESC to the Minister in setting the annual rate cap does not include any feedback from the sector. The ESC could note feedback from consultations held throughout the year or the feedback from the biennial report (if stakeholder feedback was collected) in the provision of advice to the Minister in setting the rate cap. This would allow for greater sector buy-in as the views of the sector would have been captured as an input.	> timelines for the provision of advice may not be conducive to stakeholder consultation, however, this input could be catered for through the biennial report and collection of input throughout the year. If no input is collected, this could be an additional process facilitated prior to the Minister's request to ensure that timelines are not affected > a challenge to this recommendation could be that the recommendation may be an extension of scope outside of what was originally required from the ESC with the requirement for an alternation of scope prior to commencement.

Source: Stakeholder analysis, Grosvenor data analysis; ***see appendix F and I for detailed stakeholder analysis and data analysis***

Components of the rate cap calculation are set out in S.185 of the LG Act 1989 and are supplemented by ESC guidance

LEGISLATION GOVERNING THE CALCULATION OF THE RATE CAP[1]

Section 185B Base Average Rate

"The base average rate, in relation to a Council, means the rate calculated according to the following formula—

$$BAR = \frac{Rb}{L}$$

where—

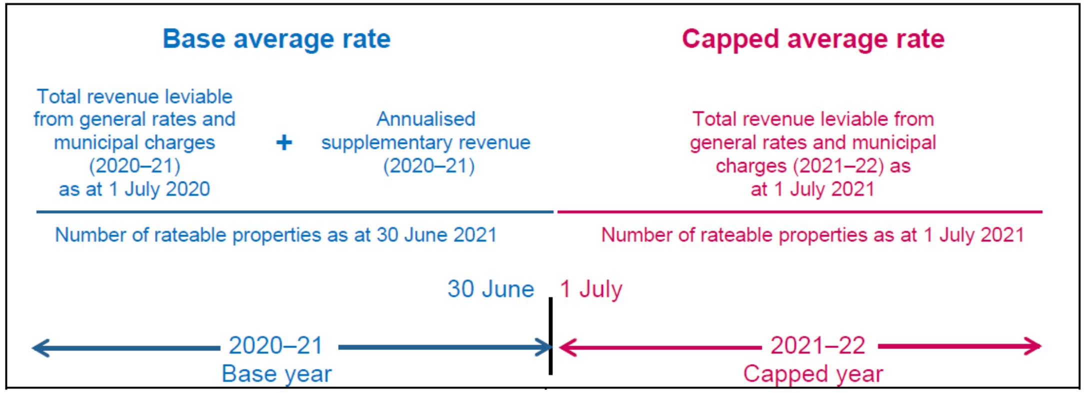
BAR	is the base average rate; and
Rb	is the total annualised revenue leviable from general rates, municipal charges and any other prescribed rates or charges on rateable properties within the Council's municipal district as at 30 June in the base year; and
L	is the number of rateable properties within the Council's municipal district as at 30 June in the base year.

Note: The total annualised revenue leviable in the base year includes revenue that is budgeted as at 1 July of the base year and the full year effect of annualised supplementary rates."

SUMMARY OF THE CALCULATION OF THE RATE CAP[2]

The figure below seeks to simplify the legislation and provide a simpler understanding of how the base average rate and capped average rate is linked

Figure 1 Summary of the base average rate and capped average rate



Note:
The ESC breaks down the Rb figure into two components:
(1) Annualised revenue leviable from general rates (1 July – at the beginning of the base year)
(2) Annualised supplementary revenue

Annualised revenue leviable from general rates forms the basis of which rates are capped. Any additional revenue gained form rates (rates revenue resulting from change in the valuations of properties, new properties, etc.) is not capped within the year of introduction but incorporated into the rates figure and of the next base year (1 July of the next financial year).

Sources: (1) Part 8A, Section 185B of the Local Government Act (1989); (2) Essential Services Commission 2021, Fair Go Rates system – Compliance monitoring and reporting: Guidance for councils 2021–22, February. 12 Sept 2021; (2) Stakeholder Analysis

Additional indices were considered in the calculation; however, results revealed greater variance and consequentially greater uncertainty if pursued

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KEY FEEDBACK CONSIDERED

- it was reported that CPI as an annual increase, does not align with the rate of expenditure growth experienced by councils. This means that year on year, the rate of increase of costs is greater than the rate of increase of income. As building and construction related costs are increasing at increasing at a rate above the rate cap, there is no financial benefit to go under the rate cap incentivising the use of the rate cap as a target rate
- from the council survey it was found that the vast majority of respondents reported that they knew how to use the rate cap, a majority said the rate cap was easy for them to understand, and three out of four councils stated that they found it easy to gather the elements required for the calculation
- further analysis of the council survey found that just over half of respondents thought that CPI was not a relevant measure for them.

- there was no reported issue on collecting the information for the rate cap calculation and for compliance. However, the timing of the rate cap process does not align with the timing of when land valuations are received, as there is a dependency to final land valuations (which has moved to an annual process) to calculate the rate in the dollar
- additional templates to support the cap's integration into the budgeting process and explaining it to the community would be useful .

- there are no clearly defined Key Performance Indicators (KPIs) to compare the rate capping mechanism and, as such, measurement of its success was reported as problematic
- the rate capping mechanism and how the cap is set is complex and thus difficult to explain which causes confusion amongst all stakeholders.

DATA ANALYSIS

- Efficiency factors were originally included within the ESC's advice to the Minister along with a weighted Wage Price Index (WPI). The Minister had elected to exclude the efficiency factor and WPI weighting in setting the rate caps of previous years. The ESC conducted a review of the calculation and found that using CPI alone had the same net effect as the inclusion of WPI with a discounted efficiency element in FY16/17 and FY2017/18. Due to inflexible costs such as labour and contracts already in place, the ESC recommended that the WPI be included and gradually reduced up to FY20/21 as shown in the excerpt below[1]:

Table 3 - Rate cap formula for the years 2016-17 to 2020-21

Year	CPI (weight in rate cap formula %)	WPI (weight in rate cap formula %)
2016-17[a]	60	40
2017-18[a]	70	30
2018-19[a]	80	20
2019-20	90	10
2020-21	100	0
2021-22		Review

[a] We advised the minister that the rate cap formula for these years was 0.6CPI+0.4WPI less an efficiency factor.

- an analysis was completed to compare the December CPI estimate for Melbourne used for the rate cap calculation to the NSW rate-peg. The analysis found that 49% of the time the NSW rate-peg would be greater than the Melbourne CPI estimate and have greater variance year-on-year meaning less certainty
- an analysis of comparing December CPI estimates for Melbourne to WPI was also undertaken. The difference between CPI and WPI would see an increased burden for rate payers of $0.91m over 10 years in the smallest council (by rates income) through to $37.27m over 10 years for the biggest council (by rates income). The impact on ratepayer burden would increase substantially and was therefore eliminated as a general recommendation due to not aligning with the objectives of the rate capping mechanism. As the mechanism provides flexibility through the variation process, whereby individual councils who have ratepayers willing to pay a higher rate may do so as an alternative solution.

***Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints**; see appendix G and I for detailed stakeholder analysis and data analysis*

Sources: stakeholder feedback analysis; Grosvenor analysis; (1) Advising a local government efficiency factor – final paper. ESC (2018)

Therefore, the assessment of the base average rate cap calculation resulted in no further recommendations for consideration

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EVALUATION AREA 3 OBJECTIVES

3. the use of the base average rate as the basis for applying the rate cap (s 185B of the Act)

ELEMENT TESTED	FINDINGS	CONCLUSION
Appropriateness of the base average rate calculation (Evaluation question 11 & 12)	> a comparison of other indexes outside of CPI were explored to augment the current base > the use of other standard indexes were found to have a negative impact on rate payers and councils > the use of a compound indicator would be prone to changes outside of those directly affecting rate payers.	The use of the base average rate remains appropriate for the RCM.
Efficiency of the base average rate (Evaluation question 11 & 12)	> efficiency factors were originally included within the ESC's advice to the Minister > the wage price index (WPI) was previously included as a weighted item > the Minister did not choose to include the efficiency factor or WPI weighting that was originally present within the calculation > a review of the calculation found that CPI without any additional weighting would have the same net effect as inclusion of other factors such as a discounted efficiency element.	The base average rate incorporates efficiency.
Impacts of the use of the base average rate (Evaluation question 11 & 12)	> councils reported that CPI did not reflect their cost drivers > additional indices create additional variance that could either negatively affect rate payers or the council > it was reported that the mechanism has hamstrung income growth and with expenses increasing at a higher rate than CPI > a historical review of rates and charges income in relation to expenses showed that this income has historically not covered all expenses within a council, therefore, councils have historically had to rely on other sources of income.	The use of the base average rate is appropriate, as the RCM sought to control the burden placed on ratepayers, leaving councils with greater dependency on other revenue sources.

Recommendations:
No recommendations are applicable for the calculation of the rate cap

Source: Stakeholder analysis, Grosvenor analysis; ***see appendix G and I for detailed stakeholder analysis and data analysis***

A review of process and administration component focused on the variation process (application for a higher rate cap to the ESC by councils)

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REVIEW REQUIREMENTS

1

(2) The purpose of the review is to determine—
(a) whether the mechanism for setting a cap on rates set out in this Part is still appropriate; and
(b) whether this Part is effective or needs to be amended.

4

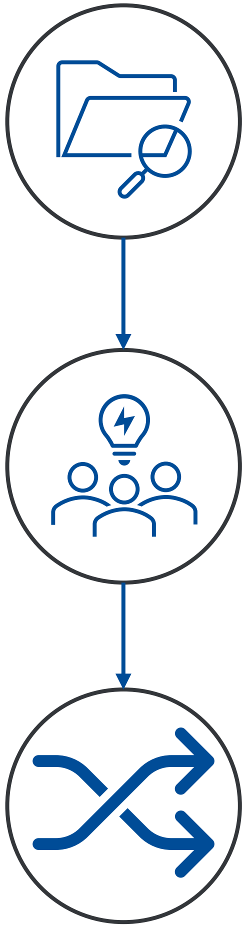
iii. the process by which councils apply to the ESC for a higher cap and a decision is made by the ESC, including the timing, appropriateness of guidance and other communications provided by the ESC as part of the process (s 185E of the Act).

EVALUATION QUESTIONS

5. How appropriate was the design of the administration and process supporting the mechanism? *(appropriateness)*
6. To what extent are the mechanism's policy objectives consistently implemented in its administration and process?

13. To what extent is the process by which councils apply to the ESC for a higher cap appropriate, efficient and effective? *(appropriateness, effectiveness and efficiency)*
14. What are the barriers to councils applying for a higher cap when they perceive that they require this, and how could these barriers be mitigated? *(the risk of perverse outcomes)*
15. To what extent is the process by which a decision is made by the ESC appropriate, efficient and effective?

> *(factors including the timing, appropriateness of guidance and other communications provided by the ESC as part of the process (s 185E of the Act) are to be specifically considered, in addition to other factors identified through the review)*



Review stage

- source and collect documentation
- documentation covered included:
  - ESC guidance
  - Legislation including the Victorian *Local Government Act 1989, Victorian Local Government Act 2020 and the ESC Act 2001*
- review documentation using the due diligence methodology

Consult stage

- design and collection of council surveys
- consultation which included
  - councils
  - ESC officers
  - ESC officers and Commissioners

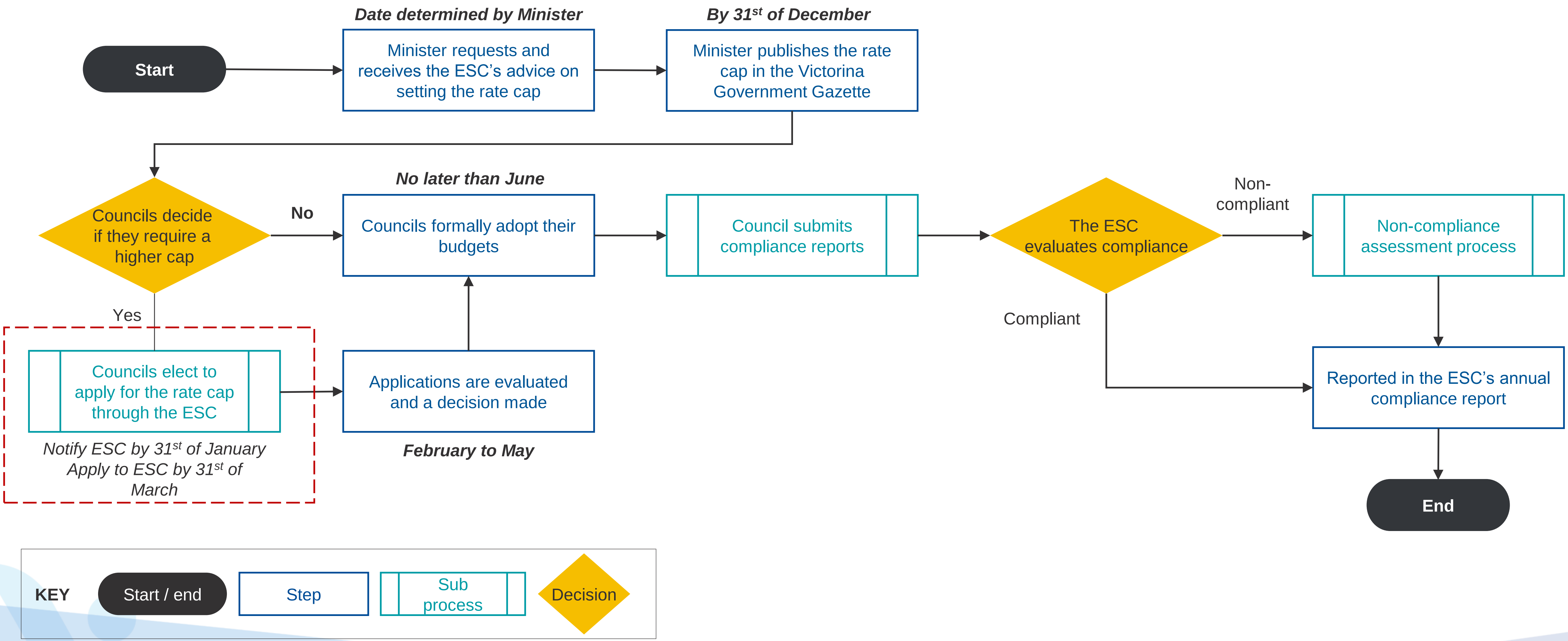
Analyse stage

- thematically review feedback
- create process summaries
- review documentation and consult feedback within stages of process summary
- review findings against elements being tested
- create recommendations

Note: ESC: Essential Services Commission
Sources: Part 8A of the Local Government Act (1989)

The annual rate cap process is robust involving the Minister, ESC and councils beginning in Dec to the following June each year

PROCESS SUMMARY OF THE RATE CAPPING MECHANISM

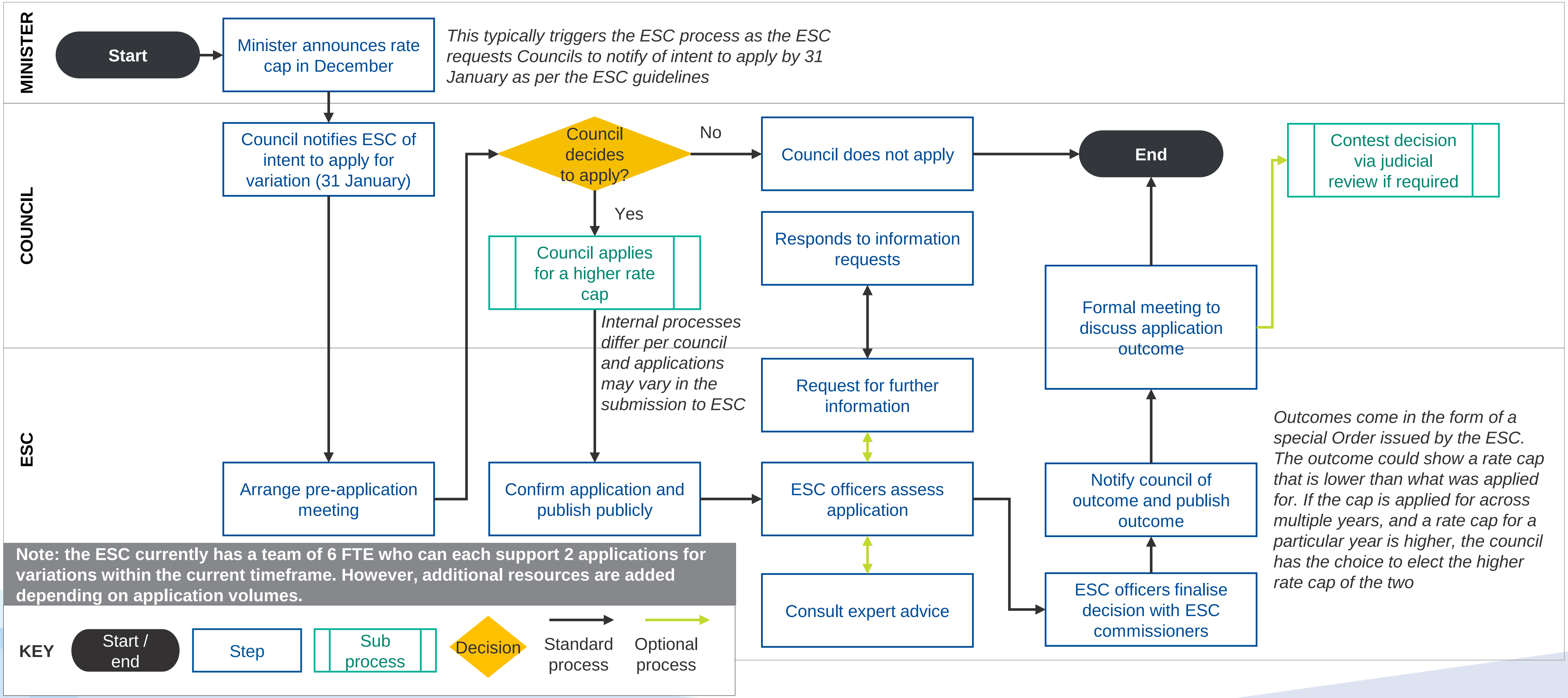


Note: ESC: Essential Services Commission

Sources: Part 8A of the Local Government Act (1989); Fair Go Rates system – applying for a higher cap: Guidance for Councils 2021-22; Fair Go Rates system – Compliance monitoring and reporting: Guidance for councils 2021-22;

A council may apply to the ESC for variation where the ESC may issue a unique rate cap through a special Order to the council applying

APPLICATION FOR VARIATION PROCESS – TYPICAL PROCESS ADOPTED BY MOST COUNCILS



Note: ESC: Essential Services Commission
Sources: Part 8A of the Local Government Act (1989); Fair Go Rates system – applying for a higher cap: Guidance for Councils 2021-22; Fair Go Rates system – Compliance monitoring and reporting: Guidance for councils 2021-22; Stakeholder analysis

Feedback and analysis centred around proposals to timeframes and alignment of the process with the LG Act 2020 with regards to community consultation

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KEY FEEDBACK CONSIDERED

- process documentation follows the process outlined within the Act. This provides a robust and multileveled approach to accountability through the entire process which includes varied stakeholders including the Minister, the ESC and councils
- the higher rate cap application process revealed that there is a continued engagement between the ESC and the council applying to provide support throughout the application process. The engagement includes multiple check-ins and guidance phases supported by the ESC

- documentation reviewed showed that there are multiple supporting artefacts supplied by the ESC. These artefacts provide a base on which councils can review their application against, and gain an understanding of the process that the ESC uses for assessment and decision making

- the ESC process when compared to the LG Act 1989, outlined the process and criteria to which judgement for a higher rate cap application should be reviewed against
- the review examined each element that was required to happen and compared these against the current rate cap mechanism which included the higher rate cap process overseen by the ESC and demonstrated alignment

- the timing of the process was reported as challenging due to tight turn-around times. For the variation process, councils have until end March to apply, and receive an outcome by end May (or mid-June if there are delays).
  - many councils reported that the effort required to submit an application to the ESC was substantial and the timelines for the decision and preparation are short (from December announcement to January consultation and March application)
  - the ESC has reported that some applications require more than eight weeks, and there are potential delays which could impact council budget finalisation. Should many councils apply in a particular year, there would be more pressure to process the application within the timeframe. Additional resources are added as required, however, it was proposed that an earlier application timeline, would allow the workload to spread over a longer timeframe

- the process for a higher cap application includes an assessment of the process of community engagement. It was reported that this criterion is not well understood by councils
- concern and lack of clarity was raised between the interface of Part 8A of the LG Act 1989 and LG Act 2021

DATA ANALYSIS

- councils largely agreed that the ESC was following due process which aligned with the process review methodology
- data analysis of the council survey revealed that not all councils are aware of the support provided by the ESC
- some councils perceived that they did not have the skill or resources available within their current staff compliment to complete a successful rate cap increase process
- council compliance was noted to have a material and immaterial assessment as per the ESC compliance framework with compliance improving, including a reduction in material non-compliance

Additional considerations:

Timeframes

- if the ESC had to accept earlier applications, before the announcement of the rate cap, a key component would be the consideration of the process outlined in the *LG Act 1989*. Below is an excerpt of section 185 E of the LG Act 1989

> section 185 E: Council may apply for a higher cap
> (2) An application under this section must be made –
> (a) By 31 March before the first capped year to which the application relates; or
> (b) by such other date fixed by the Minister by notice published in the Government Gazette

- based on the above, there is no provision that limits the ESC from executing this process earlier. However, a legal interpretation is recommended for greater clarity
- the current process is timed from the announcement of the rate cap. Thereby limiting the timelines to apply, analyse, provide and implement the outcome

Resourcing

- other considerations would include the impact on resource such as time and personnel requirements from the ESC

Community consultation

- the LG Act 2020 includes community consultation as a requirement. Further guidance from the ESC on this criterion would enable councils better meet this application component.

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints*; see appendix H and I for detailed stakeholder analysis and data analysis*

Sources: stakeholder feedback analysis; Grosvenor analysis

The assessment of the variation process identified that it is simple and easy to understand

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ELEMENT TESTED	FINDINGS	CONCLUSION
Align with legislative requirements? (Evaluation question 5, 6, 13 & 14)	> the ESC guidance is very clear that applications must demonstrate the statutory objectives and address all of the required legislative matters > the ESC breaks down its interpretation of the legislation and its expectation of applicants > the ESC consistently references the legislation when explaining the application process to illustrate its alignment to the legislation > councils have expressed that they believe the ESC is following the legislation.	The current *Higher rate cap* application process and outcomes align with the prescribed legislation in the Victorian Local Government Act of 1989 and 2020 as the Act is followed across all items.
Process of a higher rate cap application (Evaluation question 5, 6, 13 & 14)	> the language used in the guidance and support material is appropriate for a layperson without specialist knowledge on the rate cap process to understand, and provides clarifying statements > the ESC are aware of factors outside the application process that can aid or burden the application process and address them in their guidance > the guidance material contains a multitude of previous application examples and samples of the ESC's expectations to clarify the ESC's expectations > the ESC provides guidance in varying forms for councils in all stages of application through including thorough workshops and information sessions as well as with artifacts on their website > there is a clear continuous improvement mindset from the ESC that enables the process to continually be improved year on year > the ESC although very strongly focused on meeting the statutory objectives and legislative matters, have shown discretion when needed to support councils in difficult circumstances > understanding community consultation requirements was reported as unclear for councils by both the ESC and councils, with further concern mentioned around the integration of community consultation requirements laid out in the LG Act 2020.	The application process is simple and easy to understand due to provided guidance and consideration of local governance variances although councils perceive that there are barriers to application and their desired outcome. Councils do receive enough support throughout the application process as there is a large range of support material, and systems in place.
Outcome communication (Evaluation question 5, 6, & 15)	> the ESC is responsive in communications with councils during the application process, often responding to applicants within 1-2 business days > the final decision on the application by the ESC often occurs relatively quickly if there are no evidence delays from the council applicant.	The application outcomes are consistently communicated in a timely manner.

Source: Stakeholder analysis, Grosvenor analysis; ***see appendix H and I for detailed stakeholder analysis and data analysis***

Overall, the findings support that the rate capping mechanism, process and administration is appropriate, efficient and effective

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OVERVIEW OF KEY FINDINGS

Overview of the rate cap mechanism

> the rate cap mechanism drove impacts aligned to the policy objectives whereby greater revenue and cost management was reported without placing councils in a position of distress. The mechanism is flexible and enables other levers including the option to apply for variation

> outside factors such as the valuation process have a great impact on the rates charged at the individual ratepayer level, contributing to the lack of understanding by ratepayers of the mechanism. This is further exacerbated by a lack of understanding of how the rate cap announced each December is implemented

> a consequence to the rate cap mechanism is that it encourages the separation of rates and charges (e.g., waste charges as a separate line item on the rates notice). Councils who have ratepayers that can pay more have access to more services than their lower socio-economic counterparts

> the provision of the review in the LG Act 1989 was appropriate. Another review is recommended to assess long-term impacts with particular focus on the financial position of councils. Particularly, as most councils reported increased trade-offs between CAPEX and OPEX[1] spend, there is a greater need to monitor this and consider its impacts in the long-term

> barriers to effectiveness of the variation process included political roadblocks and possible media repercussions, as well as stigma surrounding the ESC (for those that have not worked with them) and the perceived difficulty of the variation process. The short timeframes to apply also serves as a barrier for some councils. As a result, councils are more likely to use alternative revenue raising and cost-cutting measures

> the variation process allows councils to apply based on their long-term financial needs. However, it was reported that councils are reluctant to commit to wage increases up to three years in advance due to income uncertainty driven by from annual rate cap announcements. This reflects that there may be a lack of maturity (in whole or in parts of) the sector, or in understanding of alternative options

> the mechanism requires councils to slow down the implementation of supplementary valuations in April or May in order to ensure compliance with the ESC resulting in less supplementary incomes. The compliance process is associated with negative repercussions, resulting in fear of non-compliance

> ESC is viewed as consistent, positive and enabling to the sector (to those that have worked with them) and is overall appropriate to providing support to the sector.

Setting of the rate cap

> the legislative provision of the LG Act 1989 for setting of the rate cap is:

— appropriate to the mechanism and the process of setting the rate cap is followed in line with the provision of the LG Act 1989

— flexible as it allows for the change in announcement dates as well as the provision of a rate cap or multiple rate caps per council type or groups of councils should it be required

> largely, councils, sector stakeholders and some government representatives suggested a change in timelines in some form or the other to reduce the pressure on councils, and provide more certainty

> the provision of advice to the Minister in setting the rate cap is appropriate and effective. However, transparency and demonstrated consideration for the advice provided by the ESC was mentioned as an area for improvement

> furthermore, stakeholders reported a lack of consultation by the ESC in informing the provision of advice to the Minister.

Calculation of the rate cap

> councils reported that CPI[2] did not represent their cost drivers. A comparison of whether other indices outside of CPI could be used were explored to augment the current base. The modelling of other standard indices was found inappropriate as it creates greater variance and therefore, greater uncertainty in the rate cap calculated

> efficiency factors were originally included within the ESC's advice to the Minister. Similarly, the Wage Price Index (WPI) was previously included as a weighted item. The Minister had elected to exclude the efficiency factor and WPI weighting in setting the rate caps of previous years. The ESC conducted a review of the calculation and found that using CPI alone had the same net effect as the inclusion of WPI with a discounted efficiency element in FY16/17 and 2017/18[3]

> a historical review of rates and charges income in relation to expenses showed that rates income has always required additional revenue in order to meet expenditure costs prior to the introduction of the rate capping framework. Since its introduction, rates has remained relatively stable with an increase in waste charges noted[4].

Process and administration

> guidance provided by the ESC is clear that applications must demonstrate the statutory objectives and address the required legislative matters. The ESC's interpretation of the legislation and its expectation of applicants consistently references the legislation when explaining the application process to illustrate its alignment to the legislation

> the language used in the guidance and support material is appropriate for a layperson without specialist knowledge on the rate cap process to understand and it provides clarifying statements. The ESC are aware of factors outside the application process that can aid or burden the application process and address them in their guidance. The material also contains a multitude of previous application examples and samples of the ESC's expectations. The ESC provides guidance in varying forms for councils in all stages of application. Uncertainty was raised in future applications regarding the community consultation provisioned for in the LG Act 1989 will align with the community consultation provision of the LG Act 2020.

Notes: (1) CAPEX: Capital Expenditure; OPEX: Operational Expenditure; (2) CPI: Consumer Price Index; The CPI utilised is the forecast CPI in the State Government Budget Papers (released in December); (3) However, the ESC recommended an inclusion of the WPI up to FY20/21 to account for inflexible fixed costs and labour costs
Source: Grosvenor analysis; (3) Advising a local government efficiency factor – final paper. ESC (2018); (4) See Appendix E

Time-pressures could be alleviated through three key options actioned by Minister, Councils and the ESC…

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RATIONALE: THIS CHANGE IS NEEDED BECAUSE…

Theme:
Time pressures experienced between the period of the variation process and finalisation of the budget that Councils adopt

Challenges:

- the timeline pressures between the period of the variation process and the finalisation of the budget that Councils adopt were reported as a challenge. The period of application (March – April), with an eight-week response time, with potential outcome notices in June, providing councils with little time to finalise budgets
- it must be noted that timeline pressures are also dependent on the following:
  - council methodology of planning for variation (e.g., incorporation of community consultation requirements during the budgeting process or as a separate process)
  - the use of systems (affecting effort required to action changes and meet timelines)
  - the date an application is sent

RECOMMENDATIONS: THERE IS A NEED FOR…	CONSIDERATIONS: THE CHANGE CAN BE IMPLEMENTED BY…
1 **The Minister for Local Government to announce an earlier cap using the forecast Consumer Price Index (CPI) published in the Victoria State Government Budget Papers (released in May):** The May CPI forecast should replace the CPI forecast published in Victoria State Government Budget Papers (released in December) in informing the rate cap. Variance between the two figures are relatively minimal. This would allow for up to an additional seven months for the application for variation to the ESC allowing both Councils as well as the ESC more time before the budget is finalised in June. Additionally, an announcement in May would allow for the rate cap to be used an input into the council's budget planning process noting that the process varies council to council (typically commencing between September and November for the following financial year).	> the LG Act 1989 provisions for the Minister to amend the date the rate cap is set; however, further consideration must be given if there is a requirement to amend the definition of CPI. The change in the use of the CPI to May, may require a legislative amendment of the definition of CPI utilised in the LG Act 1989 or LG Act 2020 once the Part 8A related to rate capping is incorporated > use of the May CPI is not as accurate as the December CPI; however, the variance between the two could be deemed as minimal > setting of an earlier rate cap would result in the provision of an additional seven months for councils to decide and provision for an application for variation should they choose. Knowing the rate cap prior to the budgeting process could serve as an input with positive planning implications, for e.g., the community consultation that satisfies the requirements for variation could be held prior to December. However, this process could also occur based on long-term financial needs > this may counteract the shift towards long-term financial planning to inform annual needs beyond the cap with councils possibly becoming more dependent on the May announcement > the ESC may have to consider resource implications to offer a year-long process > change in the date of setting the rate cap will not alleviate pressures experienced in April or May when annual valuations are finalised and impact the finalisation of the budget process. Setting the rate cap earlier will impact the application for variation process, provisioning more lead time to councils and response time for ESC
2 **Councils to begin their planning earlier and utilise a projected value:** Aligned to the LG Act 2020, councils are required to complete long-term financial planning (10 years). Part of this process would require councils to make assumptions on the forecasted CPI published in the Victoria State Government Budget Papers, in order to account for the rate cap. Similarly, should the ESC allow for earlier applications, applications can be based on the long-term financial needs as well as the May CPI forecast as an indicator for the December CPI forecast as these figures have historically been closely aligned.	> assumptions around the forecasted CPI could change substantially and may not be accurate > as councils apply the provisions of the LG Act 2020, there will be a shift towards long-term financial planning (affecting councils who do not already practice this), the process will inherently assist in meeting of the requirements, should best practice be adopted > there may be challenges experienced in defining what is adequate community consultation that satisfies both the LG Act 2020 requirements as well as the six criteria in the LG Act 1989 that is assessed by the ESC > a challenge to this option may be that May CPI forecast is substantially different from the December CPI forecast
3 **ESC to review applications for variation all year round:** To allow councils to apply to the ESC for variation ahead of the January timeframe, providing more time for application submissions as well as application processing ahead of the June date for budget finalisation	> an extension of the timelines would have resource considerations for the ESC > a challenge with this option is that the cap may not yet be known, however, should be based on the long-term needs of the Council Note: the LG Act 1989 does not prescribe that applications may only be considered after the announcement of the cap, however, the current process and timelines follow this sequence

Source: Stakeholder analysis, Grosvenor data analysis; ***see appendix F and I for detailed stakeholder analysis and data analysis***

…where, if all three options were adopted, councils' could benefit in three main ways

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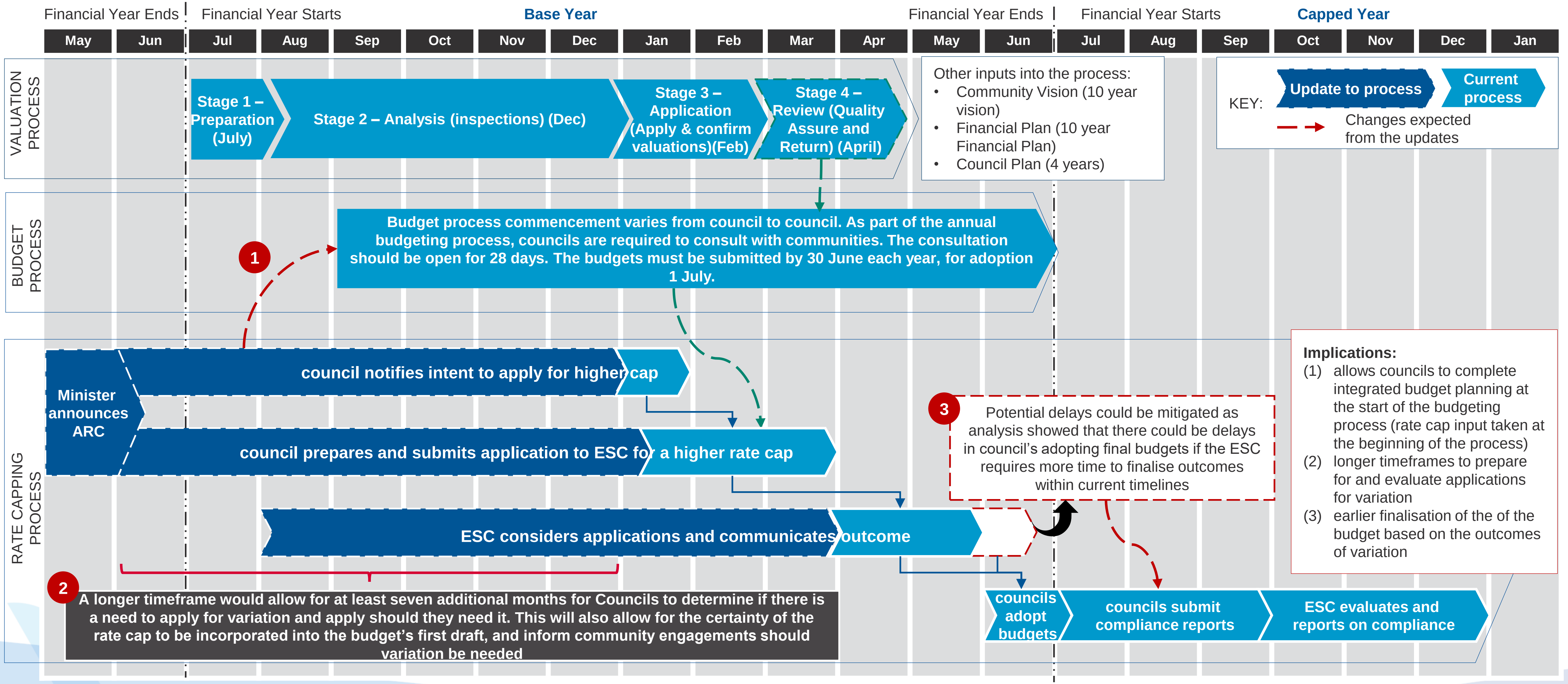

Notes: ARC: Average Rate Cap; RCM: Rate Capping Mechanism

Sources: https://www.land.vic.gov.au/valuations/; Valuation Best Practice Specifications Guidelines 2022; https://www.viccouncils.asn.au/what-councils-do/council-responsibilities/key-council-documents; stakeholder analysis; ***see appendix F and I for detailed stakeholder analysis and data analysis***

A shared understanding of the sector could be facilitated through aligning terminology, communications and education of the sector

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RATIONALE: THIS CHANGE IS NEEDED BECAUSE…	RECOMMENDATIONS: THERE IS A NEED FOR…	CONSIDERATIONS: THE CHANGE CAN BE IMPLEMENTED BY…
Theme: **Communication and understanding of the sector** **Challenges:** > lack of understanding of the mechanism by ratepayers. This is further inhibited by the need for councils to explain this concept, along with the state and the ESC (e.g., ESC refers to it as the Fair Go Rates system which is not mentioned within the legislation) creating additional confusion through differing terminology usage > interpretation of the policy objectives and design principles varied across stakeholder groups > there is no clear or accessible articulation of the framework which clarifies the roles and responsibilities of various stakeholders (e.g., ratepayer associations attributed the design of the mechanism to the ESC) > it has been reported that high complaint volumes from ratepayers are being managed at the council level. Clear and consistent communication could partially address complaints regarding the understanding of how the mechanism is implemented > there are barriers to application for variation, suggesting that the mechanism cannot be used as intended when councils will not consider it due to stigma around the variation process	4 **The Department to provide clear terminology and an explanation of the mechanism:** The current terminology utilised differs across stakeholders. For e.g., the ESC refers to the mechanism as the Fair Go Rates System. It is recommended that the Department clarify and use the updated terminology and explanations to enhance understanding of the mechanism by the sector (inclusive of ratepayers). The explanation should also clearly delineate roles and responsibilities amongst stakeholders. This should facilitate shared understanding across the sector.	> the sector could be consulted based on a first draft to ensure that it is clear to all stakeholder groups
	5 **The Department to centralise communication resources of the mechanism at Minister or State level:** The current scenario requires all stakeholders to explain the rate capping mechanism, which is not executed consistently. It is recommended that the information is best placed to be centralised through the Department (all resources utilising the same terminology, explanations and videos) that other stakeholders could reference and share.	> the Department could nominate that this is better placed with another stakeholder (e.g., the ESC). However, it is pertinent that the same information be shared. This would reduce the administrative burden of 79 councils to repeat the information, along with other stakeholders in the sector (e.g., MAV); and would enable the sharing of the same information communicating one unified explanation
	6 **The Department to strengthen support and education around the variation process by supporting the ESC in its annual roadshows:** Currently, there is a stigma surrounding both the ESC (seen as an enforcement agency) as well as the variation application process. The Department should show visible support of the variation process through joining the ESC in its annual roadshows as well as to engage with councils on the rationale behind the variation process and facilitate greater understanding of the rate capping mechanism. This may reduce barriers to application by councils that may be blocked politically (at council-level) or fear media repercussions by encouraging the use of the process. Political and media barriers may continue to persist; however, education and engagement efforts may reduce the reluctance to apply for variation.	> the Department and ESC could work closely together to identify other methods of reducing stigma and educating the sector on the mechanism

Sources: Stakeholder analysis, Grosvenor analysis

The ESC should include sector input into their advice to the Minister, and the Minister a rationale to the rate cap announcement to foster greater transparency

RATIONALE: THIS CHANGE IS NEEDED BECAUSE...	RECOMMENDATIONS: THERE IS A NEED FOR...	CONSIDERATIONS: THE CHANGE CAN BE IMPLEMENTED BY...
Theme: **Communication and understanding of the sector** **Challenges:** > a lack of transparency in how the Minister makes a decision when setting the rate cap as the Minister has historically chosen a cap that had not been in line with the advice provided by the ESC	7 **The Minister for Local Government to communicate rationale behind rate cap decision:** The Minister currently requests advice from the ESC on setting the rate cap, which is provided to the Minister in December prior to the announcement. The Minister then announces the rate cap through a general or special Order. However, the announcement has historically stated the rate cap with no explanation. To enhance transparency and support additional buy-in, the Minister should provide an explanatory note to clarify the advice considered in arriving at the final rate cap.	> the Minister could include an explanation in the release of the special Order on how the rate cap was derived. This will promote buy-in across stakeholder groups and complete the communication loop for the setting of the rate cap process
Theme: **Greater engagement of the sector** **Challenges:** > there is a reported lack of consultation of the sector by the ESC in providing advice to the Minister	8 **ESC to include sector feedback in the provision of advice to the Minister on setting the rate cap:** The current advice from the ESC to the Minister in setting the annual rate cap does not include any feedback from the sector. The ESC could note feedback from consultations held throughout the year or the feedback from the biennial report (if stakeholder feedback was collected) in the provision of advice to the Minister in setting the rate cap. This would allow for greater sector buy-in as the views of the sector would have been captured as an input.	> timelines for the provision of advice may not be conducive to stakeholder consultation, however, this input could be catered for through the biennial report and collection of input throughout the year > a challenge to this recommendation could be that the recommendation may be an extension of scope outside of what was originally required from the ESC with the requirement for an alternation of scope prior to commencement

Sources: Stakeholder analysis, Grosvenor analysis

Lastly, integrated budget planning and monitoring of the sector should continue

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RATIONALE: THIS CHANGE IS NEEDED BECAUSE...	RECOMMENDATIONS: THERE IS A NEED FOR...	CONSIDERATIONS: THE CHANGE CAN BE IMPLEMENTED BY...
Theme: **Continued monitoring of the state of councils** **Challenges:** > concern of negative long-term impacts on the financial sustainability of councils. In particular, the continued trade-offs between CAPEX and OPEX is of a future concern	9 **The ESC to conduct 10 yearly assessments of the financial state of the Sector:** The current scenario allows for a four-yearly government review of the impact of the rate cap mechanism. As the ESC conducts the biennial reviews, it is recommended that the ESC would be best placed to also conduct the four-yearly review. However, it also recommended that the next review should take place in 2026, measuring the impact at the ten-year mark instead of in year eight (2024). Specifically, the ten-year review should also include the financial state of the sector (including the spend spread of CAPEX and OPEX historically and projected) and the impacts thereof. Other stakeholders such as VAGO, already monitor and report on financial sustainability of councils. It is recommended that the ESC engage with and incorporate these indicators into their existing reports and processes to provide a holistic view on the financial state of the sector. The ESC is best placed to complete this as they already run a biennial process. Further reviews could take place at ten-year intervals accommodating for the maturity of the sector and length of time for changes to be experienced.	> the use of VAGO indicators (as well as information provided by other stakeholders in the sector) in the biennial reports could reduce any duplication of effort and align reporting standards > possible challenges could include managing the varying datasets of information (e.g., data may vary based on reporting periods, specific information collected, and varying calculations).

Sources: Stakeholder analysis, Grosvenor analysis

Table of Contents

Terms and Abbreviations

Grosvenor PUBLIC SECTOR ADVISORY

ABBR.	TERM	DEFINITION
ASU	Australian Services Union	Refers to the union representing municipal workers
	Average Rate Cap	An amount expressed as a percentage amount, based on the change to CPI over the financial year to which the cap relates, plus or minus any adjustment
	Base Average Rate	Defined within section 185b of the Local Government Act 1989
	Base Year	Financial year preceding the capped yea
CPI	Consumer Price Index	Refers to the measure of household inflation as measured by a collection of goods and services. In the context of the calculation is means the forecast Melbourne consumer price index, as published in the budget update prepared under the Financial Management Act 1994
DJPR	Department of Jobs, Precincts and Regions	Refers to the Victoria State Government Department of Jobs, Precincts and Regions
DPC	Department of Premier and Cabinet	Refers to the Victoria Department of Premier and Cabinet
DTF	Department of Treasury and Finance	Refers to the Victoria Department of Treasury and Finance
ESC	Essential Services Commission	As defined in, and, has the same meaning as Commission has, in the Essential Services Commission Act 2001
FY	Financial year	The period of 12 months ending on 30 June each year

ABBR.	TERM	DEFINITION
	General Order	Means an Order made by the Minister under section 185D of the LG Act 1989
FinPro	Local Government Finance Professionals	Refers to the peak body servicing Local Government Finance Professionals in Victoria
	Higher Cap	An amount expressed as the average rate cap specified in a general Order plus an additional percentage amount in respect of that financial year
	Local Community	(a) People who live in the municipal district; (b) People and bodies who are ratepayers; and (c) People and bodies who conduct activities in the municipal district
LG Act 1989	Local Government Act (1989)	Refers to the Local Government Act (1989)
LG Act 2020	Local Government Act (2020)	Refers to the Local Government Act (2020)
MAV	Municipal Association Victoria	Refers to the membership association and the legislated peak body for local government in Victoria
RCM	Rate Capping Mechanism	Refers to rate capping mechanism as defined in Part 8A of the LG Act 1989
RMA	Revenue Management Association	Refers to the Revenue Management Association
	Special Order	Special Order means an Order made by the Essential Services Commission under section 185E of the LG Act 1989

ABBR.: Abbreviation;
Source: LG Act 1989; https://www.finpro.org.au/about-us/; https://www.mav.asn.au/; https://www.rma.org.au/about-us

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A robust project plan was delivered over four months

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	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7
	Establish and manage project	**Conduct due diligence**	**Conduct process review**	**Stakeholder consultation**	**Develop scenario modelling**	**Draft & finalise report**	**Present findings & project close**
Time	**6 Sep - 14 Sep '21**	**13 Sep - 20 Sep '21**	**25 Oct '21 – 12 Nov '21**	**4a: 13 Sep - 11 Oct '21 | 4b: 13 Sep -14 Nov'21**	**21 Sep '21 – 18 Oct '21**	**8 Nov '21 – 15 Dec '21**	**3 Dec '21 – 15 Dec '21**

Activities	> meet with project team and sponsor
	> confirm:
	  > drivers and objectives
	  > project methodology
	  > success criteria for deliverables
	  > timelines
	  > roles and responsibilities
		> review background material
		> benchmark and capture lessons learned in other jurisdictions where rate capping has been implemented or considered
		> identify information gaps and questions to be addressed through further research and consultation
		> summarise and present insights to the Department
			> agree scope of process review, including sample LGs
			> conduct survey of all (~17) LGs that have applied for a higher cap
			> conduct desktop review of process policy and procedures
			> consult with ESC administrative officers and observe their approach to the agreed processes
			> review documentation for sample of files (up to 6)
			> conduct in-depth interview with sample of 6 LGs that have sought a variation to gather insights from their experience
			> document process review findings
				4a: Gov. & Industry consultations
				> finalise stakeholder consultation plan
				> develop Key Evaluation Questions and test consultation guides
				> conduct up to 15 x 1 hour consultations with government, industry and peak bodies, State Gov departments representatives, Ratepayer associations
				> design and implement quantitative survey of all LGs
				> conduct 6 x one-hour workshops with LG representatives
				> aggregate stakeholder consultation and workshop findings to themes, document and present to the Department
				4b: Ratepayer consultations
				> develop a survey tool designed to gather rate-payer insights
				> publish survey online
				> promote survey to existing contacts (n= ~3000)
				> promote survey to broader ratepayer public through local governments and peak bodies
				> analyse survey data and present survey report to the Department
				> design and conduct up to four ratepayer focus groups
					> based on research and consultation findings, model alternative rate capping approaches and conduct sensitivity testing
					> use outputs to inform options and recommendations
					> document and present findings to the Department
						> conduct workshop with the Department to test and strengthen findings
						> test writing plan with the Department
						> consolidate step deliverables into a draft statutory review report.
						> submit to the Department for review and feedback
						> update and finalise Final Report, incorporating feedback
							> develop presentation pack and test with the Department
							> present findings to Ministers

Deliverables	> **Project Plan**	> *Summary desktop analysis*	> *Summary of process review findings*	> **Consultation Report, LG Survey Report & Ratepayer Survey Report**	> *Showcase of scenario modelling*	> **Draft and Final Statutory Review Report**	> **Presentation Pack Presentation to Exec and Ministers**

Sampling method for councils that have applied for variation

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Of the 26 applications made by local governments for a rate cap variation, a sample of six was derived using purposive cluster sampling, which ensured representativity.

Selection methodology

A purposive cluster sampling methodology was applied in selecting the sample for deeper analysis. First, a review of councils that applied for rate cap increases was completed. Based on this review, itemised criteria were reviewed with a sample selected to represent items within the range. The review included the following items:

> **location of the council:** a balance between regional and metro councils were selected

> **outcome of the application:** both approved and not approved councils were selected

> **year that the rate cap would apply to:** applications across varying years were selected (2016-2017 through to 2021-2022)

> **length of cap request:** a range of cap extensions were selected (1 year, 4 years and 3 years)

> **size of the cap requested:** a range of high, medium and low cap requests were selected (3.53% through to 13.94%).

Sample selected

COUNCIL NAME	COUNCIL TYPE	REQUESTED CAP INCREASE
City of Ballarat	Regional	3.70%
Wyndham City Council	Metro	4.50%
Towong Shire Council	Regional	6.34%
Monash City Council	Metro	3.53%
Mansfield Shire Council	Regional	13.94%
City of Warrnambool	Regional	4.50%

The sample was representative of councils, sector and other while the ratepayer sample did not reach the desired rate

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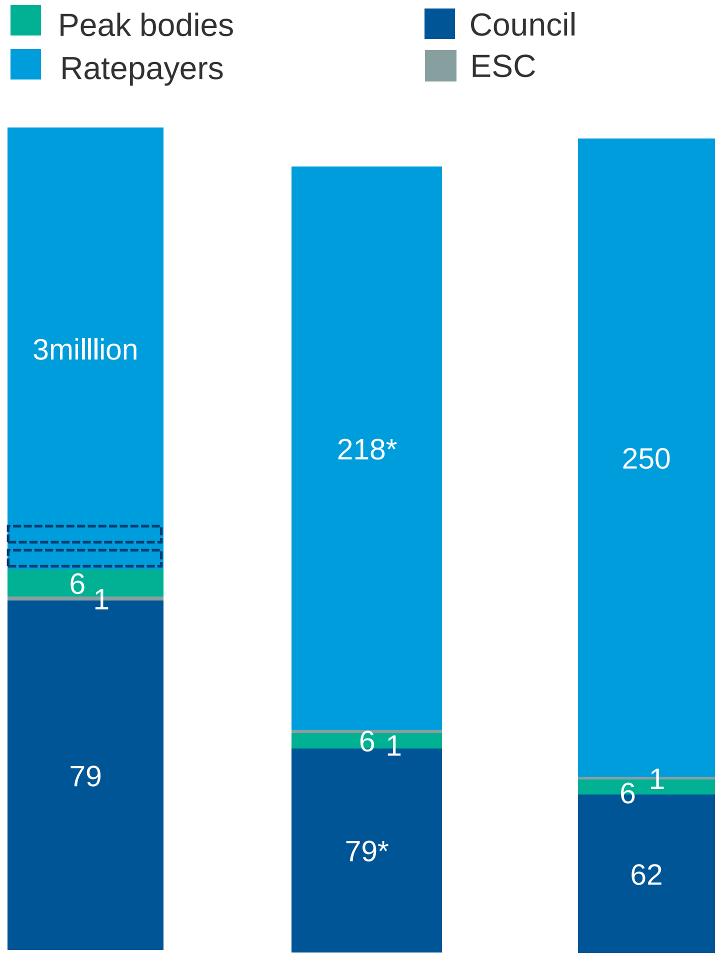
Stakeholder	Online survey	Focus groups	One-on-ones	Data source
Council	Online survey	Focus groups	One-on-ones	Stratified sampling from list of all councils
Ratepayers*	Online survey			Random sampling from digital marketing
Peak bodies and other stakeholders			One-on-ones	Stratified sampling from review of stakeholders and the Department feedback
ESC			One-on-ones	ESC rate capping internal team and ESC Commissioners

Population pool (N)	Surveys distributed (n_4)	Sample size required (n_3)



*Two rounds of advertising were used, and ratepayer associations were requested to promote the survey

The project scope was focused and under time constraints, resulting in some limitations

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Limitations

A number of foreseen limitations were noted as part of the project planning. Where possible, the review design attempted to address these limitations, however, any findings presented should consider the following limitations as caveats:

> the scope of the review highlights a small part of the broader rates system. It is recommended that a broader view be undertaken to examine outcomes and impacts of the system as a whole

> limited understanding of the rate capping mechanism by some stakeholders

> conflation of the rate capping mechanism and level of satisfaction with council services by stakeholders

> intrinsic tensions and trade-offs between stakeholder benefits and dis-benefits derived from the rate capping mechanism. This means that any problem or potential solution will be perceived and experienced differently by different stakeholders

> available data sources and breakdowns of information were utilised. It must be noted that data from differing sources may not align perfectly and can be attributed to different reporting mechanisms, reporting periods, ratios and other data collected by various governing institutions. Data used from VAGO and Know Your Council were not validated against council annual reports or external audits

> the review did not collect personal information and basic demographics of ratepayer respondents, and therefore the sample obtained could not be analysed to ensure representativeness. Targeted advertising was deployed by the Department to ensure that the advert reached all Council populations

> the ratepayer survey sought to obtain a sample of 250 ratepayers. However, a high drop-off rate was experienced likely due to the complexity of the topic. Therefore, the interpretations and applicability of the responses are limited as they are not representative of the entire population (across the 79 Councils). Additionally, there were ± 20 responses received, that had identical open-text answers submitted. As the responses were identical, it could not be determined how representative this view was of the broader population and were removed from the dataset. This further reduced the number of responses received in the ratepayer survey

> as the review was undertaken during COVID-19 conditions, all consultations were held in a virtual environment

> the higher cap variation process was an area included in the present review. The review was conducted from September 2021 (outside of the March – June period whereby applications for higher cap are filed and processed) and therefore, all process and administration review elements were based on desktop research and stakeholder consultations. The review was limited in that it could not examine a live process from application to outcome

> some stakeholders held the expectation that the role of the reviewers of the present review was to educate as part of the engagement. This was not the role of the consultants facilitating the process, and further communication and engagement efforts should be explored

The Victorian rates system can be complex and entails various mechanisms in order to meet the needs of each community

What is a council rate?

Councils all throughout Victoria deliver over 100 community services and provide and maintain infrastructure such as roads, bridges and community facilities to the public. Funds are needed to enable the councils to provide all of this. A portion of these funds are derived from council rates. Council rates are a form of property tax wherein the value of each property serves as a basis for calculating the rate. The council rate may be comprised of up to three components: i) municipal charge; ii) service rates and charges; iii) special rates and charges; and iv) general rates.

How are general rates calculated?

Step 1 – Obtain the rate in the dollar

a. Rates revenue to be raised is determined by the council

b. All rateable properties aggregated Capital Improved Value[1]

c. Obtain the rate in the dollar

Step 2 – Calculate the general rate

a. Assessed value of the property

b. Rate in the dollar (from previous calculation)

c. Calculate the general rate

Example:

A council plans to raise $25 million in rates and the municipality has a total of $5 billion in Capital Improved Value[1] for all rateable properties. The rate in the dollar is then obtained by dividing $25 million by $5 billion which equals 0.005. This completes Step 1.

The assessed value of a property is $500,000 and the previously calculated rate in the dollar is .005. The general rate would then be $500,000 multiplied by 0.005 which is $2,500. This completes Step 2.

[1] Capital Improved Value is the aggregated value of the land, the structure and any capital improvements.

Sources: www.localgovernment.vic.gov.au; www.viccouncils.asn.au

In addition to the general rates, other charges may be levied to ensure that councils can continue to provide its services

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Service rates and charges

Councils may charge a service rate or annual service charge or any combination of such a rate and charge for any of the following: provision of water, collection and disposal of refuse; provision of sewage services and any other prescribed service. A service charge is the most common way that councils charge for services, although some may charge a service rate based on the property valuation. The charge commonly appears as a separate amount on the rate assessment notice. A different amount may be charged for different property categories or for different sized bins for waste purposes.

Municipal charges

A municipal charge is a flat charge that can be used to offset some of the council's administrative costs. The total amount raised from a municipal charge cannot be more than 20% of the total raised from the combination of municipal charge and general rates. Some councils nominate which costs will be paid for by the fixed municipal charge.

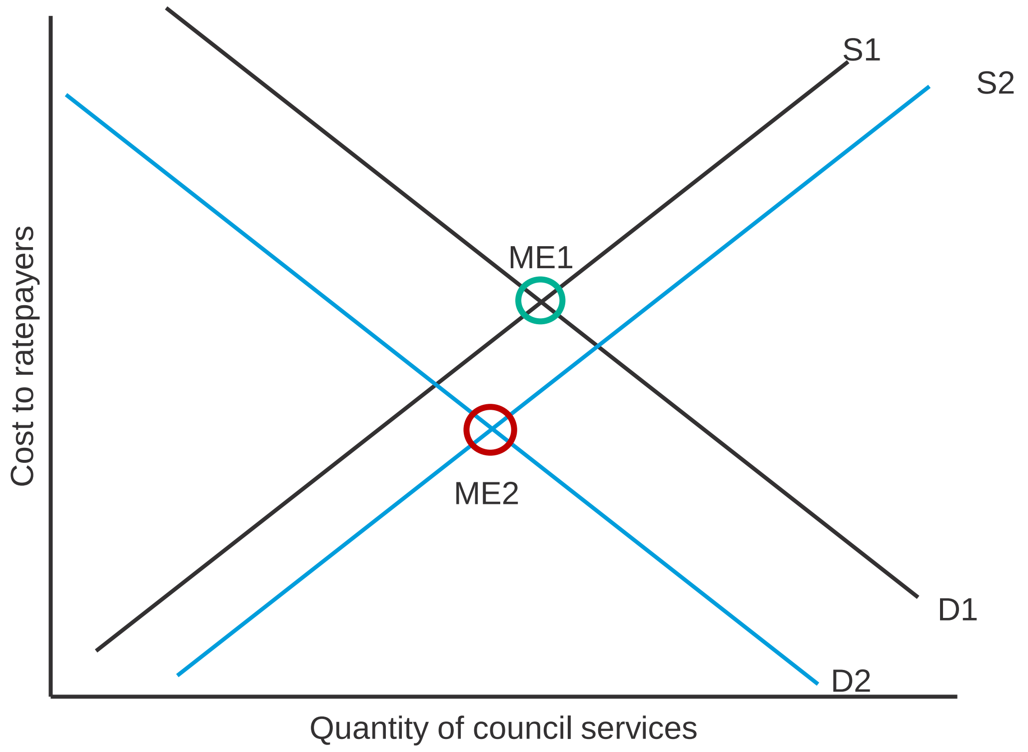
Special rates and charges

Sometimes a council will levy special rates or special charges. "A Council may declare a special rate, a special charge or a combination of both only for the purposes of defraying any expenses; or repaying (with interest) any advance made to or debt incurred or loan raised by the Council in relation to the performance of a function or the exercise of a power of the Council, if the Council considers that the performance of the function or the exercise of the power is or will be of special benefit to the persons required to pay the special rate or special charge."[1] These are different from general rates and charges because they are levied for particular works or services and they are levied on a limited number of ratepayers.

Common examples of special rates or charges include schemes for constructing footpaths, roads, kerbs and channels or drains. They may cover the provision of services like promotion, marketing or economic development (for example, for commercial businesses).

*Sources: *Excerpts from Know Your Council Victoria; LG Act 1989; (1) Section 163 of LG Act 1989*

The review mechanism relies on both councils and ratepayers to create a balanced approach



S1: Supply of council services at prior mechanism
S2: Supply of council services adjusted
D1: Demand for council services prior to rate capping
D2: Demand for council services adjusted
ME1: Original market equilibrium before rate capping
ME2: Revised market equilibrium with reduced supply of services and reduced demand

A mechanism that uses the market for balance

The current rate capping mechanism allows for councils to approach the ESC with a variation to increase the rate cap based on a number of criteria. This criteria includes councils demonstrating a need for a higher rate cap, and community consultation regarding this need. Exploring this approach using an economic supply and demand approach, it can be seen that the mechanism allows for two viable outcomes which run concurrently:

1. to reduce the burden on ratepayers, council reduces the supply of services (S1 moves to S2)
2. ratepayers have a reduced demand on council for a range of services (D1 moves to D2).

The movement of the supply and demand thus create a new market equilibrium (ME2), to which councils supply their services to the level to which the community needs, in tandem with the community dropping or not having a demand for these services.

If the supply of services does not change (S1), but demand drops (D1 moves to D2), then the cost to the ratepayer does not decrease to its maximum efficiency but additional services are still provided.

Should the community demand remain at its current level (D1), councils can request a variation to remain at its current supply level (S1). The variation allows for both councils and the community to have agreement on the level of supply and demand for services thus being able to understand the equilibrium that both stakeholders determine. The outcome of this can then be used to either apply for a higher rate cap through the variation process, or to agree that costs for services are not wanted by the community and no variation should proceed.

Source: Governor analysis

Since its ratification, a number of reviews have taken place to understand the outcomes and impact of the mechanism

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Sep 2015
A Blueprint for Change - LG Rate Capping and Variation Framework Review

2015
Local Government Act amended (Heading and ss 185A–185C) amended by No. 65/2015 s.8.

Dec 2015
First report into rate capping policy Legislative Council Environment and Planning Committee

Jun 2016
Second report into rate capping policy Legislative Council Environment and Planning Committee

Sep 2016
Fair Go Rate System Independent External Review

Dec 2016
Third report into rate capping policy Legislative Council Environment and Planning Committee

Jun 2017
Fourth report into rate capping policy Legislative Council Environment and Planning Committee

Aug 2017
Shifting the Dial, 5 Year Productivity Review Supporting Paper No. 16 Local Government

May 2019
ESC Report: The outcomes of rate capping 2016-17 to 2017-18

Mar 2020
Local Government Rating System Review Report of the Ministerial Panel

April 2020
Local Government Act (2020) released

The *Local Government Act 2020* will be proclaimed in four stages. Stages 1 to 3 have commenced, with the final stage commencing on 1 July 2021. Parts of the *Local Government Act 1989* remain in force including the provision of Part 8A

Oct – Dec 2021
Local Government Rate Cap Mechanism, Administration and Process Review (present project)

May 2021
ESC Report: The outcomes of rate capping 2016-19 to 2019-20

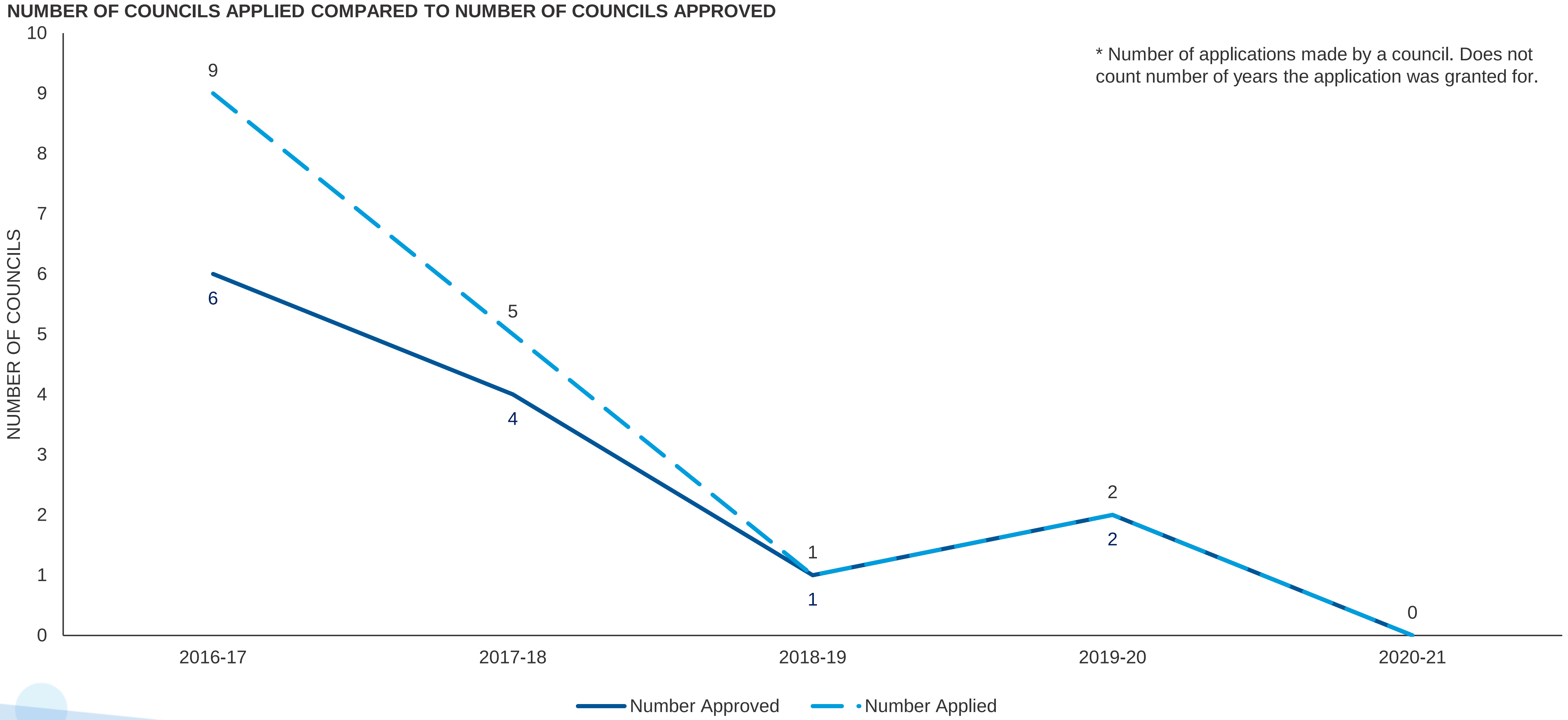
2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021

Key findings from our 2021 outcomes report

- Annual growth in council rates has slowed
- In general, the financial health of the sector remained strong
- The pandemic reduced the sector's revenue

Sources not listed above: https://www.localgovernment.vic.gov.au/council-governance/local-government-act-2020; https://www.esc.vic.gov.au/local-government/rate-capping-outcomes-reports/local-council-outcomes-report-2021

Over the last five years, 17 applications have been made to increase the rate cap, with 13 approved*



* Number of applications made by a council. Does not count number of years the application was granted for.

Source: ESC Higher Rate Cap Reports 2016-17 to 2020-21

Since 2016, councils have largely been compliant with the rate cap, with the highest non-compliance rate occurring in 2018 (5%)

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COUNCIL COMPLIANCE

Compliance with the Fair Go rate cap has seen a change since 2016 with a reduction in the percentage of councils that were not materially compliant. Councils that were immaterially compliant now cover all non-compliance since 2019.

The percentage of non-compliance peaked in 2018 with 5% (n=4) councils.

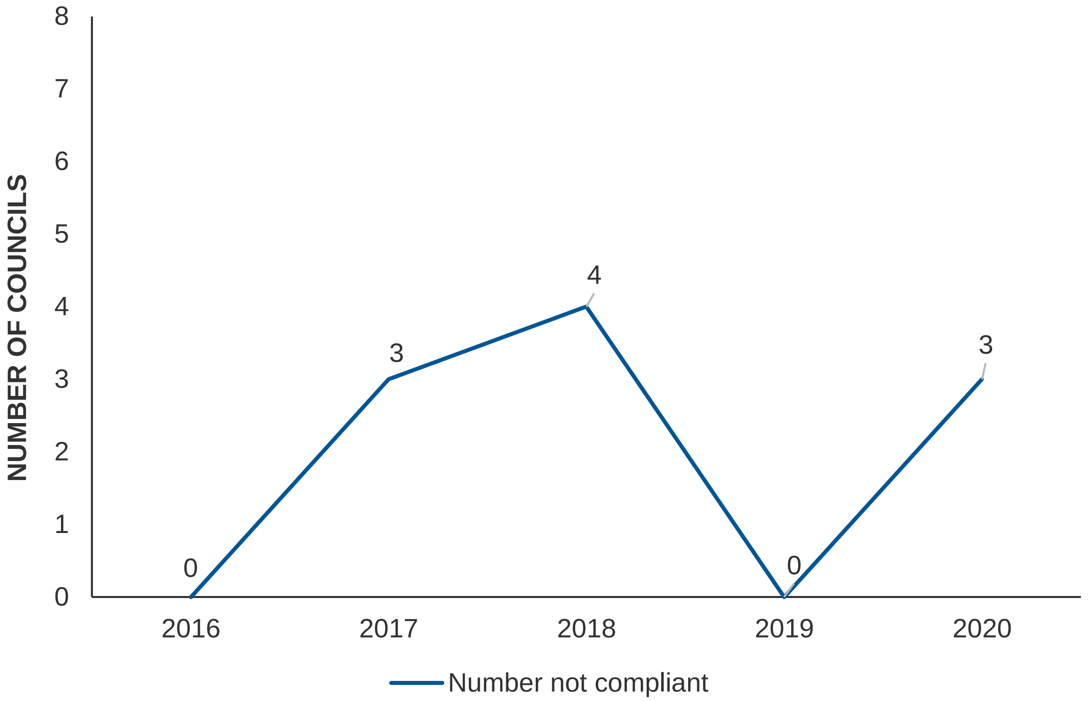
80% of all non-compliance has been immaterial.

No council has been non-compliant (material or immaterial) twice since the rate cap monitoring began in 2016.

As a mechanism to cover some costs outside of the cap, waste service charges have been introduced by some councils. The waste service chargers have been reviewed by ESC. The finding from ESC was the overall impact is neutral, or immaterial. Most councils introducing the waste service cap was either revenue neutral, or covering increasing costs such as the uptake of recycling initiatives.

Definition*:
Immaterial non-compliance: a small difference which is negligible (e.g.,: a few cents on the average ratepayer)
Material non-compliance: a difference which is larger than few cents (e.g.,: a few dollars on the average rate payer)

NUMBER OF COUNCILS THAT WERE NON-COMPLIANT



Rate cap compliance %					
	2016	2017	2018	2019	2020
% not compliant	0%	4%	5%	0%	4%
-immaterial	0%	67%	75%	0%	100%
-material	0%	33%	25%	0%	0%

*Source: ESC Compliance Reporting 2016-2020; * GPG review of ESC Compliance Reporting*

Policy objectives were tested by asking all stakeholders the same questions with feedback categorised and rated

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ELEMENT TESTED	METHOD	QUESTIONS	COUNCIL	ESC	STATE GOV DEPTS	SECTOR PBs	SECTOR S.	RATEPS
Policy objectives > to put downward pressure on rate increases as council rates are a significant contributor to cost of living > to impose financial discipline on councils in utilising their revenue raising authority > to facilitate greater transparency and accountability in local government governance > to encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians > to encourage more certainty in the rating system	> Face-to-face	> From your perspective, has the Rate Capping Mechanism contributed to these policy objectives? Why or why not? > What have been any success factors or barriers to the mechanism's ability to contribute to these policy objectives? > Do you have ideas for how these policy objectives could be better met? > How would you describe the intentional and unintentional impacts in the implementation of the Rate Capping Mechanism? > Do you have any comments on how the mechanism is implemented in accordance with its legislation?	✓	✓	✓	✓	✓	✓
	> Survey	**Council survey** > Survey questions can be found under *Appendix I* **Ratepayer and ratepayer associations survey** > Survey questions can be found under *Appendix I*	✓					✓

Source: Local Government Act 1989; Essential Services Commission; State Government Departments; Sector Peak Bodies; Sector Stakeholders (Sector S.); Ratepayers and Ratepayer Associations (Rateps). Note: only input received in respect of the present section is captured in the proceeding slides. This means that all stakeholders asked may not have provided input into the specific area.

The perceived ratings varied per stakeholder grouping, with large-scale agreement on the downward pressure introduced by the cap

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POLICY OBJECTIVE	COUNCIL	RATEPAYERS	SECTOR PEAK BODIES	SECTOR STAKEHOLDERS	STATE GOV REPS.	ESC
(1) To put downward pressure on rate increases as council rates are a significant contributor to cost of living.	M	S	M	S	M	ESC's feedback was not detailed to specify their view on each of the policy objectives, therefore perception ratings could not be presented here. However, their feedback is provided later in the section
(2) To impose financial discipline on councils in utilising their revenue raising authority.	S	S	S	N	M	
(3) To facilitate greater transparency and accountability in local government governance.	S	N	S	N	S	
(4) To encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians	S	S	S	S	M	
(5) To encourage more certainty in the rating system	S	S	N	N	Rating could not be established	

KEY: N Objective not met S Objective met to some degree M Objective met to a large degree or fully

Source: Stakeholder Analysis, Council Survey Results (2021), Ratepayer Survey Results (2021); Essential Services Commission; State Government Departments; Sector Peak Bodies; Sector Stakeholders; Ratepayers and Ratepayer Associations

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Focusing on the council survey results, the differing perspectives are reflected in the spread of agreement and disagreement (1)

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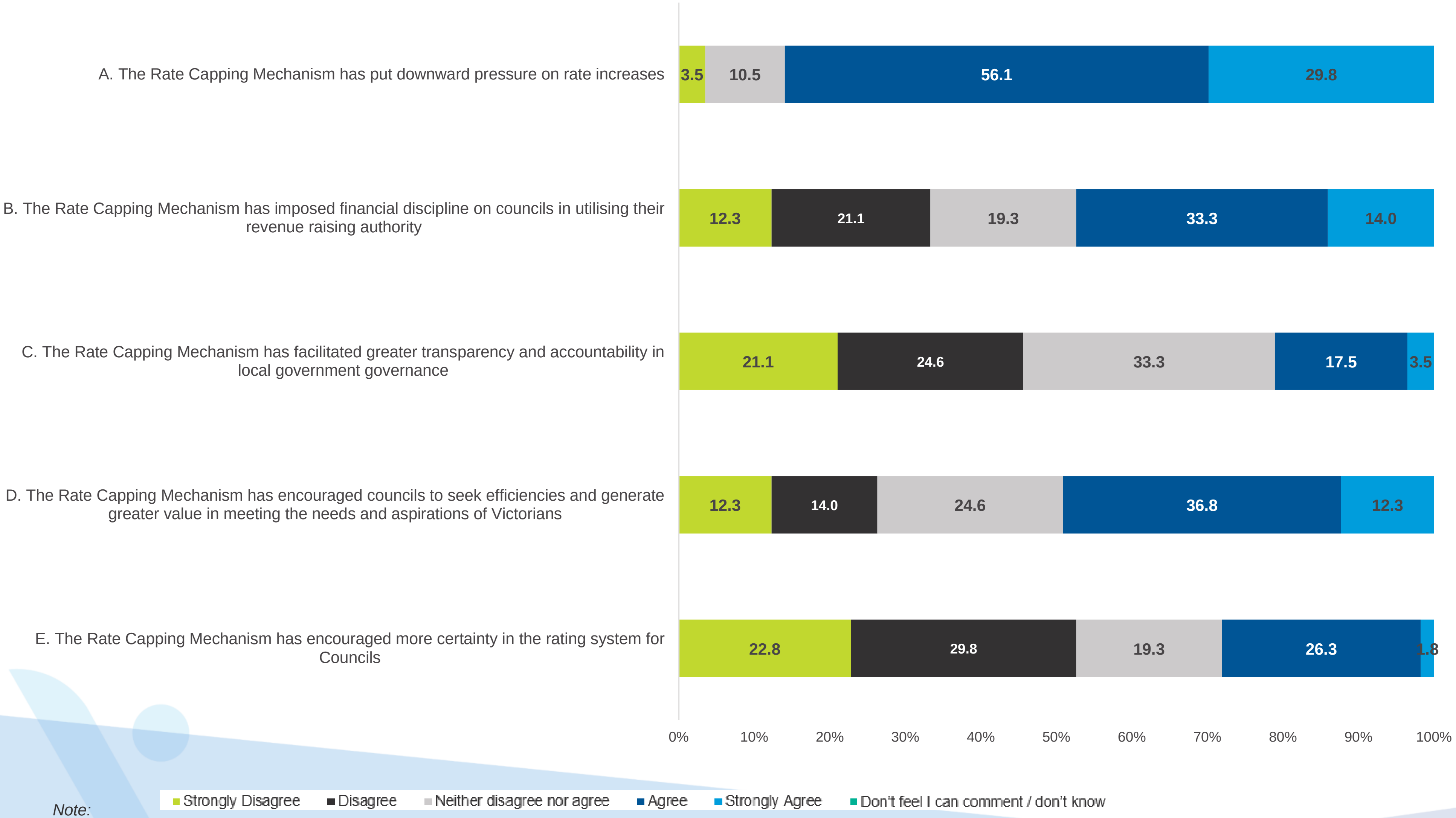
Council responses in relation to the policy objectives



COMMENTS:

- (A) 85.9% of councils agree that the RCM put downward pressure on rate increases
- (B) while 47% of councils agree that that the RCM has imposed financial discipline on councils, 33.4% disagree
- (C) 45.7% of councils disagree that the mechanism facilitated greater transparency and accountability, while 33.3% remained neutral on the objectives, with only 21% agree that the objective was met
- (D) 49.1% of councils reported that the RCM has encourages councils to seek efficiencies and generate greater value in meeting the needs of Victorians, which 26.3% disagree, and 24.6% remained neutral
- (E) 52.6% of councils disagreed that the RCM has encouraged more certainty in the rating system for councils, while 28.1% agree with the achievement of the objective

Note:
n refers to the number of respondents that answered a particular question; n = 57; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Council Survey Results (2021)

Focusing on the council survey results, the differing perspectives are reflected in the spread of agreement and disagreement (2)

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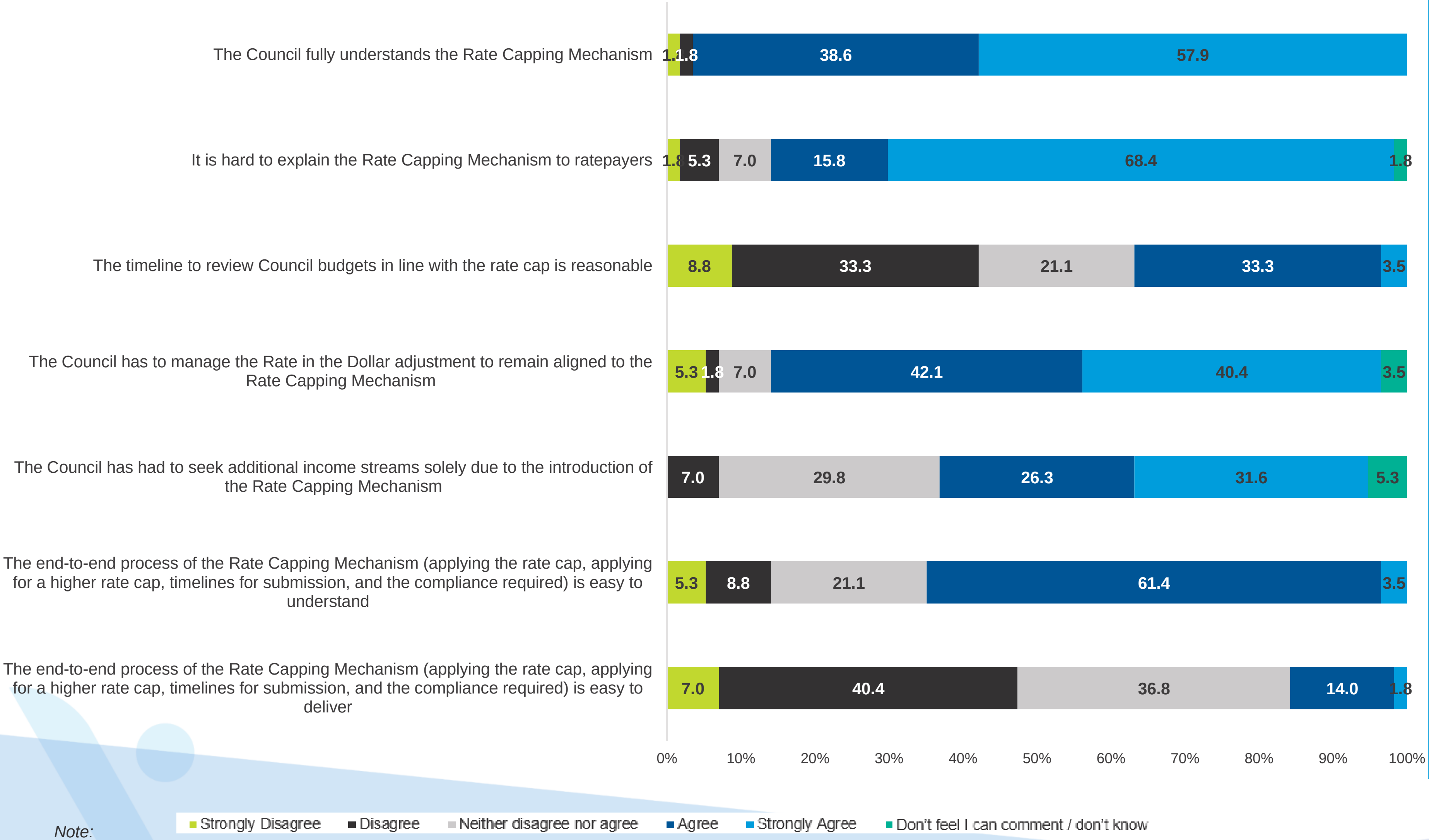
Council responses in relation to the policy objectives



COMMENTS:

> an overwhelming majority (96.5%) of council respondents reported that they understand the RCM

> a majority (84.2%) of council respondents think that it is difficult to explain RCM to the ratepayers

> more than a third (36.8%) of respondents think the timeline to review Council budgets in line with the rate cap is reasonable however there were more (42.1%) who didn't.

> 82.5% of council respondents indicated that they have to manage the Rate in the Dollar adjustment to remain aligned to RCM

> more than half (57.9%) of the council respondents have indicated that they had to look for more income streams because of the RCM.

> almost two-thirds of the respondents said that the end-to-end process for RCM is easy to understand

> almost half (47.4%) disagreed that the RCM process is easy to deliver, while only 15.8% agreed

Note:
n refers to the number of respondents that answered a particular question; n = 57; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Council Survey Results (2021)

Councils posited challenges in seeking efficiencies and encouraging certainty in the rating system…

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COUNCILS

1 GENERAL RESPONSES

(1) To put downward pressure on rate increases as council rates are a significant contributor to cost of living

- consensus that there has been downward pressure on rates

(2) To impose financial discipline on councils in utilising their revenue raising authority

- some councils reported the rate cap has forced them to be more disciplined. Revenue raising assumes that communities can afford it, and when they cannot, there is an expectation to go into debt

(3) To facilitate greater transparency and accountability in local government governance

- councils largely reported that there was already sufficient transparency and accountability through VAGO's financial audits

(4) To encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians

- mixed feedback was provided, with some councils reporting a positive impact, whilst others suggesting that the rate cap disadvantaged councils that were already efficient. Further comments suggested that councils which had internal buffers of revenue have not yet experienced the full impact of the rate cap, while smaller shires were more exposed to it. Some councils shared their views that efficiency is not the goal of councils and that the goal of service delivery should be clarified

(5) To encourage more certainty in the rating system

- greater uncertainty was reported both for councils as well as ratepayers. This was demonstrated through examples of ratepayer calls and complaints of their rate amounts not aligning to the cap; with ratepayers not understanding the calculation of the rate cap and how it works. In terms of Councils, this was explained through the annual dependency on the Minister to announce the rate cap and thereafter gauge the impact on the budget and requirements for rate cap variation

2 ENABLERS REPORTED

- ESC is consistent with its support through process, advice and explanation, as well as the discretion applied to specific situations
- councils have become used to the process, and expect the rate announcement in December, with some having already commenced the budgeting process
- greater scrutiny on the budget process
- digital efficiencies can be found (systems, etc.)

3 CHALLENGES REPORTED

- difficult for the community to understand how the rate cap that is set is implemented
- timing of finalisation of the valuations process impacts on council budgets and creates uncertainty
- reported lack of control over decision-making
- valuations create uncertainty in the rating system at the individual ratepayer level
- councils' revenue-raising authority is hindered and options available are limited depending on the dynamics of the councils' environment
- the framework makes the assumption that all councils started off on the same level (base year as well as level of efficiency)
- resources not aligned with growth
- shortage of critical skills
- the use of the base rate disadvantaged councils that were already efficient
- cost drivers in construction have remained high
- impact of COVID-19 on council finances, expect more councils to be distressed over lost revenue

Source: stakeholder feedback analysis, Council Survey Results (2021)

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

…with reported impacts driving innovation in cost and revenue management, with suggestions for continued & additional support

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COUNCILS

4 IMPACTS REPORTED

- alternative revenue avenues pursued
- growth of expenditure was limited, increasing trade-off decisions for services (services streamlined, reduced or pushed forward to manage costs). Some mentioned quality of services was jeopardised
- innovative cost-saving and cost-sharing
- movement of costs to outsourced entities and jobs
- all reported that supplementary income from valuations is forgone beyond April or May in order to ensure compliance with the ESC
- greater dependency on government grants reported. However, this reliance for capital projects has not eased administrative burdens as the grants provide for specific components and may not align to the needs of the area
- greater operational expenditure (OPEX) focus and spend instead of capital expenditure (CAPEX) reported
- reported that it is not beneficial for councils to use a rate lower than the rate cap (as they lose out in the long term), thereby incentivising them to maximise the cap
- the setting of the rate cap and variation process has introduced the institutionalisation of long-term financial planning, which was not embedded in some councils
- it has been reported that the rate cap set has had the largest impact on rural councils
- difficult for councils to offer the same services across different council types as councils as have become cost-driven covering services that can be paid for

5 ALTERNATIVES PROPOSED

- debt is viewed as negative and unsustainable as it will be paid off over future generations, but is an option councils have been forced to consider *(further considerations on this topic are out of scope)*
- proposal to enhance education efforts for ratepayers (centralise communications instead of 79 councils replicating this)
- proposal for the provision of additional support from state and federal bodies during emergencies and when needed
- proposal for ESC to continue the provision of support

Source: stakeholder feedback analysis, Council Survey Results (2021), Ratepayer Survey Results (2021)
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

A snapshot of the ratepayer survey results showed a swing between understanding of the mechanism and its purpose

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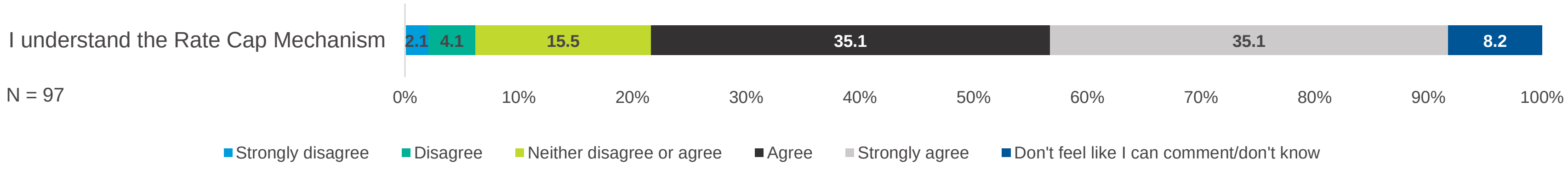
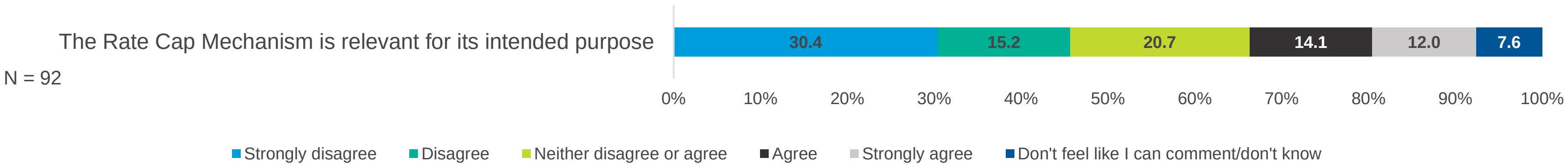
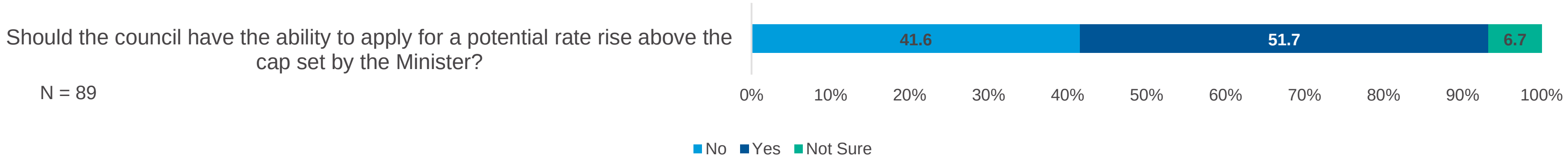
Ratepayer responses in relation to the policy objectives







COMMENT:

- 70.2% of rate payer respondents indicated that they understand the Rate Cap Mechanism (RCM)
- while understanding of the RCM was relatively high, only a quarter of respondents (26.1%) indicated that the mechanism was relevant for its intended purpose
- roughly half of the respondents agreed that the councils should have the ability to apply for a potential rate rise

Note:
n refers to the number of respondents that answered a particular survey question; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Ratepayer Survey Results (2021)

A snapshot of the ratepayer survey results showed a swing between understanding of the mechanism and its purpose (continued)

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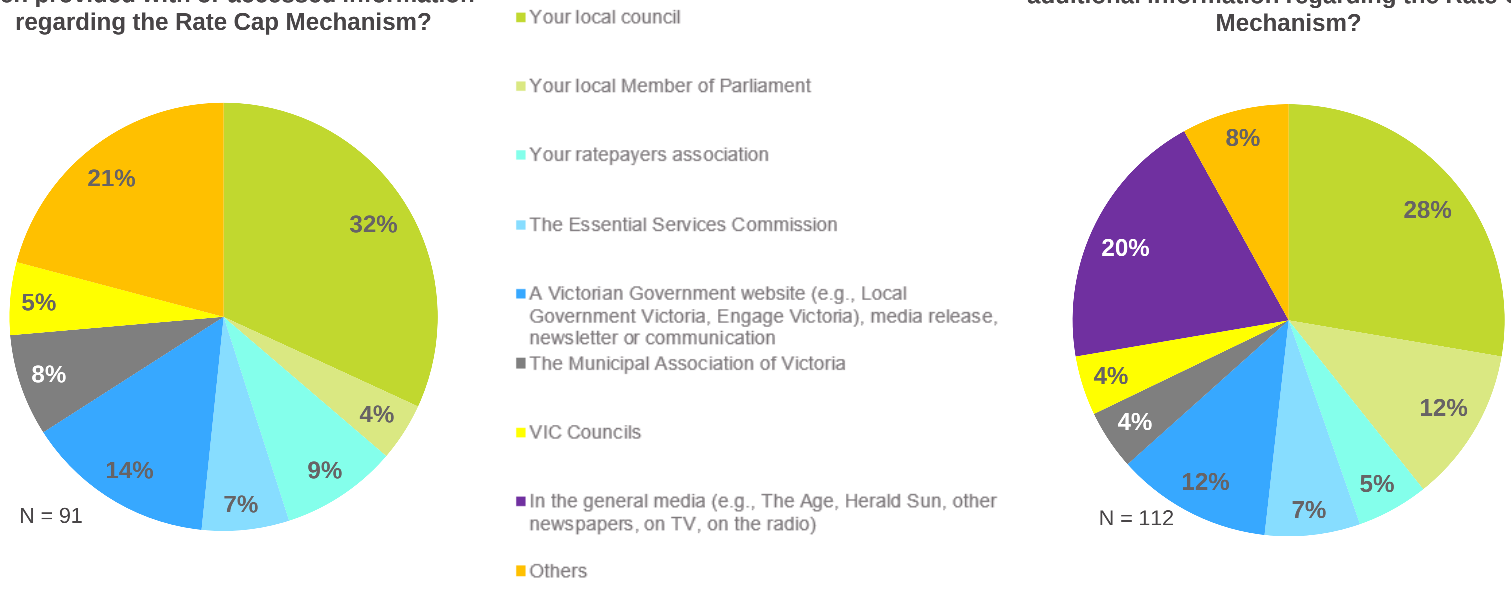
Ratepayer responses in relation access to information

Prior to completing this survey, where had you been provided with or accessed information regarding the Rate Cap Mechanism?

In what ways would you like to receive additional information regarding the Rate Cap Mechanism?



COMMENT:

- a third of the respondents accessed information about rate caps from their local council and 14% derived the information from either a Victorian Government website, media release, newsletter or communication
- more respondents would like to receive additional information about rate caps from the local member of Parliament as compared to what they had been currently receiving
- a fifth of respondents would also like to see more information about the Rate Cap Mechanism in the general media

Note:
n refers to the number of respondents that answered a particular survey question; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Ratepayer Survey Results (2021)

Ratepayers have not experienced the effects of rate cap setting directly, reflecting individual experiences…

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RATEPAYER AND RATEPAYER ASSOCIATIONS

1 GENERAL RESPONSES

(1) To put downward pressure on rate increases as council rates are a significant contributor to cost of living

> ratepayers did not necessarily experience the direct impact of the rates which led to mixed responses. This can be explained by the ratepayer's individual experience of whether their rates have increased or decreased on trend, which is impacted by the valuation of properties

(2) To impose financial discipline on councils in utilising their revenue raising authority

> mixed views across responses with some sharing that compliance process forces financial discipline whilst otherwise share the view that the system is circumvented through additional sources of revenue

(3) To facilitate greater transparency and accountability in local government governance

> overall, lack of transparency in the calculation of rates was reported (including waste and other charges). This may have also contributed to the perception that other costs are being included in their rates (raised as a challenge). View that it is transparent to Council and not to the ratepayer

(4) To encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians

> mixed responses were received. Some ratepayers view councils as inefficient with high expenditure whilst others reported their councils as more efficient

(5) To encourage more certainty in the rating system

> lack of understanding of how the rate capping mechanism works was observed across open-ended inputs from the ratepayer survey and consultations with the ratepayer associations. With rates being dependent on the valuations, and this process being made annual, it introduced greater uncertainty into the system, impacting the certainty experienced

Other

> the policy objectives lack clear Key Performance Indicators to track progress so that a change may be seen year-on-year

> concerns over long-term sustainability of services and infrastructure raised, noting that councils will rely on the rate cap variation process when needed

2 ENABLERS REPORTED

> reported that the introduction of the rate cap created more awareness for the council by forcing it to examine its revenue raising options

3 CHALLENGES REPORTED

> reported that the rate cap announced created more uncertainty in the system for ratepayers (no certainty in rate increases or decreases as its determined by valuations)

> perception that councils are bloated and over-staffed

> perception that councils circumvent the rate capping mechanism through other sources of revenue

> perception that other costs are being included in their rates

> concern of rate charges post-covid

> view of councils as resistant to the policy objectives

Source: stakeholder feedback analysis, Ratepayer Survey Results (2021)

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

…and have proposed initiatives that align the calculation of the rate cap and facilitate a better understanding of the mechanism by the community

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RATEPAYER AND RATEPAYER ASSOCIATIONS

4 IMPACTS REPORTED

- some ratepayers view the budgets of councils as more efficient
- reported that the rate cap compliance process provides certainty in terms of anti-corruption measures
- promotes greater accountability
- property valuations on the rise have been driving up rates costs, increasing the impact on fixed-income earners (where councils have not provisioned for this population through differential rates)
- reported less spend on capital infrastructure
- perception that the rate cap drives down council staff wages
- has led to the outsourcing (privatisation) of staff and services
- ratepayers appear to associate the use of the rate cap with a cut in services by the councils
- by setting a rate cap, underlying issues have not been addressed such as cross-council discrepancies (e.g., higher rates in lower socio-economic areas)

5 ALTERNATIVES PROPOSED

- consider the use of Consumer Price Index (CPI) based on the council area rather than the Melbourne CPI or other market indices
- consider the use of CPI based on the type of council
- better communication of the rate cap mechanism to explain how the rate cap announced translates into the rates received at ratepayer level
- propose greater definition of the design principles and alignment to LG Act 2020 governance principles
- facilitate the change through an adequate change management framework to manage councils to an enhanced level of efficiency, with their buy-in into the policy objectives

Source: stakeholder feedback analysis, Council Survey Results (2021), Ratepayer Survey Results (2021)
*Note: *numbers allocated align to the RCM's intended policy objectives*
The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

While sector peak bodies think the policy objectives have been met to some degree, key challenges were raised…

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SECTOR PEAK BODIES (MAV, LGPro, VLGA)

1 GENERAL RESPONSES

(1) To put downward pressure on rate increases as council rates are a significant contributor to cost of living

- agreement around the downward pressure on rate increases, but this applies to a portion of the rates, and rates is largely determined by valuations. Rates were reported as not a ‘significant contributor to the cost of living’ when compared to income tax

(2) To impose financial discipline on councils in utilising their revenue raising authority

- financial discipline already existed prior to rate cap mechanism. However, some stakeholders agreed that financial discipline was imposed. Revenue raising authority was compromised as revenue is predominantly raised through rates

(3) To facilitate greater transparency and accountability in local government governance

- some agreement that by setting a rate cap and having a compliance process, transparency and accountability were fostered, with the pre-existing system already fostering these (i.e., VAGO). Some comments mentioned that it provides transparency to a portion of the system, while the rest of the system is unclear. Others interpreted transparency as transparency to the community in understanding the rating system which has been reported as not achieved

(4) To encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians

- efficiencies were encouraged, however, this was noted to be delivered using a “blunt mechanism”

(5) To encourage more certainty in the rating system

- mixed responses, with disagreement around certainty from the perspective of the community. The system is difficult to understand. Additional uncertainty arises out the use of CPI

2 ENABLERS REPORTED

- setting of the rate cap provides certainty in terms for future rates
- the ten-year financial plan requirement may increase the level of maturity of councils

3 CHALLENGES REPORTED

- the rate cap mechanism (setting of the rate cap) makes an assumption that community understands the rating system, however, the community’s understanding of rates has not progressed
- ratepayers may believe that an increase in rates results in more money for councils, however this is not the case when councils administer fees on behalf of the Commonwealth or State. Similarly, waste charges and landfill levies are increasing substantially as a cost to councils
- economic barrier to involvement as fees for recreational services (e.g., sports clubs) are on the rise
- increased dependency on grants, and inequitable access to grants. (e.g., small councils may not put forward good submissions for grants and may lose out)
- burden shift from the Commonwealth and State government to councils can put further pressure on councils

Source: stakeholder feedback analysis

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

…with the impacts reported (a) encouraged betterment of Councils and, (b) disadvantaged poorer council areas

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SECTOR PEAK BODIES (MAV, LGPro, VLGA)

4 IMPACTS REPORTED

- mindset relating to borrowing is shifting due to different political drivers
- reported uncertainty in the system as well as to the ratepayers
- the rate cap (calculation thereof) is placing pressure on council budgets because council increases are in line with CPI but council costs are in line with construction and project costs
- additional points raised suggest that the pressures to comply with the rate cap implementation of 1 July, and avoid being non-compliant may force councils to prioritise meeting the rate cap instead of the community value considerations
- the mechanism and structure of the rate cap (capped and uncapped portions) incentivise the separation of charges from rates. Separation of waste charges from rates is viewed as 'regressive' as a general rate incl. of waste charges is considered more affordable to the ratepayer. This could further distinguish the advantaged and disadvantaged communities
- introduction of the rate cap has led to looking for alternative revenue sources, e.g., rural councils that contract out land for services
- the perception that services rendered by councils were a benefit to the ratepayer has changed over time to a fee for service model. The model is associated with the risk of lack of equity in access to services to people from disadvantaged areas
- the presence of the rate cap is stimulating the consideration of debt funding of infrastructure. However, this will take further financial discipline to manage it
- incentive to keep rates down for community, however, long-term impact is that the forgone income is not recoverable

5 ALTERNATIVES PROPOSED

- consideration of the impact on commercial entities to raise more money and supplement the portion of capped rates (the rates within the mechanism)
- consideration of councils looking into land development or becoming involved in commercial activity to supplement rates

Source: stakeholder feedback analysis

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

Sector stakeholders largely viewed the policy objectives as somewhat met, articulating key sector challenges…

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SECTOR STAKEHOLDERS (ASU, FinPro, RMA)

1 GENERAL RESPONSES

Overall comment

> mixed reviews from stakeholders experienced. Some summarised that the rate cap was mechanism implemented well by the sector and this improved over time, having achieved a level of each objectives to varying degrees. Whilst others suggested that the mechanism be removed

(1) To put downward pressure on rate increases as council rates are a significant contributor to cost of living

> agreement that there has been downward pressure on the rate increases, however, it was noted that the cost of living is spread unequally across ratepayers

(2) To impose financial discipline on councils in utilising their revenue raising authority

> some reported that financial discipline was enhanced by the introduction of the rate cap

(3) To facilitate greater transparency and accountability in local government governance

> mixed responses received in enhancement of transparency and accountability by setting the rate cap and having a compliance process. Some argued that transparency and accountability are adequately measured through pre-existing mechanisms

(4) To encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians

> some reported that efficiencies were achieved through cutting services which has increased focus on service costing and service planning. The setting of the rate cap assumed that councils experienced the same level of inefficiency. Difficult to meet the needs and aspirations of Victorians, and less certainty with how rates are derived. Stakeholders queried if cost reductions equated to efficiencies, noting that there is more behind the council and that productivity and efficiency is not being tested in that manner. Others responded that it's another mechanism to motivate councils to encourage efficiencies

(5) To encourage more certainty in the rating system

> mixed responses received, with some suggesting it creates certainty in some ways, and does not in others. It especially created uncertainty for ratepayers

2 ENABLERS REPORTED

> it was reported that there was sufficient time for councils to buffer and re-adjust to the implications of the setting the rate cap over the review period

3 CHALLENGES REPORTED

> view the material that is provided by the ESC as overwhelming

> non-compliance repercussions [from the ESC] were reported as a challenge

> challenges raised of how post-covid recoveries will be managed

> long-term asset renewal planning and maintenance is not meeting community requirements as political decisions affect the utilisation of revenue

> in creating efficiencies and reducing costs, quality of services may be jeopardised

> lack of understanding of the how the rate cap set translates into individual rates by ratepayers with challenges in explaining the mechanism to ratepayers

Source: stakeholder feedback analysis

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

…and acknowledging the favourable impact of the rate cap set on ratepayers, with proposals that enhance certainty and transparency

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SECTOR STAKEHOLDERS (ASU, FinPro, RMA)

4 IMPACTS REPORTED

- view the impact of the rate cap set as adjustments made in the ratepayer's favour (not council's). Posited that the community may be getting more for less
- created more uncertainty in the system
- shift of revenue models to a charge basis. Incentive to separate waste charges from rates which is a difficult change to action (perception that ESC is driving this)
- other sources of revenue has been pursued
- greater rigour and long-term planning that was previously not there due to the flexibility available to councils
- councils shifting mindset towards borrowing as this was previously not a norm
- different councils have different abilities to absorb income reduction. The effect of this is expected to show in the long term, and is dependent upon the base rate and financial position prior to the introduction of the rate cap. The anticipated long- term impact is trade offs between OPEX, CAPEX and Service Delivery and Quality
- increases aligned to the rate cap have been associated reduced staff at councils
- uncertainty in wage increases has been reported as three-year agreements cannot be made due to the annual release of the rate cap
- slow wage growth impacts the spend in council areas that in turn affects CPI, especially where council staff members make up a large part of the economy in council areas
- encourages outsourcing in councils

5 ALTERNATIVES PROPOSED

- consider alternatives to synergise the four-year rolling budget and the setting of the rate cap by introducing a four-year rate cap
- consider encouraging more certainty in the system through longer rate cap cycles and longer valuation cycles, however, understand that shortened timelines encourages greater transparency
- consider increasing transparency requirements such as in-camera decision-making
- consider how to best mitigate non-compliance findings that are unintentional (i.e., affected by late valuations or errors in calculations). This could be an alternative framework or framing still aligned to the legislation

Source: stakeholder feedback analysis

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

Overall, representatives from state government have mixed responses to consider if the policy objectives have been met

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STATE GOVERNMENT REPRESENTATIVES (THE DEPARTMENT, DPC, DTF)

1 GENERAL RESPONSES

1) To put downward pressure on rate increases as council rates are a significant contributor to cost of living

- agreement that there has been a downward pressure on rates

(2) To impose financial discipline on councils in utilising their revenue raising authority

- general agreement that financial discipline has been imposed to some degree. Councils have not been distressed by the introduction of the rate cap

(3) To facilitate greater transparency and accountability in local government governance

- mixed reviews as the degree to which it has contributed to further transparency and accountability. There are already mechanisms in place, however, communication (implementation) could be improved to demonstrate transparency and accountability. Additionally, not transparent to the public

(4) To encourage councils to seek efficiencies and generate greater value in meeting the needs and aspirations of Victorians

- consensus that the rate cap announced encourages this

(5) To encourage more certainty in the rating system

- no comments obtained on this element

Other

- CPI can have quite volatile periods which could impact the rate cap, however, has been relatively stable and will likely continue based on the forecast

2 ENABLERS REPORTED

- moderation of rate cap increases (by the ESC) to ensure compliance
- ESC has provided a wealth of information to councils to support Part 8A the LG Act 1989

3 CHALLENGES REPORTED

- how efficiencies are derived are not clear as the trend has been to increase rates in line with the rate cap, and not in line with council requirements

4 IMPACTS REPORTED

- agreement that the policy meets the objectives and does what is needed
- expenditure cuts may be a possible impact
- setting of a rate cap aligned to CPI has slowed the growth of rates
- lower wage increases have been observed
- discretionary services have been minimised

Source: stakeholder feedback analysis

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

Overall, the ESC reports that the objectives are being met, with challenges of external processes impacting on Council compliance

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ESC

1 GENERAL RESPONSES

- general administration and functions of the ESC are provisioned for well in the relevant legislations
- the administration and process implementation has been enhanced over the years, particularly after the first year implementation and continuous improvement is sought each year. It was recognised that councils experience various challenges, and where reasonable, the ESC seeks to support them
- the mechanism is largely meeting its policy objectives with room for improvement in alignment across legislation and practice

2 ENABLERS REPORTED

- provide support to councils in the form of guidance materials, roadshows and one-on-one meetings which largely occurs at council officer level

3 CHALLENGES REPORTED

- the provision of advice to the Minister is not clearly specified in the Minister's request nor legislation
- councils have a misunderstanding of what it means to engage with the community
- council CEOs and councils have different understanding of the rate cap mechanisms (implementation of the rate cap)
- applications for variation tend to reduce in electoral years
- timing of valuations can affect the rate in the dollar and, in turn, result in non-compliance for councils. For e.g., smaller councils may be disadvantaged by the timing of the valuations as they have smaller populations, therefore, one property valuation could have a detrimental impact on their compliance status

4 IMPACTS REPORTED

- annual rate in Council rates have slowed
- other charges have increased (e.g., waste charges)
- "the sector's total expenditure continued to grow, with higher revenue from contributions and grants enabling stronger growth in expenditure than before the introduction of rate capping"[1]
- councils have limited increases in some areas of expenditure (with a notable management of employee costs)[1]
- "in general, the financial health of the sector remained strong. The sector as a whole had a positive operating position and the ability to meet both short-term and long-term liabilities"[1]
- factors such as valuations continued to determine the annual change in rates for individual ratepayers[1]

Source: stakeholder feedback analysis; 1: ESC Outcome Reports (2019 and 2021).
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

Specific questions were asked across stakeholder groups to test how well design principles were executed

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ELEMENT TESTED	METHOD	QUESTIONS	COUNCIL	ESC	STATE GOV DEPTS	SECTOR PBs	SECTOR S.	RATEPS
Rate Capping Mechanism design principles > simple and easily understood > requirements are clear and compliance can be easily determined > minimises administrative burden for councils > can be consistently applied by all councils while having sufficient regard to differences between councils > encourages ratepayer and community involvement > allows for consideration of key relevant and related factors including municipal circumstances, community needs and aspirations, council priorities and operating environment, and Victorian Government priorities and policy objectives.	> Face-to-face	> From your perspective, has the Rate Capping Mechanism progressed against these design principles? Why or why not? > What have been any success factors or barriers to the mechanism's ability to progress against these design principles? > Do you think the mechanism has affected the administrative burden for councils in setting their rates? Why or why not? If you think it has, how could any effects be minimised?	✓	✓	✓	✓	✓	✓
	> Survey	**Council survey** > survey questions can be found under *Appendix I* **Ratepayer and ratepayer associations survey** > survey questions can be found under *Appendix I*	✓					

Source: Local Government Act 1989; Essential Services Commission; State Government Departments; Sector Peak Bodies; Sector Stakeholders (Sector S.); Ratepayers and Ratepayer Associations (Rateps)

Stakeholder feedback varied across the design principles

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DESIGN PRINCIPLES	COUNCIL	RATEPAYERS	SECTOR PEAK BODIES	SECTOR STAKEHOLDERS	STATE GOV REPS.	ESC
(1) Simple and easily understood	M	Responses by ratepayer associations on each design principle was limited and perception ratings could not be presented here. However, their feedback is provided later in the section.	M	S	S	ESC's feedback was not detailed to specify their view on each of the design principles, therefore perception ratings could not be presented here. However, their feedback is provided later in the section
(2) Requirements are clear and compliance can be easily determined	M		M	M	S	
(3) Minimises administrative burden for councils	S		M	S	S	
(4) Can be consistently applied by all councils while having sufficient regard to differences between councils	N		S	S	S	
(5) Encourages ratepayer and community involvement	M		S	M	M	
(6) Allows for consideration of key relevant and related factors including municipal circumstances, community needs and aspirations, council priorities and operating environment, and Victorian Government priorities and policy objectives	S		S	N	S	

KEY: N Objective not met S Objective met to some degree M Objective met to a large degree or fully

Source: Stakeholder Analysis, Council Survey Results (2021), Ratepayer Survey Results (2021)

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Council respondents indicated largely that the design principles intents were not being fulfilled, aside from implementation

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Council responses in relation to the design principles

COMMENTS:

- 42.2% indicated that the RCM is easy to implement within the Council's budgeting process while 36.9% did not agree that it is was easy
- two thirds of respondents did not agree that the RCM reduces administrative burden. Only 17.5% agreed that it does.
- a majority (87.7%) of respondents disagreed that the RCM encourages ratepayer and community involvement
- three quarters (75.5%) of respondents disagreed that the RCM can be consistently applied by all councils while having sufficient regard to differences between councils
- a majority (84.2%) of respondents disagreed that the RCM allows for consideration of key relevant and related factors

Note:
n refers to the number of respondents that answered a particular question; n = 57; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Council Survey Results (2021)

Councils' view is that the mechanism is relatively easy to implement, with design principles (4)-(6) not inherent in the mechanism*

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COUNCILS

1 GENERAL RESPONSES

(1) Simple and easily understood
- largely, many councils indicated that process is simple and easy to understand

(2) Requirements are clear and compliance can be easily determined
- compliance was reported as strict, with no room for tolerance. Compliance requirements were largely reported as easy to understand

(3) Minimises administrative burden for councils
- viewed negatively by most councils. However, no alternatives proposed that could lessen the burden further. It appeared that councils with systems in place found this process easier to administer

(4) Can be consistently applied by all councils while having sufficient regard to differences between councils
- reported that the components of the mechanism (e.g., calculation and rate cap set) do not have the ability to account for local differences, and accordingly, the different council types. Additionally, there are different calculations involved if waste charges is included in rates. The design of the mechanism has incentivised that charges be separated from rates which has proven difficult for some councils to implement (some have not yet implemented)

(5) Encourages ratepayer and community involvement
- large-scale agreement that this is built into the mechanism

(6) allows for consideration of key relevant and related factors including municipal circumstances, community needs and aspirations, council priorities and operating environment, and Victorian Government priorities and policy objectives
- disagreement that the mechanism allows for this, with the exception of the variation process

Note: *based on councils understanding what is the rate cap mechanism. It was not clear whether councils viewed the variation process as part of the mechanism or a distinguished exception process outside of the mechanism.

2 ENABLERS REPORTED

- accounting systems

3 CHALLENGES REPORTED

- complexity of calculations

4 ALTERNATIVES PROPOSED

- utilise software that can streamline variation process
- allow for the adjustment of non-compliant amounts to be adjusted in the future year

Source: Stakeholder Analysis, Council Survey Results (2021), Ratepayer Survey Results (2021)
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Sector peak bodies reported that some principles (1-3) were easily incorporated, whilst others were somewhat met

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SECTOR PEAK BODIES (MAV, LGPro, VLGA)

1 GENERAL RESPONSES

(1) Simple and easily understood

> it is simple and easily understood from a concept perspective, however, this is not easily understood by ratepayers

(2) Requirements are clear and compliance can be easily determined

> compliance was reported as easy

(3) Minimises administrative burden for councils

> the administrative burden is particularly experienced when applying for a rate cap variation. In general, no additional burden. The respondent did not partake in the process, however, has reported that it is known to be time consuming, difficult and resource-intensive

(4) Can be consistently applied by all councils while having sufficient regard to differences between councils

> lack of consistency across the 79 councils reported, where the manner in which rates are calculated vary across municipalities

(5) Encourages ratepayer and community involvement

> reported that there are alternative engagement forms for long-term financial planning for the community to be involved. With the changes to the LG Act 2020, community engagement will be more deliberate as it plans for a ten-year timeframe. Unless community engagement can be 'meaningfully achieved', this objective should be removed

(6) allows for consideration of key relevant and related factors including municipal circumstances, community needs and aspirations, council priorities and operating environment, and Victorian Government priorities and policy objectives

> principle incorporated through application for variation. However, the calculation of the rate cap doesn't provide the opportunity for councils to manage unexpected, major, financial impacts (e.g., COVID-19)

2 CHALLENGES REPORTED

> political barriers as there is low appetite to apply for variation

> application for variation seen as difficult, time consuming and resource intensive

> growth councils are particularly hindered by possible high volumes of supplementary rates which may have a significant effect on revenue when freezing (or minimising) valuations to ensure rate cap compliance

3 ALTERNATIVES PROPOSED

> encourage engagement as early as possible

Source: Stakeholder Analysis, Council Survey Results (2021), Ratepayer Survey Results (2021)
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Sector stakeholders highlighted key strengths and limitations, with a proposed rebrand of the rate cap mechanism to improve ratepayer understanding

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SECTOR STAKEHOLDERS (ASU, FinPro, RMA)

1 GENERAL RESPONSES

(1) Simple and easily understood

> the mechanism is not simple and easy understand for the community

(2) Requirements are clear and compliance can be easily determined

> the compliance creates an additional administrative burden. However, that the mechanism (end-to-end) was implemented well, and at a fast rate. Compliance is reasonable and within the existing frameworks

(3) Minimises administrative burden for councils

> administrative burden was added

(4) Can be consistently applied by all councils while having sufficient regard to differences between councils

> mixed responses were received, with some applying the framework consistently does equate to the accommodation for differences across councils (e.g., councils that utilise NAV versus CIV, disadvantages NAV as their process is different for supplementary growth and they have limited access to differential ratings). Others suggested that the variation process provisions for the differences between councils

(5) Encourages ratepayer and community involvement

> incorporated into the rate variation process

(6) allows for consideration of key relevant and related factors including municipal circumstances, community needs and aspirations, council priorities and operating environment, and Victorian Government priorities and policy objectives

> policy objective not specifically met

2 ENABLERS REPORTED

> guidance and templates [provided by the ESC] have improved over time

> freezing of valuations is an enabler to the compliance process to ensure alignment to the rate cap, however, this does not benefit councils or ratepayers

3 CHALLENGES REPORTED

> councils utilising NAV have limited access to supplementary growth. This has an impact at the ratepayer level

> Victorian priorities such as gender equality have been stunted, for e.g., Councils employ a large female population which are being disproportionally affected by council wage stagnation compared to other industries*

> outsourcing done by Councils to reduce costs is affecting the quality of council output

4 ALTERNATIVES PROPOSED

> consider renaming the rate cap mechanism to lessen the confusion to ratepayers

Source: Stakeholder Analysis,

Note: RP: Ratepayer; ***The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints. * Stakeholder analysis***

Representatives presented varied views across principles (1-4 and 6) proposing alternative scenarios for the variation process

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STATE GOVERNMENT REPRESENTATIVES (THE DEPARTMENT, DPC, DTF)

1 GENERAL RESPONSES

(1) Simple and easily understood

> mixed responses received on whether the calculation is simple and easily understood, with challenges raised for the public's understanding of how the rate cap is implemented at ratepayer level

(2) Requirements are clear and compliance can be easily determined

(3) Minimises administrative burden for councils

(4) Can be consistently applied by all councils while having sufficient regard to differences between councils

> (2) – (4) mixed responses reported an opportunity to make the process less onerous as it currently does not reflect regard for differences between councils with the exception of the variation process. Others recognised that the mechanism cannot be simplified further, with additional elements resulting in additional complexity

(5) Encourages ratepayer and community involvement

> consensus as it is a requirement of the process

(6) allows for consideration of key relevant and related factors including municipal circumstances, community needs and aspirations, council priorities and operating environment, and Victorian Government priorities and policy objectives

> mixed responses reported based on the interpretation of the principle. Some reported challenges with how the mechanism is based off CPI and does not deal with these factors, whilst others consider these principles built into the rate variation process. Reported that the setting of the rate cap and the calculation does not offer much flexibility for different circumstances.* For e.g., if the state transfers a burden to the council, it's out of the council's control and the variation process should be have more flexibility based on circumstances (multiple scenarios)

*Note: it was unclear if the variation process was included in the stakeholder's definition of the mechanism

2 ENABLERS REPORTED

> after the first year of implementation, there were challenges reported with the exemption process. The ESC has since reformed the process that is perceived as providing a supportive process with many materials on their site and a better process was offered

> the Local Government Act (2020) promotes community consultation at an earlier stage, which could enable an application for variation where one consultation is held that serves both the budget process and variation process

3 CHALLENGES REPORTED

> compliance process was reported as onerous

> timing of the processes is viewed as a challenge

> the mechanism is not easy enough for the general public to understand. Encouraging community involvement is therefore difficult due to the complexity of all the components of the mechanism

4 ALTERNATIVES PROPOSED

> consider if all councils require the process of the variation process. For e.g., if the council is impacted by a state policy change, this should allow council to apply for variation, without necessarily consulting the community

Source: Stakeholder Analysis, Council Survey Results (2021), Ratepayer Survey Results (2021)

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

The ESC reported that councils experienced challenges in demonstrating how community consults were incorporated

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ESC

1 GENERAL RESPONSES

(5) Encourages ratepayer and community involvement

> the interpretation of the community consultation element has been raised as a challenge. The ESC expects councils to consult communities and demonstrate how their views were considered. The ESC has challenges with councils understanding and applying this interpretation

Note: Consultations with the ESC did not follow the same format as the other consultations and written input was provided. Key considerations from the input was placed into the respective sections of the report

Source: Stakeholder Analysis; RA: Ratepayer Associations

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Data analysis revealed that on average, the financial position of the sector remained stable post-rate capping implementation, even during COVID

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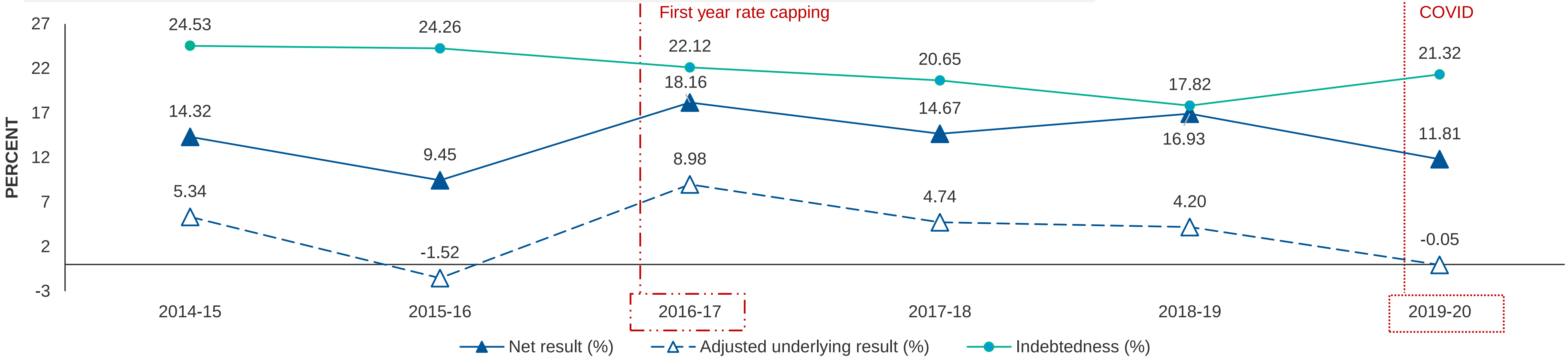
AVERAGE BREAKDOWN OF REVENUE AND COSTS ACROSS ALL COUNCILS IN INDICATOR PROPORTIONS



Analysis:

> the Net Result shows that once expenses are removed from income, there is still unallocated revenue which can be used to renew or maintain assets and service debt. This has remained relatively stable and is still above the year prior to rate capping even in the 2019-20 drop (COVID)

> the Adjusted Net Result shows that if once-off grants were excluded from revenue the overall sector would have battled to cover costs in the years 2015-16 and 2019-20 (COVID)

> the Indebtedness shows that the sector was seeing an increased ability to repay their borrowings but the ability decreased during the 2019-20 year (COVID) but is still better than prior to rate capping (2014-15)

INDICATOR	FORMULA	DESCRIPTION
Net Result (%)	(revenue – expense)/total revenue	**A positive result indicates a surplus**, and the larger the percentage, the stronger the result. **A negative result indicates a deficit**. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement.
Adjusted Net Result (%)	Adjusted underlying surplus (or deficit)/adjusted underlying revenue	This measures an entity's ability to generate surplus in its ordinary course of business, excluding non-recurrent capital grants, nonmonetary asset contributions and other contributions to fund capital expenditure from its net result. A surplus or increasing surplus suggests an improvement in the operating position. **As above, a positive result indicates a surplus.**
Indebtedness (%)	Non-current liabilities/ own-sourced revenue	This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. **The lower the ratio, the less revenue the entity is required to use to repay its total debt.** Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

Source: VAGO 2019-20 Audit data.

Five key levers exist to enable the financial sustainability of councils while aiming to reduce the burden on ratepayers

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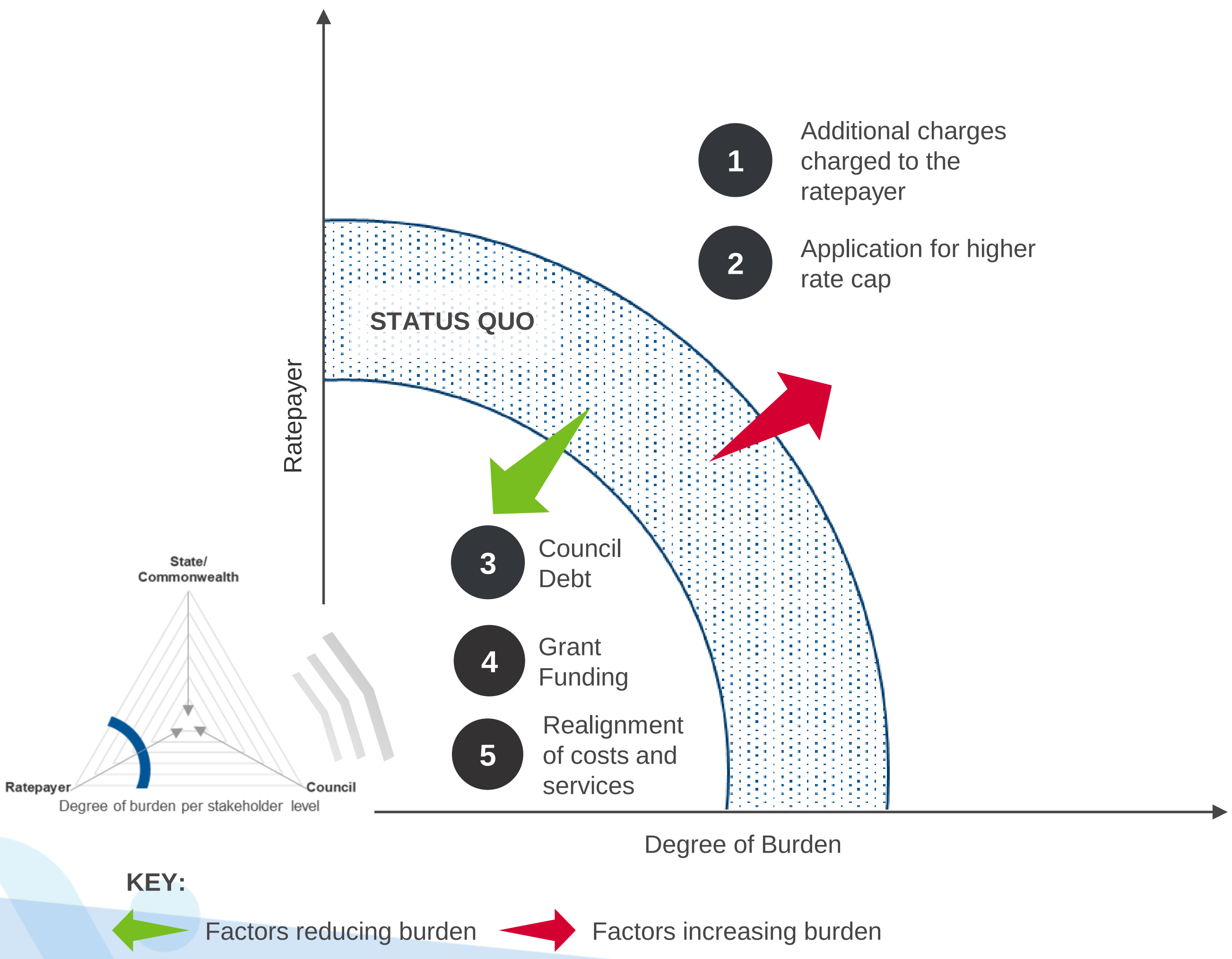
LEVERS AVAILABLE TO CHANGE THE STATUS QUO



1 ADDITIONAL CHARGES TO THE RATEPAYER

- Separates capped rates and additional charges
- Allows ratepayers to pay for the services they want
- Add more burden to the ratepayers, but offers a choice of services

2 APPLICATION FOR HIGHER RATE CAP

- Allows for councils to apply and execute a rate cap higher than the announced rate cap, based on LT financial needs
- Places more burden on the ratepayers, but through a consultative approach to satisfy the needs of the ratepayers

3 COUNCIL DEBT

- By councils taking on more debt (sustainable debt), the burden from other charges should proportionately decrease
- Measures are in place to ensure the control of debt
- (out of scope of current review)

4 GRANT FUNDING

- State funding that reduces the burden of debt on the ratepayer
- Grant funding can provide temporary relief, however, is not a sustainable long-term solution.
- (out of scope of current review)

5 REALIGNMENT OF COSTS AND SERVICES

- This varies council to council and each council has power to make decisions on these. It includes efficiencies and cost reduction measures
- (out of scope of current review)

Note: LT: Long-term; out of scope elements could not be further investigated but are represented here to outline a holistic view of the framework

On average, the financial position of Metro councils are still strong and above the sector average

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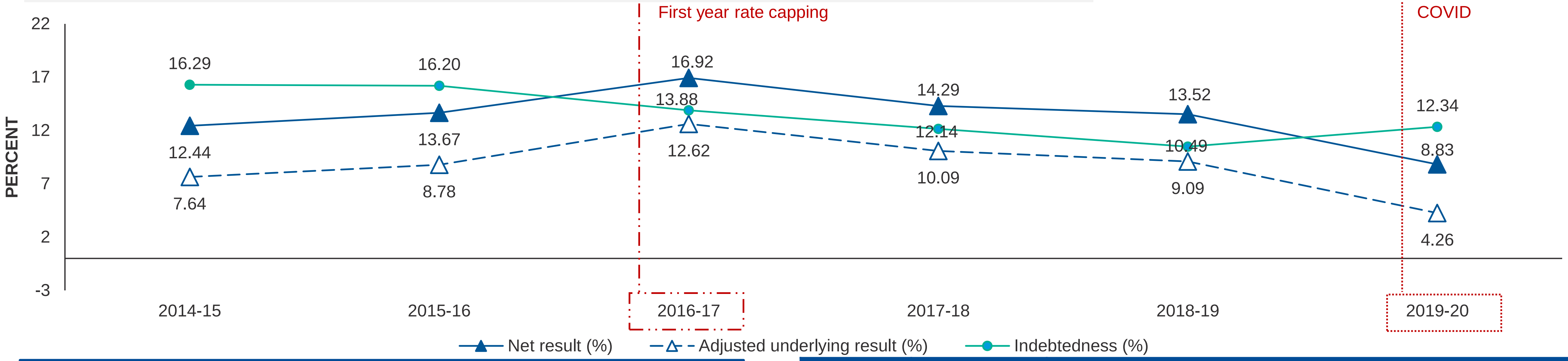
AVERAGE BREAKDOWN OF REVENUE AND COSTS ACROSS METRO COUNCILS IN INDICATOR PROPORTIONS



Analysis:

> the Net Result shows that once expenses are removed from income, there is still unallocated revenue which can be used to renew or maintain assets and service debt. This has slowly decreased over time but was inline with levels before the rate cap except for 2019-20 (COVID)

> the Adjusted Net Result shows that if once-off grants were excluded from revenue Metro councils were still above 0 with 2019-20 (COVID) being the worst year in since 2014-15

> the Indebtedness shows that Metro's was seeing an increased ability to repay their borrowings but the ability decreased during the 2019-20 year (COVID) and has the lowest levels amongst the council types

INDICATOR	FORMULA	DESCRIPTION
Net Result (%)	(revenue – expense)/total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement.
Adjusted Net Result (%)	Adjusted underlying surplus (or deficit)/adjusted underlying revenue	This measures an entity's ability to generate surplus in its ordinary course of business, excluding non-recurrent capital grants, nonmonetary asset contributions and other contributions to fund capital expenditure from its net result. A surplus or increasing surplus suggests an improvement in the operating position.
Indebtednes s (%)	Non-current liabilities/own-s ourced revenue	This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total debt. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

Source: VAGO 2019-20 Audit data.

On average, the financial position of Interface councils show strong results but a reliance on grants and/or contributions

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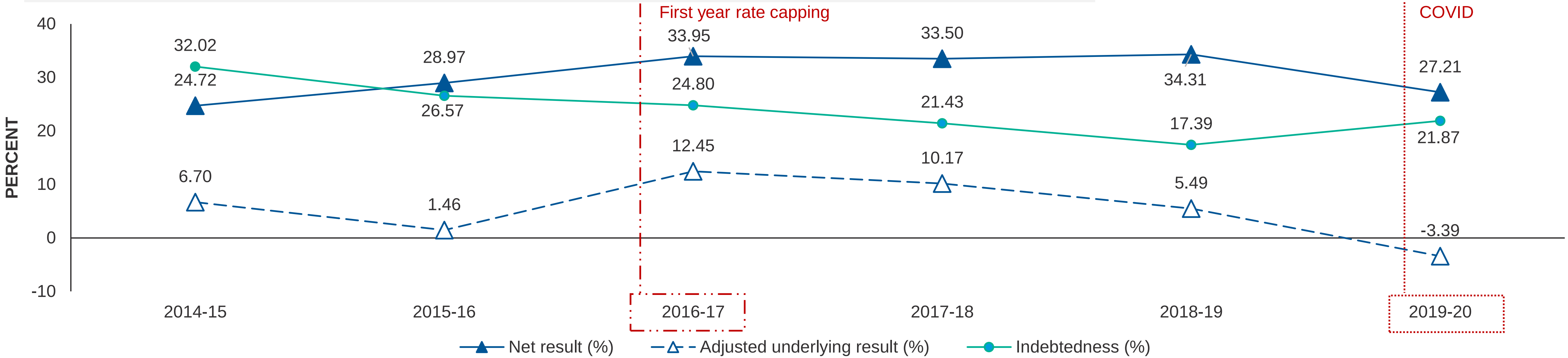
AVERAGE BREAKDOWN OF REVENUE AND COSTS ACROSS INTERFACE COUNCILS IN INDICATOR PROPORTIONS



Analysis:

- the Net Result shows that once expenses are removed from income, there is still unallocated revenue which can be used to renew or maintain assets and service debt. This is above the industry average and is the strongest out of all council types.
- the Adjusted Net Result shows that if once-off grants were excluded from revenue interface councils would have battled to cover costs in 2019-20 (COVID)
- the Indebtedness shows that Interface councils were seeing an increased ability to repay their borrowings but the ability decreased during the 2019-20 year (COVID)

INDICATOR	FORMULA	DESCRIPTION
Net Result (%)	(revenue – expense)/total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement.
Adjusted Net Result (%)	Adjusted underlying surplus (or deficit)/adjusted underlying revenue	This measures an entity's ability to generate surplus in its ordinary course of business, excluding non-recurrent capital grants, nonmonetary asset contributions and other contributions to fund capital expenditure from its net result. A surplus or increasing surplus suggests an improvement in the operating position.
Indebtednes s (%)	Non-current liabilities/own-s ourced revenue	This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total debt. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

Source: VAGO 2019-20 Audit data.

On average, the financial position of Regional councils have the largest reliance on grants to improve its position

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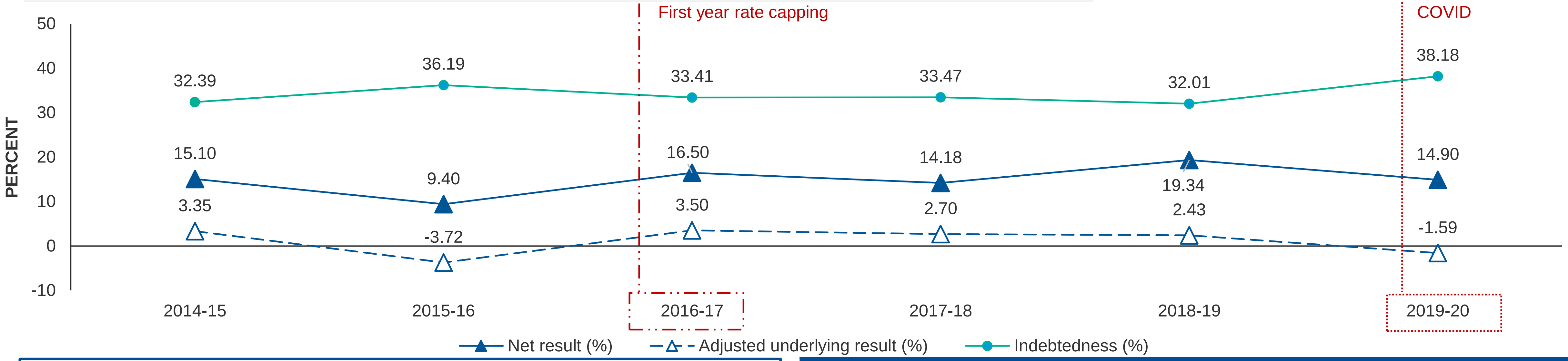
AVERAGE BREAKDOWN OF REVENUE AND COSTS ACROSS REGIONAL COUNCILS IN INDICATOR PROPORTIONS



Analysis:

> the Net Result shows that once expenses are removed from income, there is still unallocated revenue which can be used to renew or maintain assets and service debt. This is inline with the result from before rate capping and saw a drop in 2019-20 (COVID) to lower levels but still inline with the mean

> the Adjusted Net Result shows that if once-off grants were excluded from revenue the overall sector would have battled to cover costs in the years 2015-16 and 2019-20 (COVID)

> the Indebtedness shows that Regional councils were seeing a very slight increased ability to repay their borrowings but the ability decreased during the 2019-20 year (COVID)

INDICATOR	FORMULA	DESCRIPTION
Net Result (%)	(revenue – expense)/total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement.
Adjusted Net Result (%)	Adjusted underlying surplus (or deficit)/adjusted underlying revenue	This measures an entity's ability to generate surplus in its ordinary course of business, excluding non-recurrent capital grants, nonmonetary asset contributions and other contributions to fund capital expenditure from its net result. A surplus or increasing surplus suggests an improvement in the operating position.
Indebtednes s (%)	Non-current liabilities/own-s ourced revenue	This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total debt. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

Source: VAGO 2019-20 Audit data.

On average, the financial position of Large Shire councils is changing and required assistance during COVID

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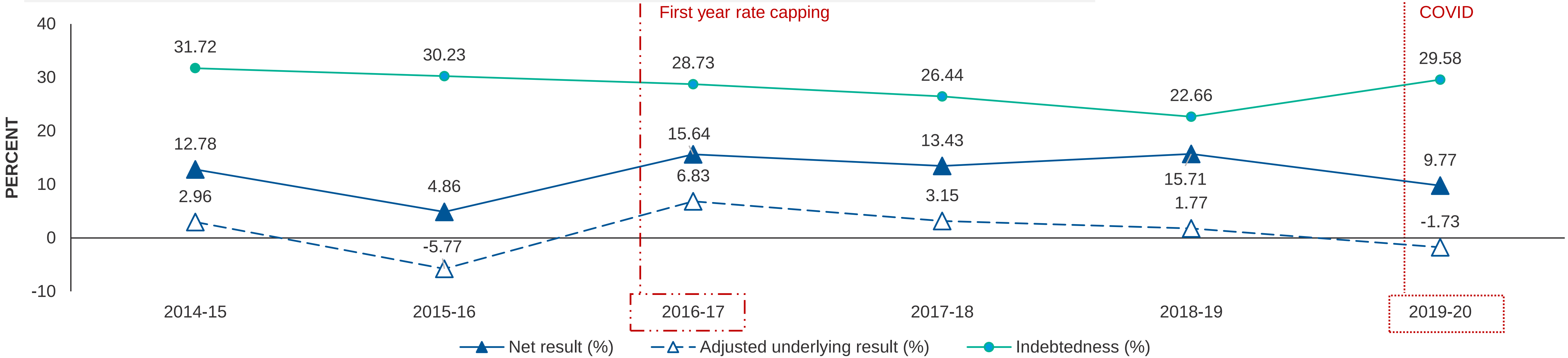
AVERAGE BREAKDOWN OF REVENUE AND COSTS ACROSS LARGE SHIRE COUNCILS IN INDICATOR PROPORTIONS



Analysis:

> the Net Result shows that once expenses are removed from income, there is still unallocated revenue which can be used to renew or maintain assets and service debt. The position was stable but dropped in 2019-20(COVID)

> the Adjusted Net Result shows that if once-off grants were excluded from revenue the overall sector would have battled to cover costs in the years 2015-16 and 2019-20 (COVID) so had reliance on grants in those years

> the Indebtedness shows that Large Shires were seeing an increased ability to repay their borrowings but the ability decreased during the 2019-20 year (COVID) to a similar level prior to rate capping

INDICATOR	FORMULA	DESCRIPTION
Net Result (%)	(revenue – expense)/total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement.
Adjusted Net Result (%)	Adjusted underlying surplus (or deficit)/adjusted underlying revenue	This measures an entity's ability to generate surplus in its ordinary course of business, excluding non-recurrent capital grants, nonmonetary asset contributions and other contributions to fund capital expenditure from its net result. A surplus or increasing surplus suggests an improvement in the operating position.
Indebtednes s (%)	Non-current liabilities/own-s ourced revenue	This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total debt. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

Source: VAGO 2019-20 Audit data.

On average, the financial position of Small Shire councils have a strong reliance on grants

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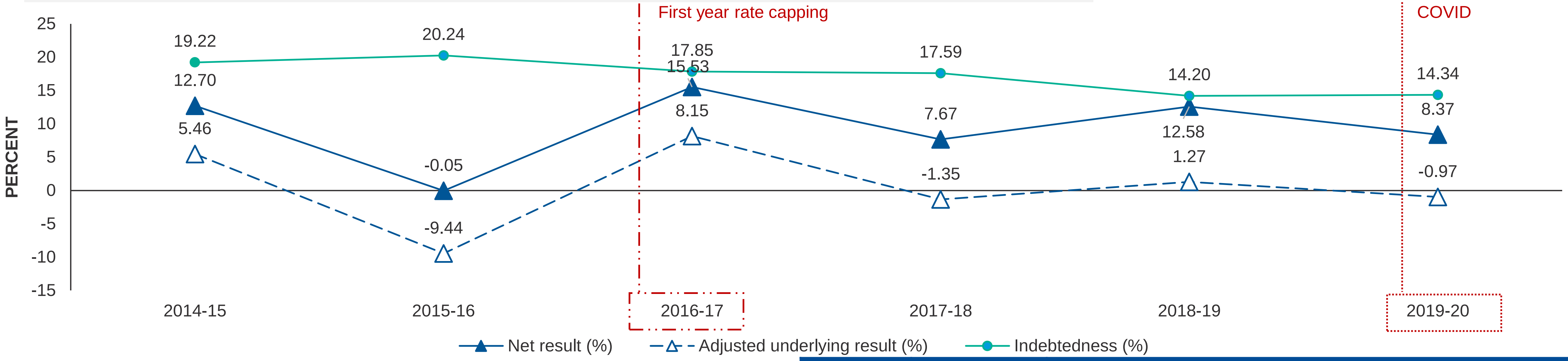
AVERAGE BREAKDOWN OF REVENUE AND COSTS ACROSS SMALL SHIRE COUNCILS IN INDICATOR PROPORTIONS



Analysis:

> the Net Result shows that once expenses are removed from income, there is still unallocated revenue which can be used to renew or maintain assets and service debt with the exception of 2015-16. This has remained relatively stable and is still above the years prior to rate capping but experienced a drop 2019-20 (COVID)

> the Adjusted Net Result shows that if once-off grants were excluded from revenue the Small Shires would have negative values and as such shows a reliance on grants

> the Indebtedness shows that the Small Shires were seeing an increased ability to repay their borrowings and have the second lowest indebtedness percentage except for Metros

INDICATOR	FORMULA	DESCRIPTION
Net Result (%)	(revenue – expense)/total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement.
Adjusted Net Result (%)	Adjusted underlying surplus (or deficit)/adjusted underlying revenue	This measures an entity's ability to generate surplus in its ordinary course of business, excluding non-recurrent capital grants, nonmonetary asset contributions and other contributions to fund capital expenditure from its net result. A surplus or increasing surplus suggests an improvement in the operating position.
Indebtednes s (%)	Non-current liabilities/own-s ourced revenue	This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total debt. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

Source: VAGO 2019-20 Audit data.

Rates and Charges are an important part of paying for recurrent expenditure and remain stable

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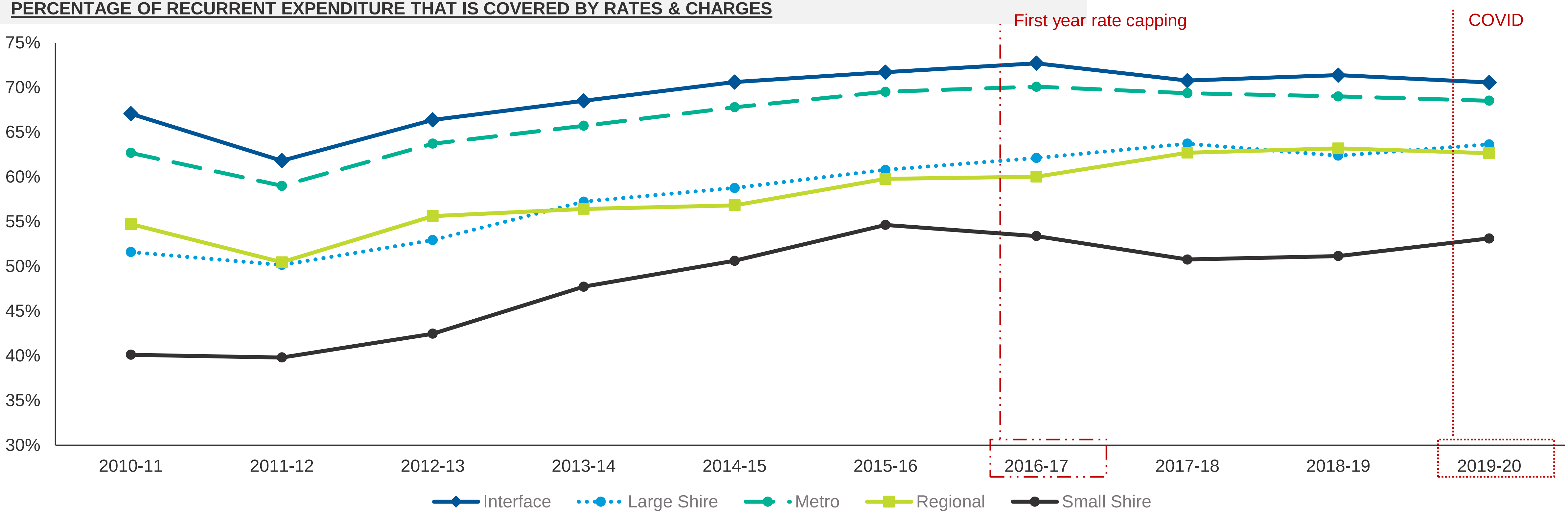
PERCENTAGE OF RECURRENT EXPENDITURE THAT IS COVERED BY RATES & CHARGES

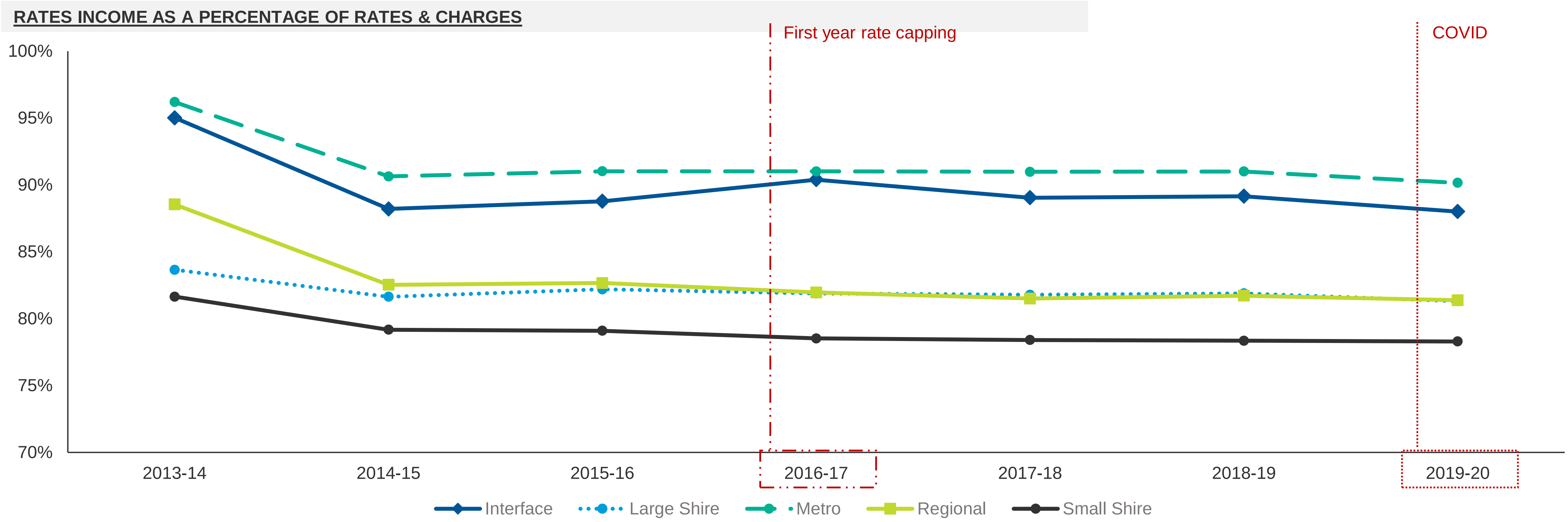


Analysis:

- councils have historically had some reliance on income outside of rates and charges (including before the RCM was introduced)
- recurrent expenditure has been increasing year-on-year prior to rate capping
- since rate capping, recurrent expenditures coverage with rates and charges had a minor shift and then stabilised
- stabilisation can come from either reducing recurrent expenditure with reduced rates and charges or stable rates and charges increases with stable recurrent expenditure increases

Source: VAGO 2019-20 Audit data

The rates make-up of Rates and Charges income decreased before rate capping was introduced and has remained relatively stable



Analysis:

- the Rates portion of the Rates and Charges (including waste) income has remained stable or on a slight decline since rate capping was introduced
- rates as a stand-alone income saw a drastic shift between the years 2013-14 and 2014-15
- rates income is a large portion of the broader Rates and Charges income meaning that small fluctuations within charges (including waste) will not cause instability

Source: Rates & Charges breakdown (2013-21)

Specific questions were asked across stakeholder groups to examine the appropriateness of setting of the rate cap

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ELEMENT TESTED	METHOD	QUESTIONS	COUNCIL	ESC	STATE GOV DEPTS	SECTOR PBs	SECTOR S.	RATEPS
the provision of advice by the ESC and Government agencies to the Minister for Local Government in the setting of the rate cap (s 185D of the Act) **Section 185 (d) of Part 8a the Act** s. 185D: (3) Before making a general Order, the Minister must— (a) request advice from the Essential Services Commission for the purposes of adjustment in setting the average rate cap; and (b) have regard to any advice received from the Essential Services Commission as requested under paragraph (a). (4) The Essential Services Commission must provide advice to the Minister in accordance with a request made under subsection (3)(a). (5) A general Order does not have effect in respect of a capped year unless it is published in the Government Gazette— (a) on or before 31 December in the financial year before the capped year; or (b) on or before such other date fixed by the Minister by notice published in the Government Gazette in the financial year before the capped year.	> Face-to-face	> What do you see as the benefits or limitations of the interpretation of the Act* for setting the rate cap? > What do you see as the benefits or limitations of the implementation of the Act* for setting the rate cap? > Do you have any comments to share regarding the process by which advice is provided by the ESC and Victorian Government agencies for the Minister for Local Government in the setting of the rate cap?	✓	✓	✓	✓	✓	✓
	> Survey	**Council survey** > survey questions can be found under *Appendix I* **Ratepayer and ratepayer associations survey** > survey questions can be found under *Appendix I*	✓					

*Source: Local Government Act 1989; Essential Services Commission; State Government Departments; Sector peak Bodies; Sector Stakeholders (Sector S.), Ratepayers and Ratepayer Associations (Rateps): *On this slide, the Act refers to the Section 185(d) of Part 8A of LG Act 1989; Note: only input received in respect of the present section is captured in the proceeding slides. This means that all stakeholders asked may not have provided input into the specific area.*

While there were no reported issues with the December notice of the rate cap, an earlier release was proposed

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COUNCILS

1 GENERAL RESPONSES

- there were no reported issues with the process for setting the rate cap. However, it was noted that ESC does not consult councils before setting the rate cap
- while the timing of the announcement was acceptable to some councils, it was challenged by others. Despite the current timing, there was large-scale agreement that an earlier announcement would be beneficial as it could inform the budgeting process. The budgeting process commencement dates varies per council, with some starting in September and others in November

2 CHALLENGES REPORTED

- it has been raised that the Minister had not taken the ESC's advice in previous years, however noted that this is appropriate for a government mechanism in setting the rate cap

3 ALTERNATIVES PROPOSED

- earlier announcement of the rate cap. This would allow more time to those considering an application for variation allowing them to prepare an application earlier
- longer timeframes were also posited as an alternative, with many of the councils requesting caps over a four-year timeframe, or an average cap over the four-years in line with budget-cycle. The rationale is that it would create more certainty in the system
- consider the provision of exceptions in the setting of the rate cap for councils that have commenced on a lower base rate or currently offer low rates to ratepayers

Source: Stakeholder Analysis;

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Longer timeframes, additional processes and specific advice were posited to enable the ESC to provide a better service

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ESC

1 GENERAL RESPONSES

- while no adjustments have been made by the Minister through the cap advice process, it was posited that it is an appropriate mechanism for input to the Minister. It provisions for the ESC to provide an opportunity to advise the Minister on any areas of concern
- an earlier rate cap could be announced to assist councils in their planning. This could be implemented using the May CPI forecast, which allows the variation process to commence earlier. However, this may entail amendment of the CPI definition in the LG Act 1989 to one that references the State Government Budget Papers (released in May), rather than the CPI forecast in the Budget Update (released in December)
- the legislation or Minister's request for advice could detail more specific matters that the Minister would like to consider as part of the advice provided by the ESC to Minister in setting the rate cap, thereby targeting specific concerns of the Minister

2 ALTERNATIVES PROPOSED

- the Minister's request could detail specific matters to be considered by the ESC in the provision of advice
- consideration of separate process for dealing with specific circumstances that affect multiple councils. This refers to councils affected by a particular event, policy change or issue, and to consider an alternative process whereby each council affected would not need to apply for variation individually
- consideration of an earlier release of the CPI as the impact upon councils will be greater than the impact of the difference in CPI between May and December. However, this may require a change to legislation stipulating a change to the definition of CPI in the legislation to support council planning

Source: Stakeholder Analysis;
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Sector stakeholders raised challenges around the timeframes and transparency of the setting of the rate cap

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SECTOR STAKEHOLDERS (ASU, FinPro, RMA)

1 CHALLENGES REPORTED

- lack of clarity on how ESC engaged the sector on what the rate cap should be
- no transparency on past advice
- definition of CPI is embedded in the Act, which leaves less room for discretion
- the timeframes for the application for variation were raised as a challenge and the low rate of applications for variation associated with this challenge

2 IMPACTS REPORTED

- reported impact on wage negotiations as councils cannot account for, with certainty, the impact of future rate caps

4 ALTERNATIVES PROPOSED

- option identified is to incur debt, and not necessarily an adjustment in line with cost drivers
- wider consultation is recommended
- to provision for a broader view than CPI (such as construction costs and other cost drivers that need to be absorbed by councils)
- a three-year rate cap should be set as year-on-year is limited. Impacts on wage negotiations were noted.

Source: Stakeholder Analysis;

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Sector Peak Bodies commented on the complexity of the mechanism, short timelines for decision-making, and limited advice provided by the ESC

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SECTOR PEAK BODIES (LGPro, MAV, VLGA)

1 GENERAL RESPONSES

- overall, the process was viewed as convoluted to determine a final figure
- no challenges were reported around the date. However, as the budget commences earlier (Oct – Dec), it was noted that it would be helpful if the figure is released earlier

2 CHALLENGES REPORTED

- by announcing in December, there are short lead times for councils to make decisions
- finds that the advice provided by the ESC is limited as the advice requested does not pertain to advice about the sector and the pressures it faces

3 ALTERNATIVES PROPOSED

- earlier announcement of the rate cap

Source: Stakeholder Analysis; Sector Peak Bodies

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Representatives view the interpretation as clear, with longer timeframes proposed to ease council pressure

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STATE GOVERNMENT (THE DEPARTMENT, DPC AND DTF)

1 GENERAL RESPONSES

> view the LG Act 1989 largely as straightforward, with some mentioning the stipulation of "having regard' as ambiguous

2 ENABLERS REPORTED

> the ESC has developed a lot of guidance content, and the implementation has been viewed favourably and in line with the LG Act 1989

3 ALTERNATIVES PROPOSED

> consider setting the rate cap for an additional year to provide more time to councils to plan and adjust budgets, or different rates for different council types or multiple rate caps for councils in different situations or setting the rate based on past CPI

Source: Stakeholder Analysis;

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Ratepayer associations recommended tailoring the rate cap to council types

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RATEPAYER ASSOCIATIONS

1 ALTERNATIVES PROPOSED

> consider rate cap per council type to account for the CPI of the local area and minimise differences across the councils

Note: Only feedback applicable to the sector was represented above

Source: Stakeholder Analysis;
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Data analysis was undertaken to compare the CPI figure announced in December with actual CPI, to assess its impact on councils

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Should the real value of CPI be used in place of a December estimate

CPI estimates vs actuals

CPI currently used for rate capping in Victoria is from the December estimates for the following year. Actual CPI for the year is measured retrospectively and full year estimates run from a September to September year. Actual CPI is measured every quarter, allowing for a year on year comparison to take place four times a year.

For actual CPI to be used, a retrospective outlook would take place in order to align with the delay in CPI measurement. This would mean that should actual CPI be used, it would be implemented a year behind meaning that measured outcomes would be used in the current year based on the year prior.

It could be argued that the usage of actual CPI instead of the December estimate may more accurately reflect consumer pricing changes, this delay may cause confusion.

Exploring actual CPI compared to the December estimate may have the advantage of allowing for an accurate representation of CPI with additional time to allow for variations to be done by councils should they desire as the September measurement is released prior to the December estimate.

CPI estimate and actual comparison methodology

With both the estimate of CPI, which is currently used for rate capping, and the actual CPI measure the same thing, the ultimate difference is that the current December value used is an estimate which is prone to be different from the actuals.

In order to compare actual CPI to the December CPI estimate, CPI from the Victorian budget update in December was used. This aligns with the current methodology of rate capping which uses the December CPI as the point of reference. For actual CPI, ABS baseline values were used and analysed as a year on year change using the September CPI values.

A 10 year period was used from 2011-12 though to 2020-21 with the December CPI and actual CPI from the September year on year were used. Actual CPI was calculated using the annualised CPI method using the CPI raw value against the baseline averaged over a single year.

In order to compare the differences between CPI estimates and actuals, the different values were compared as a compounded averages. To illustrate the potential impact, the highest and lowest income council per council type (Small Shire, Large Shire, Regional, Interphase and Metro) were used. Their rates income from 2019-20 was used and then extrapolated out over 10 years. No discount factor was applied for the base analysis.

Source: Grosvenor Analysis; ABS CPI; Know Your Council

The results revealed substantial impacts, whereby the largest impact would be $23.85 mil less over a 10-year period

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Analysis of estimated compared to actual CPI and its potential impact

Analysis

When comparing estimated and actual CPI, it can be seen that across the 10 year period there was not a single estimate that aligned perfectly with the actual CPI value.

The smallest variance between the estimate and the actual was 0.29% in favour of the estimate. The largest difference was 1.15% in favour of the actual CPI meaning that the December value had overestimated CPI change.

The impact on councils using actual CPI as compared to the December estimate would be a reduction in income over a 10 year period. In the Borough of Queenscliff, using actual CPI would result in a reduction in rates revenue of $0.58m. This is trend is seen on a larger the City of Melbourne, which would have a net reduction of $23.58m over the 10 year period.

Overall, the usage of actual CPI would better reflect the changes in consumer costing and link closely to the ratepayers real experiences. This however would disadvantage the councils as they would reduce the total revenue collected over a 10 year period.

Key	
SS	Small Shire
LS	Large Shire
R	Regional
I	Interface
M	Metro

Local Government Area (LGA)	LGA Type	Start Value	CPI Dec($m)	CPI Actual ($m)	Difference over 10 years ($m)
Borough of Queenscliffe	SS	$7.40	$9.69	$9.10	$0.58
Murrindindi	SS	$21.39	$28.02	$26.33	$1.69
Southern Grampians	LS	$20.99	$27.50	$25.84	$1.66
Wellington	LS	$63.11	$82.68	$77.69	$4.99
Horsham	R	$27.63	$36.20	$34.01	$2.19
Greater Geelong	R	$241.48	$316.37	$297.27	$19.10
Nillumbik	I	$66.20	$86.73	$81.50	$5.24
Casey	I	$241.88	$316.88	$297.76	$19.13
Maroondah	M	$92.59	$121.31	$113.99	$7.32
Melbourne	M	$301.53	$395.04	$371.20	$23.85

Source: Grosvenor Analysis; ABS CPI; Know Your Council

Exploring some of the alternatives put forward, a comparison between May CPI and December CPI was undertaken

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Can CPI from May be used in place of the December CPI?

CPI release points

The CPI point used within Victoria is that of the Melbourne CPI which is a CPI measure focused on Melbourne. CPI is a measure of changes within a consumer's basket of goods which they would purchase, and is an indicator of relative changes within cost of living.

In Victoria, CPI is released inline with the budget for the subsequent year which is generally around May. At the budget release the CPI for the previous year is finalised, and four years CPI forecasts are done for the following year. It is the subsequent years' CPI forecast that is used within the rate capping methodology, but provided at the review in December.

Using the May forecast for the subsequent year would allow an additional 6 months of review for councils to work on their budgets compared to the update provided in December. Provision of the update in December allows for additional time to forecast CPI for the next year, increasing accuracy and responding to macro-economic trends.

Exploration of May and December CPI can seek to understand if there would be disadvantage in using the May date to provide councils with extra time to plan for their budget.

CPI release points methodology

While both CPI released in May and December are projections for the upcoming year, the usage of an additional 6 months for preparation time could be of usage of local government. This could include allowing for time to prepare budgets, engage with the community or plan for rate capping variation requests.

In order to compare the CPI release dates, CPI points for May and December were used from the Department of Treasury and Finance (DTF). The data was sourced from the latest macro-economic indicator list reviewed on the 31st of May 2021.

A 10 year period was used from 2011-12 though to 2021-22 with the projected data used for each of these years.

To fully understand the impact of the different CPI release dates, the compounded difference was calculated. To illustrate the potential impact, the highest and lowest income council per council type (Small Shire, Large Shire, Regional, Interphase and Metro) were used. Their rates income from 2019-20 was used and then extrapolated out over 10 years. No discount factor was applied for the base analysis.

Source: Grosvenor Analysis; ABS CPI; Know Your Council

The analysis revealed a marginal difference*, with the largest impact of $3.63 million over 10 years

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Analysis of using CPI at different release points and its impact on the rate cap

Analysis

The analysis of the two time periods show that there would have been a small compound difference over the 10 year period selected. This would have amounted to a compound increase of 2.74% using the December release compared to a compound increase of 2.83% using the May release of CPI.

The impact on the council with the smallest rates income, Borough of Queenscliffe, with an overall rates income in 2019-20 of $7.4m would have been $0.09m. This means that by using the December CPI release, Queenscliffe would have an additional net increase of $0.09m over 10 years compared to if it has used May CPI.

Overall, December CPI has a smaller compound outcome over a 10 year period than that of May. The reason for this is that the December CPI is closer in value to the real CPI value calculated the following May using retrospective data with the current May value being a projection for the year ahead.

While using the May value could provide councils with additional time to do their budgets, it would cause a small additional burden to tax payers and a slight increase in revenue over 10 years.

Key	
SS	Small Shire
LS	Large Shire
R	Regional
I	Interface
M	Metro

Local Government Area (LGA)	LGA Type	Start Value	Value with May CPI ($m)	Value with Dec CPI ($m)	Difference over 10 years ($m)
Borough of Queenscliffe	SS	$7.40	$9.69	$9.78	$0.09
Murrindindi	SS	$21.39	$28.02	$28.28	$0.26
Southern Grampians	LS	$20.99	$27.50	$27.75	$0.25
Wellington	LS	$63.11	$82.68	$83.44	$0.76
Horsham	R	$27.63	$36.20	$36.53	$0.33
Greater Geelong	R	$241.48	$316.37	$319.27	$2.90
Nillumbik	I	$66.20	$86.73	$87.53	$0.80
Casey	I	$241.88	$316.88	$319.79	$2.91
Maroondah	M	$92.59	$121.31	$122.42	$1.11
Melbourne	M	$301.53	$395.04	$398.67	$3.63

Source: Grosvenor Analysis; ABS CPI; Know Your Council
**marginal in relation to the typical revenue and expenditure profile of the council type*

Similarly, comparison across small and large shires revealed marginal differences suggesting it is a viable option for change

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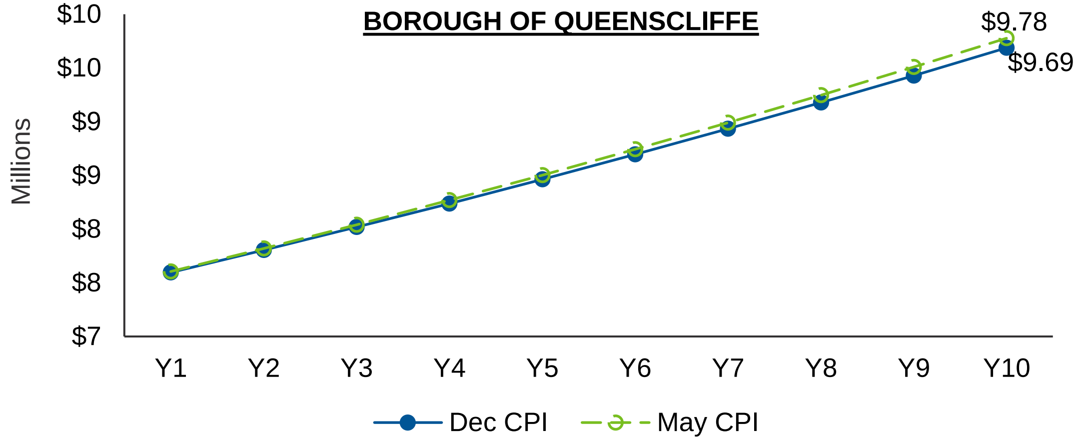
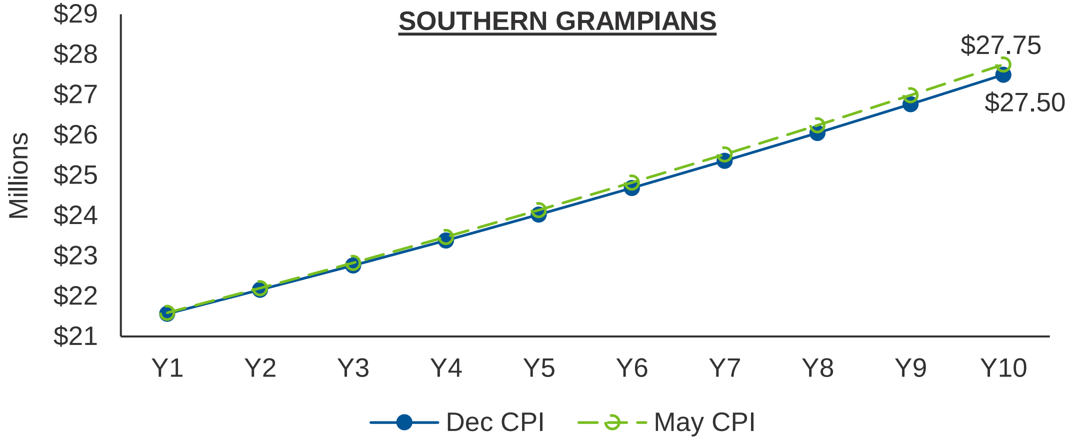
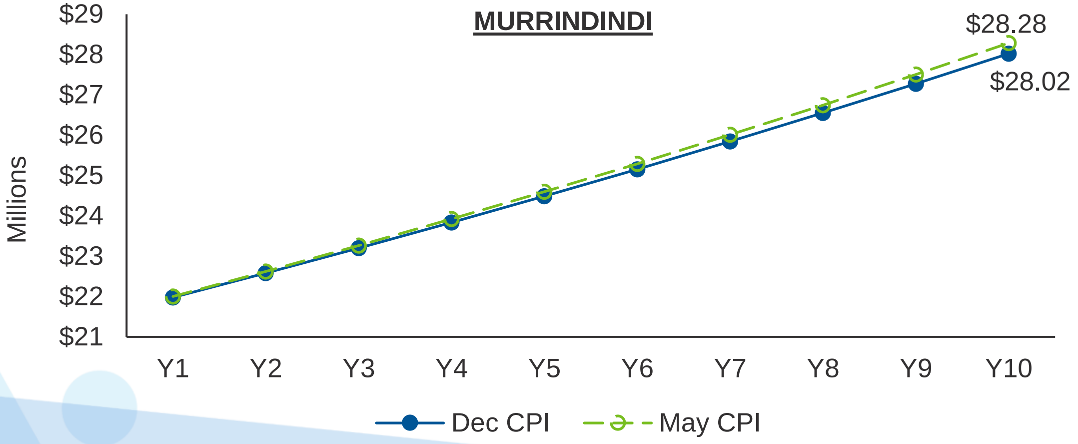
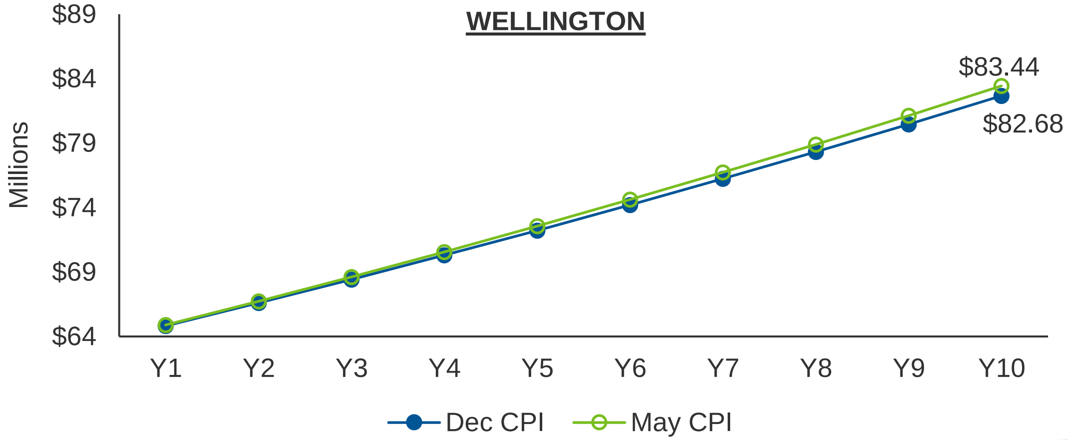
May vs December CPI for Small and Large Shires









Note: Y1 was taken as FY2011-12 and used as the baseline to against both assumptions
Source: Grosvenor Analysis; ABS CPI; Know Your Council

Analysis revealed that the use of the May CPI forecast is a viable change in setting the rate cap

OPTIONS CONSIDERED	RESULT
Usage of May CPI in place of December forecast > May and December CPI are both forecasts > December CPI is utilised as it is a projection that is most up to date in line with the capped year > a comparison was done between these two points across a range of councils to understand the impact of using either date	**Usage of May CPI in place of December forecast** > there is a slight difference between values of forecasted CPI between May and December forecasts > at its smallest this impact would be $0.09m more for the smallest income council over 10 years > at its largest this impact would be $3.36m more for the largest income council over 10 years > the usage of May CPI would slightly increase the income of councils over the 10 year period > the usage of May CPI would thus be a viable option due to the minor impact
Usage of Actual CPI in place of the December forecast > December CPI used for the rate cap calculation is a forecast > using actual CPI from the previous year could allow for a greater accuracy in relation to actual changes in cost of living > a comparison was done between these two points across a range of councils to understand the impact of using either date	**Usage of Actual CPI in place of the December forecast** > there is a difference between the December CPI forecast and the actual CPI forecast > at its smallest, this impact would be $0.58m less for the smallest income council over 10 years > at its largest, this impact would be $23.85m less for the largest income council over 10 years > the usage of actual CPI would reduce the income of the councils over a 10 year period > the usage of actual CPI would support the downward pressure on ratepayers

Specific questions were asked across stakeholder groups to examine the components in calculating the rate cap

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<table>
<tr><th>ELEMENT TESTED</th><th>METHOD</th><th>QUESTIONS</th><th>COUNCIL</th><th>ESC</th><th>STATE GOV DEPTS</th><th>SECTOR PBs</th><th>SECTOR S.</th><th>RATEPS</th></tr>
<tr><td rowspan="2">the use of the base average rate as the basis for applying the rate cap (s 185B of the Act)

Section 185B Base Average Rate

“The base average rate, in relation to a Council, means the rate calculated according to the following formula—

$$BAR = \frac{Rb}{L}$$
where—

BAR is the base average rate; and

Rb is the total annualised revenue leviable from general rates, municipal charges and any other prescribed rates or charges on rateable properties within the Council's municipal district as at 30 June in the base year; and

L is the number of rateable properties within the Council's municipal district as at 30 June in the base year.

Note: The total annualised revenue leviable in the base year includes revenue that is budgeted as at 1 July of the base year and the full year effect of annualised supplementary rates.”</td><td>> Face-to-face</td><td>> What do you see as the benefits or limitations of each of the components of the mechanism? These components include:
– the base rate & capped rate
▪ total land value as at 30 June or 1 July
▪ number of rateable properties at 30 June or 1 July
▪ rate in the dollar for the previous and future year
▪ municipal charges for the previous and future year
– CPI being chosen as the market-based index
> Do you have any comments on how the mechanism is implemented in accordance with its legislation?</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>> Survey</td><td>Council survey
> survey questions can be found under Appendix I

Ratepayer and ratepayer associations survey
> survey questions can be found under Appendix I</td><td>✓</td><td></td><td></td><td></td><td></td><td>✓</td></tr>
</table>

Source: Local Government Act 1989; Essential Services Commission; State Government Departments; Sector Peak Bodies; Sector Stakeholders (Sector S.); Ratepayers and Ratepayer Associations (Rateps). Note: only input received in respect of the present section is captured in the proceeding slides. This means that all stakeholders asked may not have provided input into the specific area.

Council respondents largely showed that they understand and know how to calculate the base average rate

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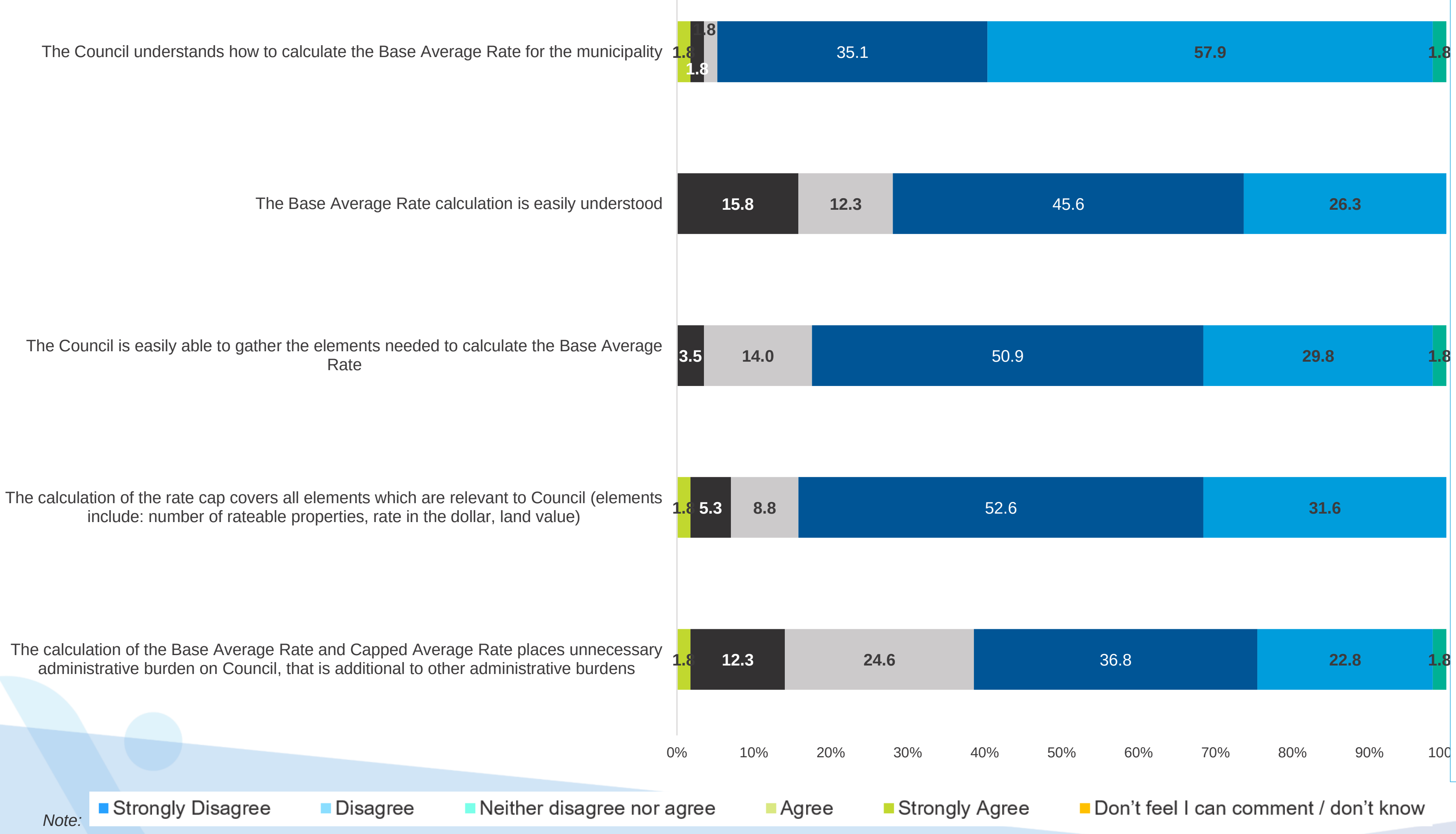
Council responses in relation to the calculation of the rate cap (mechanism)



- 93% of respondents indicated that the council knows how to calculate the Base Average Rate (BAR) for the municipality
- while respondents indicated that they understand how to calculate the BAR, 71.9% responded that it was easily understood
- a majority (80.7%) of council respondents said that they are able to easily gather the elements need to calculate the BAR
- 84.2% of respondents indicated that the calculation of the rate cap covers all elements which are relevant to the council
- three fifths of respondents indicated that the calculation of the Base Average Rate and the Capped Average Rate added administrative burden

Note:
n refers to the number of respondents that answered a particular question; n = 57; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Council Survey Results (2021)

Councils suggested that additional components should be incorporated into the calculation to reflect the increase in cost drives of councils

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COUNCILS

1 GENERAL RESPONSES

- overall, most discussions reflected that the calculation of the average rate cap requires more than the consideration of CPI. This was substantiated through the lens of expenditure, whereby indices such as wage and construction were suggested for consideration to accurately reflect cost drivers
- CPI is not reflective of the cost drivers of councils, i.e., construction costs and wage costs
- implementation has been in accordance with the Act

2 ENABLERS REPORTED

- the Valuer General has been reported as an enabler as the timeliness of valuations have improved

3 CHALLENGES REPORTED

- building costs during COVID has been relatively higher
- RCM is difficult to explain to the community
- timelines for compliance is short, with valuation freezing beyond April or May in order to comply
- terminology utilised was reported as confusing to finance staff (comparison between the Act and available resources)
- difficult to explain the rate cap, together with differential rates, to ratepayers

4 IMPACTS REPORTED

- not beneficial for councils to utilise a rate lower than the rate cap (as they lose out in the long term) thereby incentivising them to maximise the cap
- incentivised the separation of waste charges from rates, which was reported to have a minimal impact on ratepayer

5 ALTERNATIVES PROPOSED

- many councils were satisfied that their calculation could not be enhanced, and with one suggesting that the data trended towards CPI even if Wage was included. However, a large majority indicated that the wage index and construction index should form part of the calculation.
- consider the provision of more templates from the ESC

Source: Stakeholder Analysis; Council Surveys (2021)

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

A majority of rate payer survey respondents indicated understanding of CPI, but less thought that it was relevant

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Ratepayer responses in relation to the calculation of the rate cap (mechanism)

> 57.1% of rate payer respondents indicated that they understand the Base Average Rate (BAR)

> only 28.7% of respondents indicated that the BAR is relevant for its intended purpose

> a majority of respondents (86.8%) indicated an understanding of CPI

> 42.6% of respondents indicated that CPI is relevant for its intended purpose

Note:
n refers to the number of respondents that answered a particular question; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Ratepayer Survey Results (2021)

Ratepayers indicated the need for efficiency factors to remain within the calculation and key performance indicators to be included

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RATEPAYER AND RATEPAYER ASSOCIATIONS

1 GENERAL RESPONSES

- the rate cap mechanism framework lacks clear KPIs to track progress against. At the introduction of the framework, there was an indication that efficiency factors would be factored in, however, this has not been further incorporated beyond the first year of implementation

2 CHALLENGES REPORTED

- the annual valuations (CIV) have a substantial impact on the rates at ratepayer level. Although a separate process from the implementation of the rate cap, this has a substantial impact upon individual rates, which was reported as unfair and inequitable to the ratepayer

3 ALTERNATIVES PROPOSED

- incorporate key performance indicators into the framework and efficiency factors into the mechanism calculation that are incrementally introduced over the next four years. The framework is expected to be robust to drive efficiencies in the manner in which councils manage and structure themselves (e.g., shared services, lower costs, etc.)
- consider alternatives to the CIV valuation pricing method *(out of scope of the present review)*

Source: Stakeholder Analysis, Ratepayer Survey Results (2021), KPIs: Key Performance Indicators
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Sector stakeholders largely indicated challenges with using CPI and how supplementary valuations affect the calculations

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SECTOR STAKEHOLDERS (ASU, FINPRO, RMA)

1 CHALLENGES REPORTED

- difficult to manage the valuations in the calculation of the base rate as a change in valuations (or late valuations) could increase the rate in dollar and put the councils over the rate cap set (with consequences of non-compliance)
- a precedent was set based on the early submissions that have deterred councils from applying
- councils do not want to borrow for asset renewal purposes but rather for new asset purchases. The perception is that the variation process is utilised only when in dire circumstances
- perception that the cost outweighs the benefits
- supplementary valuations creates an issue for compliance
- using the CPI forecast has been unrepresentative of cost drivers

2 IMPACTS REPORTED

- councils need to maximise the rate cap in order not to “lose out” on the base rate but must manage this carefully so as to be compliant with the ESC
- additional rigour required by the ESC’s submissions has forced the sector to uplift the standard with regards to planning
- the ‘freezing’ of valuations entails the foregoing of supplementary revenue of councils, which may create delays in responding to ratepayer needs, in order to ensure council compliance with the ESC (however, it’s estimated that affected less than 1% of councils)

Source: Stakeholder Analysis

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Similarly, Sector Peak Bodies indicated challenges with using CPI and how supplementary valuations affect the calculations

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SECTOR PEAK BODIES (LGPRO, MAV, VLGA)

1 CHALLENGES REPORTED

- timing of the valuation process has been noted as a challenge as it impacts the rate in the dollar
- growth areas are also affected by timing due to supplementary rates
- cost of construction materials has been impacted by COVID, and CPI may not be reflective of the cost drivers.
- concern amongst councils around the impact of future Social Housing policy changes on the rates revenue

2 ALTERNATIVES PROPOSED

- recommendation to consider the cost base of construction and re-evaluate if CPI is sufficient in the calculation.

3 ALTERNATIVES PROPOSED

Consideration of additional indices

- potentially, the rate cap could then be more reflective of cost-drivers of the environment

Source: Stakeholder Analysis, Sector Peak Bodies

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

Some representatives also suggested room for improvement in explaining the calculation and use of additional indices

STATE GOVERNMENT REPRESETNATIVES (THE DEPARTMENT, DPC AND DTF)

1 **ALTERNATIVES PROPOSED**

- provide a better explanation of the calculations in plain English
- potential to use Purchase Pricing Index to align close to councils as opposed to CPI. However, this may contradict the purpose of the policy intended to protect the consumer instead of council.

Note: where relevant, perspectives related to the evaluation area were provided in the respective sections.

Source: Stakeholder Analysis

Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

A comparison with the NSW rate pegging system was undertaken as it incorporates construction and wage indices

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How different is CPI as a measure compared to NSW's rate peg

Victoria and NSW rate cap setting differences

Victoria and NSW both have a rate capping methodology to limit the burden of rates on the population. Where the rate cap differs between the two states is what is used to construct the cap. Within Victoria the cap is comprised of CPI. In NSW the rate peg is a compound construct which includes weighted items from the Wage Price Index (WPI), and Producer Price Index (PPI).

Over the past six years, the Victorian and NSW rate caps have not aligned perfectly.

The differences between rate caps have been a positive 0.7% difference in 2016-17 with Victoria having a 2.5% cap and NSW having a 1.8% cap. The largest difference in favour of NSW was in 2020-21 with a difference of 0.6% in favour of NSW with the Victorian cap being 2% compared to the 2.6% of NSW.

The averaged compound year on year increase that has been experienced in Victoria is 2.43% compared to 2.40% in NSW. The reason that the NSW compound rate cap increase is lower than Victoria is due to the impact of NSW having initial lower caps in the 2016 through to 2018 years which created a compounding effect that allowed a higher compound average cap in Victoria.

Comparing NSW and Victorian capping methodology outcomes

While both Victoria and NSW both have rate capping for their local governments, NSW has been implementing the forms of rate capping since 1978*. The methodology on which rates are based between the two states are different, and as such a comparative benchmark can be drawn to understand the difference and the impact there.

As a base for comparison, only years where there was both a Victorian rate cap and a NSW rate peg were used which was from the 2016-17 year through to 2021-22 encompassing a six year period.

In order to understand the overall impact of the differences between the methodologies, a Monte Carlo analysis method was used. This methodology allows for the baseline years to be extrapolated out in order to understand the potential variances that could occur within a controlled, but random, environment. The Monte Carlo was run across 8,000 periods to increase stability and provide a reduced likelihood of error. It is worth noting that this analysis does not account for macro-economics shifts but relies on previous inputs.

* Local Government further (rating) amendment bill

Source: Grosvenor Analysis; ABS; Know Your Council; NSW rate-peg

Analysis revealed similar results, with the additional indices linked to greater variation in range of the rate cap

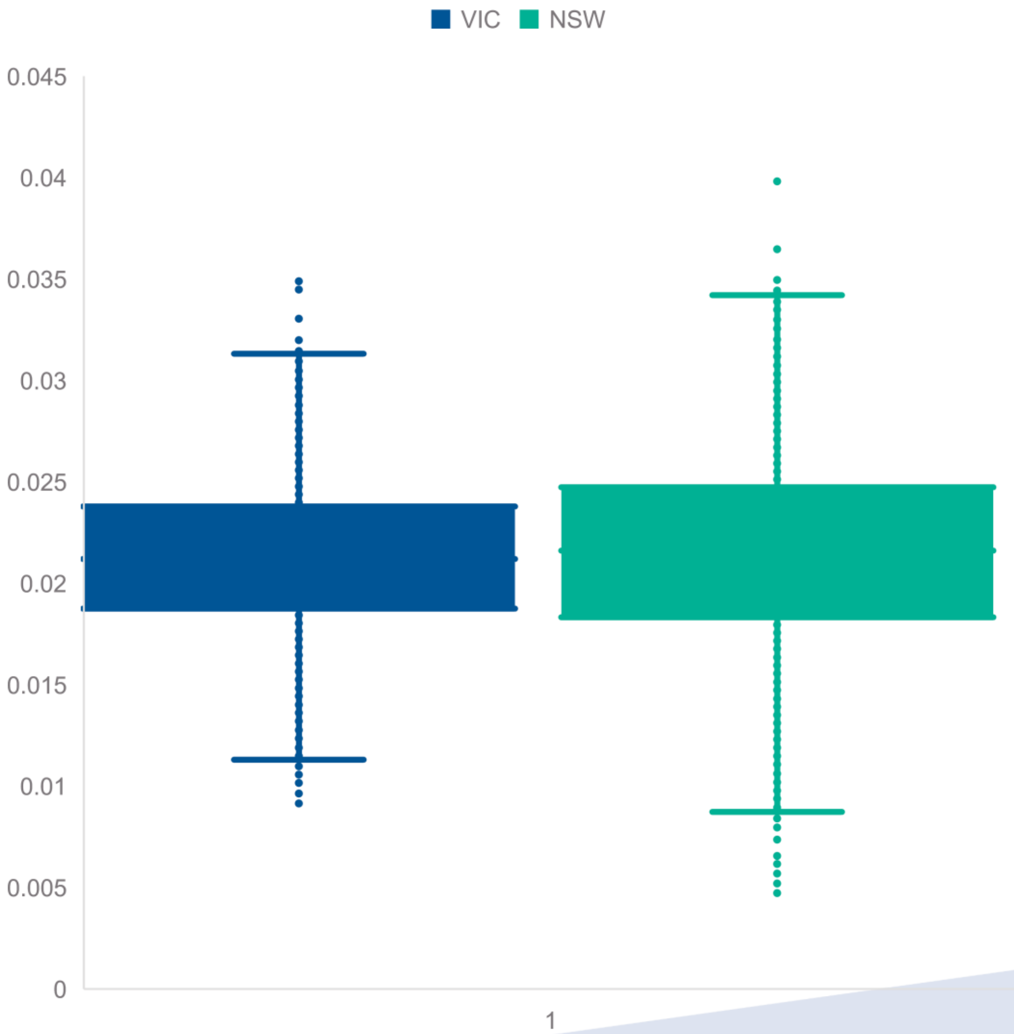
Analysis

The analysis of the two benchmarks shows that the current Victorian method and the NSW method have very similar mean compounded caps, but the difference can be seen in the variation year on year.

The 25th and 75th percentiles of Victorian caps are clustered closer together than the NSW ones. The result of this is the NSW method has a higher variance across the years compared to Victoria which offers a more stable option. At the peak cap, NSW would have a slightly higher top cap than Victoria, and a very similar minimum value. The variation within the NSW model shower a higher number of outliers representing the extreme effects that market forces can have on the model.

61% of the time, Victoria and NSW will be within 0.5% of one another.

Overall, using CPI as a measure will offer greater stability on which both ratepayers and councils can expect to see the cap over a longer period of time. Conversely, CPI as a measure may not allow for variation due to changing costing or associated factors which the NSW methodology could better respond to.



Source: Grosvenor Analysis; ABS; Know Your Council; NSW rate-peg

In examining if other indices should be added to the calculation, an analysis incorporating WPI and its impact was undertaken

Should CPI be augmented with other measures

Augmentation of CPI

CPI is used as the base for the Victorian rate capping methodology. This differs to NSW which uses a combined approach of Wage Price Index (WPI), and Producer Price Index (PPI). Within NSW a list of items which affects the cost of running a council is drawn out and weighted, meaning that differing items have different cost driver proportions and these are accounted for in the methodology.

The comparison of other metrics which could be used to augment the CPI base within Victoria may provide an alternative model that could be used to better adjust pricing to the perceived difference by the councils that CPI does not reflect their cost drivers. From the comparison of VIC and NSW rate capping approaches we can see that the overall outcome over six years is very similar, but the comparison of the metrics will allow for a fuller scope to be explored and understand if additional input into the rate cap's construction could be warranted.

Wage Price Index (WPI) was included in the first year of rate capping as an augmentation to CPI. As such, the exploration of CPI and WPI within the council rates revenue context could see if there was a difference, and the impact of this difference

CPI and WPI comparison methodology

Both CPI and WPI are measures which would directly affect the ratepayer, as CPI is a measure of spend, and WPI a proxy of spending power when compared to aggregate wage changes. As such, WPI would be a good comparator to CPI due to being consumer centric and driven by ratepayers as opposed to driven by council such as using the PPI.

In order to compare WPI and CPI, CPI from the Victorian budget update in December was used. This aligns with the current methodology of rate capping which uses the December CPI as the point of reference.

A 10 year period was used from 2011-12 though to 2021-22 with the projected data used for each of these years.

To fully understand the impact of the different WPI could have as an augment, both CPI and WPI were compared as a compounded averages. To illustrate the potential impact, the highest and lowest income council per council type (Small Shire, Large Shire, Regional, Interphase and Metro) were used. Their rates income from 2019-20 was used and then extrapolated out over 10 years. No discount factor was applied for the base analysis.

The analysis revealed high impact on the revenue of councils, with a greater burden on ratepayers

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Analysis of CPI compared to WPI and its potential impact

Analysis

The analysis and comparison of CPI and WPI shows that WPI as a measure has values above CPI by between 0.25% and 1.25% throughout the 10 year period. The compound mean of December CPI over the 10 year period is 2.74% compared to the 3.67% of WPI. This means that WPI is almost a percentage point higher ever year.

The impact on the councils using WPI as an alternative or augmentation would vary depending on the size of the councils rate income base. For a Small Shire such as the Borough of Queenscliffe, the usage of WPI would result in an additional $0.91m over 10 years, compared to an additional $37m for a Metropolitan council such as Melbourne.

Overall, the usage of WPI would increase income for councils while placing additional burden on rate-payers. The usage of WPI would have another effect, that is based on the weighting used within the measure which takes into account both public and private places of employment across a range of sectors. As such the overall aggregate measure of WPI would mean that there could be disadvantage to communities where higher income and weighting sectors do not represent the community composition.

Key	
SS	Small Shire
LS	Large Shire
R	Regional
I	Interface
M	Metro

Local Government Area (LGA)	LGA Type	Start Value	CPI ($m)	WPI ($m)	Difference ($m)
Borough of Queenscliffe	SS	$7.40	$9.69	$10.60	$0.91
Murrindindi	SS	$21.39	$28.02	$30.67	$2.64
Southern Grampians	LS	$20.99	$27.50	$30.09	$2.59
Wellington	LS	$63.11	$82.68	$90.48	$7.80
Horsham	R	$27.63	$36.20	$39.61	$3.41
Greater Geelong	R	$241.48	$316.37	$346.21	$29.84
Nillumbik	I	$66.20	$86.73	$94.91	$8.18
Casey	I	$241.88	$316.88	$346.78	$29.89
Maroondah	M	$92.59	$121.31	$132.75	$11.44
Melbourne	M	$301.53	$395.04	$432.31	$37.27

Note: Y1 was taken as FY2011-12 and used as the baseline to against both assumptions
Source: Grosvenor Analysis; ABS CPI; Know Your Council

The analysis compared small and large shires, showing a noticeable change in revenue trajectory

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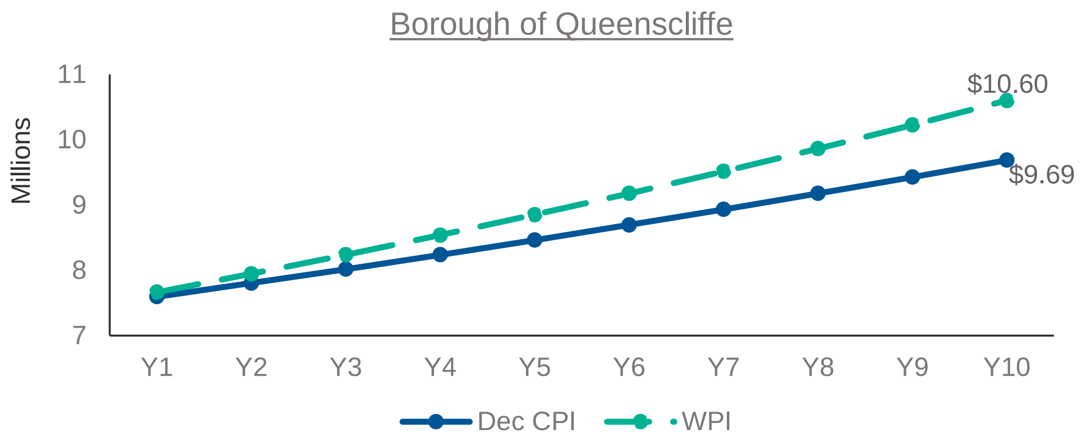
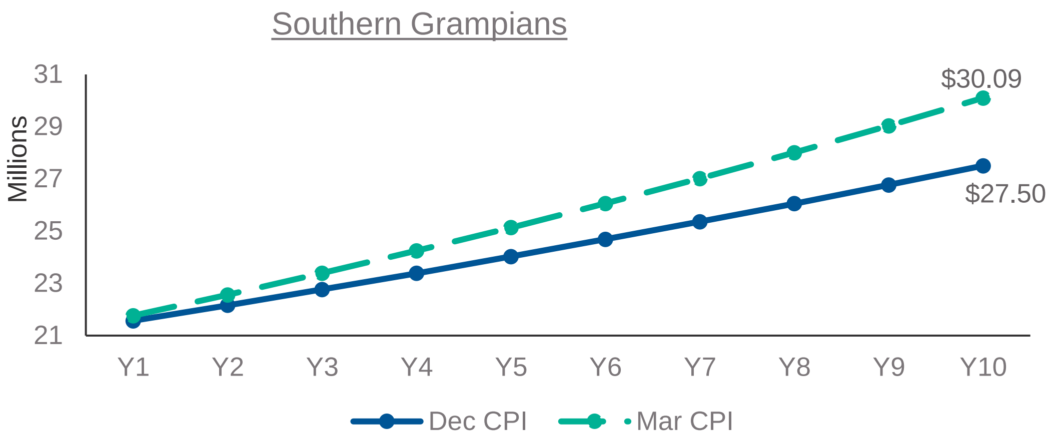
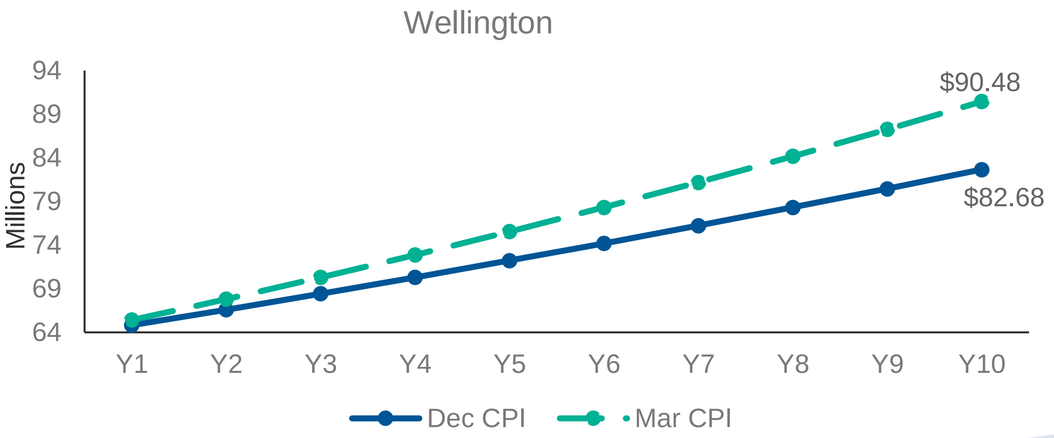
December CPI vs WPI for Small and Large Shires







Note: Y1 was taken as FY2011-12 and used as the baseline to against both assumptions
Source: Grosvenor Analysis; ABS CPI; Know Your Council

The analyses revealed that the Victorian rate cap is more stable as-is, while the WPI would have a high impact on ratepayers

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OPTIONS CONSIDERED	RESULT
Usage of a compound index to align with NSW > December forecasted CPI was compared to NSW rate-peg > December forecast aligns to the current VIC rate capping policy > NSW's rate-peg is a compound indicator which includes CPI and other measures to align with council costs	**Usage of May CPI in place of December forecast** > there is a difference between values of forecasted CPI at December and NWS's rate-peg > the rate-peg has a large variance range for both highs and low, but a very similar average > at its smallest this impact would be $0.91m more for the smallest income council over 10 years > at its largest this impact would be $37.27m more for the largest income council over 10 years > the impact would increase the burden on rate payers and increase council revenue > the usage of a compound indicator such as NWS's rate-peg would reduce certainty and have a negative impact on the rate payer

Specific questions were asked across stakeholder groups to examine the appropriateness of setting of the rate cap

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ELEMENT TESTED	METHOD	QUESTIONS	COUNCIL	ESC	STATE GOV DEPTS	SECTOR PBs	SECTOR S.	RATEPS
1. Does the application process align with legislative requirements? (considering both the process and the outcomes) 2. Is the application process simple and easy to understand? Are there any barriers for councils? 3. Do councils receive enough support throughout the process? 4. Are the outcomes of the application process consistently communicated in a timely manner?	> Face-to-face	> Do you have any comments on the general administration and process of the mechanism? – do you have any comments regarding the process by which councils apply to the Essential Services Commission for a higher cap? – what, if any, are the barriers to councils applying for a higher cap when they perceive that they require this, and how could these barriers be mitigated?	✓	✓	✓	✓	✓	✓
	> Survey	**Council survey** > survey questions can be found under *Appendix I* **Ratepayer and ratepayer associations survey** > survey questions can be found under *Appendix I*	✓					

Source: *Local Government Act 1989; Essential Services Commission; State Government Departments; Sector Peak Bodies; Sector Stakeholders (Sector S.); Ratepayers and Ratepayer Associations (Rateps)*

Council responses for the survey indicated a swing of access to rate cap process resources and in-house skills

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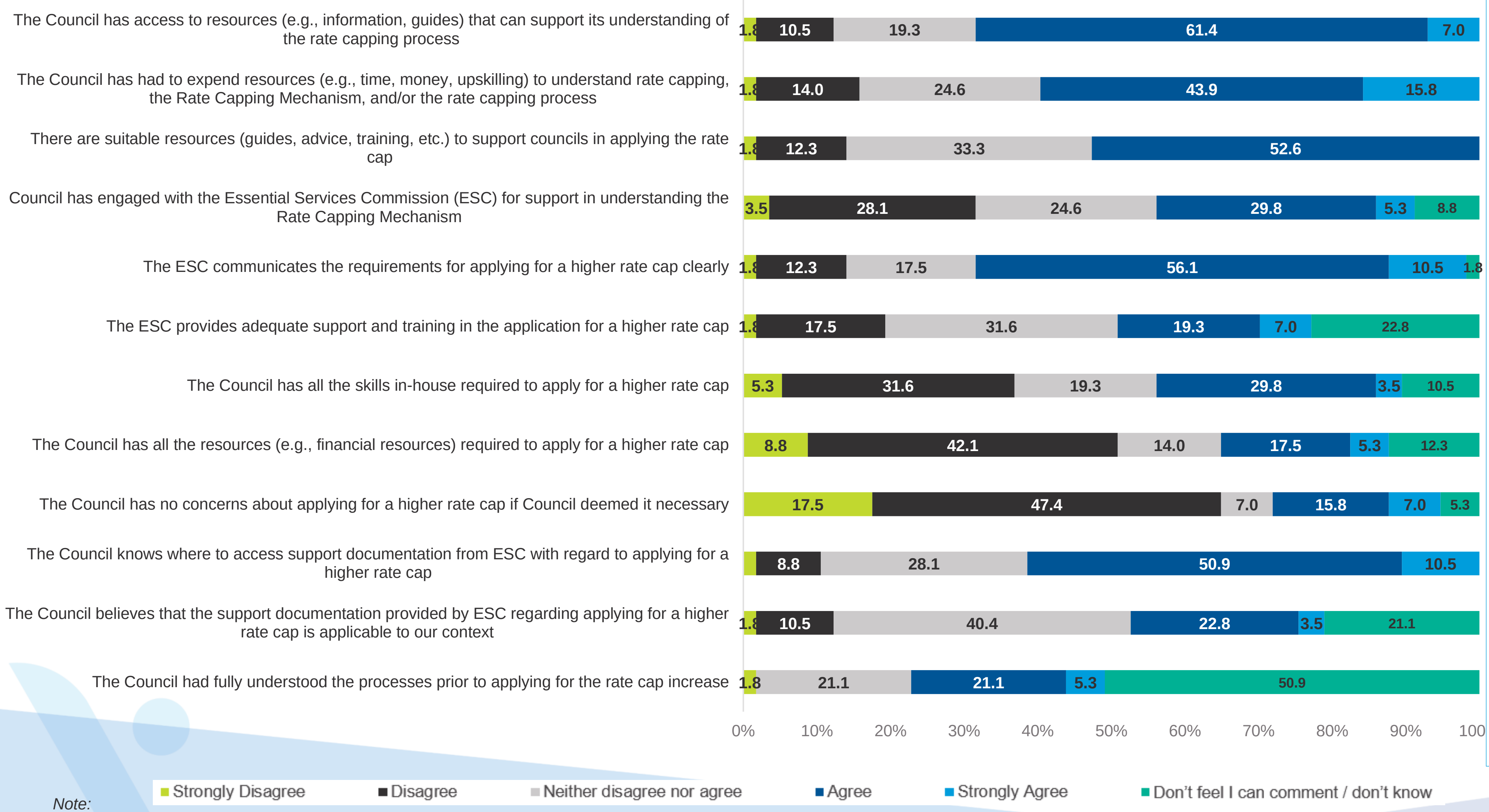
Council responses in relation to processes and administration



COMMENTS:

> two thirds of council respondents indicated that they have access to resources that can support rate capping process understanding and 59.7% responded that they have had to expend resources to understand the RCM

> only a third of council respondents indicated that they have engaged with ESC for support to understand the RCM and two thirds have responded that the ESC communicates clearly on higher rate cap application requirements

> a third of respondents indicated that the council has the skills in house required to apply for a higher rate cap

> almost two thirds of council respondents indicated that they do have concerns about applying for a higher rate cap and 61.4% know where to access support documentation from ESC for rate cap application

> half of the respondents believe that the support documentation provided by ESC is applicable regarding higher rate cap application

Note:
n refers to the number of respondents that answered a particular question; n = 57; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Council Survey Results (2021)

In terms of resources and information on the application process, the respondents were not overly positive

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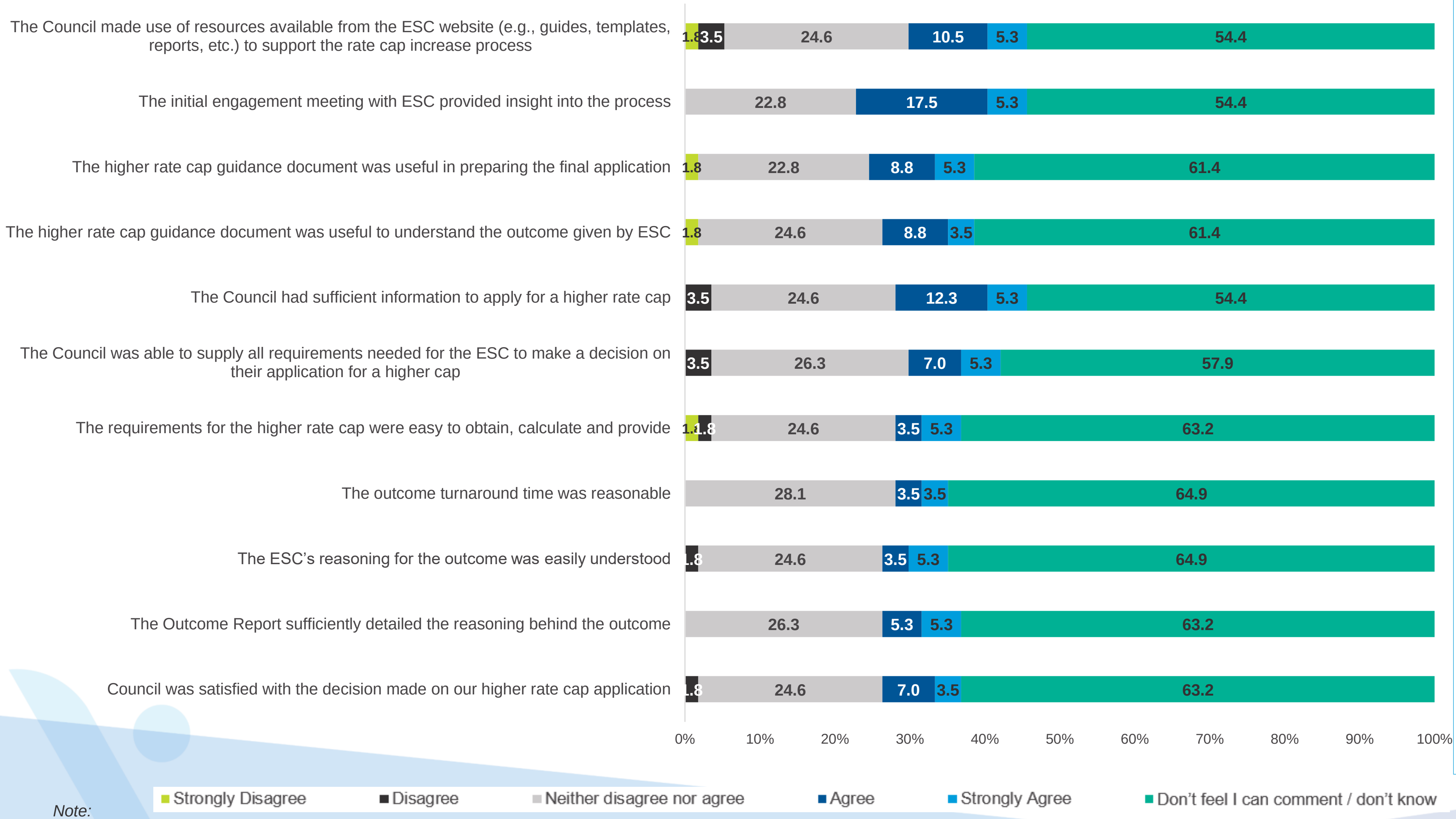
Council responses in relation to processes and administration



COMMENTS:

- across all of the questions, over half of the respondents did not feel that they could comment or did not know
- only 15.8% of respondents made use of resources available on the ESC website
- 12.3% responded that the higher rate cap guidance document was useful in understanding the outcome given by ESC and 17.6% of respondents said that the council had sufficient information to apply for a higher rate cap
- similarly, 12.3% responded that the council was able to supply all requirements needed for the ESC to make a decision on their application for a higher cap
- 7% indicated that the outcome turnaround time was reasonable and that the ESC's reasoning for the outcome was easily understood.
- 10.6% of the respondents indicated that the Outcome Report sufficiently detailed the reasoning behind the outcome

Note:
n refers to the number of respondents that answered a particular question; n = 57; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Council Survey Results (2021)

Those that completed application for rate cap increases largely indicated that the ESC timeframes are appropriate

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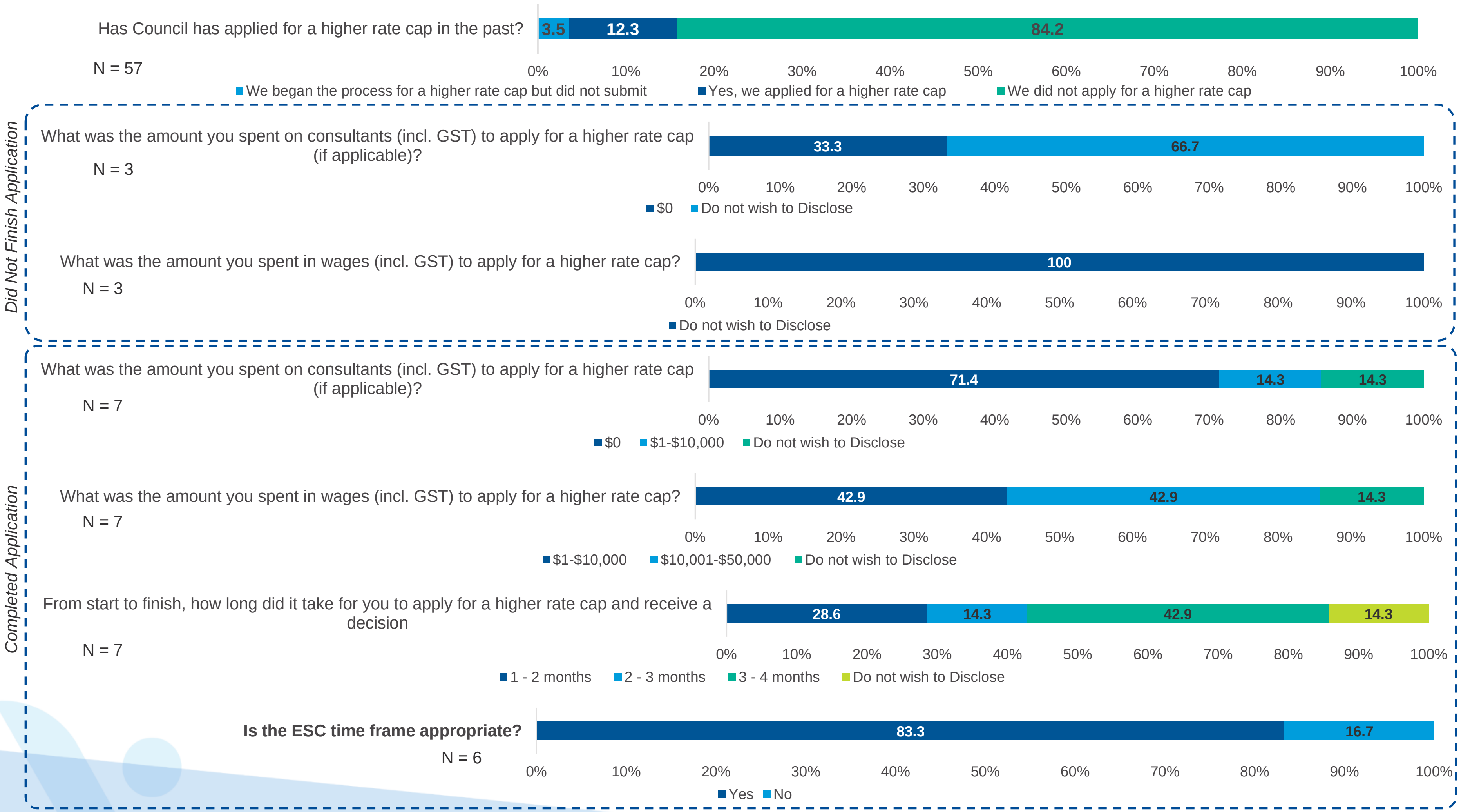
Council responses in relation to processes and administration



COMMENTS:

- only 12.3% of respondents applied for a higher rate cap
- only 3 responses were gathered for these survey questions. Respondents largely did not want to disclose how much was spent on consultants or wages on the application effort. For those who did disclose, they indicated zero spend on consultants
- there were 7 respondents that indicated that they did complete the application process. Of the 7, 5 indicated that they didn't spend any funds on consultants and 1 of the 7 spent an amount between $1 and $10,000. As for amounts spent on wages for the effort of application, 3 out of 7 indicated they spent an amount between $1 and $10,000 while another 3 indicated they spent an amount between $10,001 and $50,000
- of the 7 respondents that indicated application completion, 2 indicated that the process to apply and receive a decision on rate cap increase application took around 1-2 months; 1 respondent indicated 2-3 months and 3 respondents indicated 3-4 months.
- of the 6 who responded to this question, 5 of them indicated that the ESC timeframes were appropriate.

Note:
n refers to the number of respondents that answered a particular question; n = 57; Complete set of council survey responses located in appendix; RCM: Rate Capping Mechanism
Source: Council Survey Results (2021)

Councils reported on the compliance process and variation process with proposals to consider streamlining to lengthen the timelines for councils

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COUNCILS

1 GENERAL RESPONSES

Compliance process

- councils have reported fear of non-compliance due to media ramifications
- the tolerance framework used by ESC is viewed as rigid, without consideration that a late valuation may change the rate in the dollar

Variation process

- stigma is reported around the application for variation process. It was observed that those that did not go through the variation process, tended to rate ESC more negatively (when specifically asked about the variation process), while those that have engaged with them reported them as supportive
- some councils appear unaware of the variation process
- many councils mentioned that application for variation is not an option for the council due to political decision-making and possible negative media exposure

2 ENABLERS REPORTED

- some councils have reported that the ESC have provided clear guidelines to the application
- process was initially onerous but has been streamlined by the ESC, with support from the ESC
- LG Act 2020 is a facilitator to integrated planning

3 CHALLENGES REPORTED

- application for variation is perceived as difficult or not pursuable (due to political roadblocks)
- requirements for community engagement seen as a hindrance to the variation process
- some reported that the timeframes together with requirements for the variation application creates a barrier, as it may be costly to source the expertise to complete the onerous application (reported by those that have applied, and those that did not have the resources to apply)
- most councils shared that there are political roadblocks to applying, particularly in an electoral year
- Metro councils, in particular, have a view that they will not be successful in a rate cap variation application
- media recourse and negative community perception (e.g., council is wasteful) is a seen a barrier to application
- building costs during COVID has been relatively higher
- timelines for compliance is short, with valuation freezing beyond April or May in order to comply

4 IMPACTS REPORTED

- largely, council's view the variation process in terms of a cost-benefit analysis, suggesting that the costs of time and resources outweigh the benefits reaped from the cap (i.e., the financial value gained from the high rate cap)

5 ALTERNATIVES PROPOSED

- consider streamlining the process further
- consider bringing the process forward
- consider a shorter response period for the application so that there is more certainty and time for councils
- greater leeway around the application of the cap was proposed to minimise administrative burden
- greater clarity on the variation process is requested
- clearer communication to ratepayers on the variation process
- utilise software that can streamline variation process

Source: Stakeholder Analysis;
Disclaimer: All information provided above is representative of the views shared by the stakeholders through content analysis of stakeholder consultations. The information presented are views, and not necessarily factual information that has been cross-checked.

Sector stakeholder feedback was not very detailed due to lack of involvement with the process

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SECTOR STAKEHOLDERS (ASU, FinPro, RMA)

1 GENERAL RESPONSES

Generally, the sector stakeholders' feedback was not very in-depth as they had not engaged directly with the process unless they were in a council

Compliance Process

- compliance outcomes from the ESC are very strict and are perceived as harsh for those that councils that missed compliance by a small margin

Variation Process

- not fully sure as to how ESC runs the variation processes
- do not see a lot of applications from Metro Councils
- variations are not sought due to the perceived political ramifications

2 ENABLERS REPORTED

- the usage of a compliance excel reporting tool sped up the reporting process and provided certainty as to the data that needed to be submitted

3 CHALLENGES REPORTED

- no checklist available to fully understand what needs to be included within higher rate cap applications
- reported communication disconnected between some stakeholders results in differing understandings of the mechanism and requirements for a higher rate cap application

4 IMPACTS REPORTED

- submitting reports for compliance has become easier due to the usage of the template
- without a checklist there is no surety of what is required and if the information presented for a variation is aligned.

5 ALTERNATIVES PROPOSED

- consider amending the Act to speak to principles rather than tolerance level on compliance and provide ESC with more discretion

Source: Stakeholder Analysis, Council Survey Results (2021), Ratepayer Survey Results (2021)
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

The feedback from sector peak bodies on the process reflected their lack of direct involvement

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SECTOR PEAK BODIES (LGPro, MAV AND VLGA)

1 GENERAL RESPONSES

Generally, the Sector Peak Bodies' feedback was not very in-depth as they had not engaged directly with the process unless they were in a council

Compliance Process

- compliance is perceived to be very strict

Variation Process

- unsure as to how ESC processes variations
- budget setting timelines and the request for variation do not align and could cause pressure on the council to finalise their budget should they proceed
- the perceived cost in both time and resources was seen as being onerous on councils
- there was a perception that to be successful with an application there is a high level of skill required which not all council may possess
- there was a perception that Metro Councils will be not successful in applications

2 ENABLERS REPORTED

- none reported

3 CHALLENGES REPORTED

- elections were mentioned as a potential inhibitor to applications for variation
- mentioned that councils may only know budgets at the beginning of April and then understand if they require a higher cap. This leaves short timelines to apply for variation and finalise the budget by 30th June.
- larger councils may be able to absorb the costs (time and resources) associated with applying for variation, while smaller councils may not have the internal skills to execute this

4 IMPACTS REPORTED

- the political influence on whether to peruse a variation can inhibit the process before it even begins
- if budget reporting timelines were already tight, councils may risk a variation process in order to meet their current budget deadlines or avoid the risk of non-compliance an error in calculation that is used within the compliance calculation
- councils perceived resourcing limits their ability to apply for a higher rate cap and as such is avoiding the process

5 ALTERNATIVES PROPOSED

- alignment of variation process to Council budgeting timelines

Source: Stakeholder Analysis, Council Survey Results (2021), Ratepayer Survey Results (2021)
Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints.

The feedback from the ESC includes…

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ESC

3 CHALLENGES REPORTED

- councils who have not been successful in the variation process tend not to demonstrate long-term financial needs

Source: stakeholder feedback analysis; 1: ESC Outcome Reports (2019 and 2021). Note: The information sets represented above are based on the views derived from the consultations with the respective stakeholders. They are presented to illustrate their perspectives and viewpoints

In determining whether a council's application for a higher rate cap is appropriate, the council must demonstrate the six legislative criterions

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CRITERIA AS PER *LG Act 1989*	CHALLENGES	OTHER CONSIDERATIONS
(1) A proposed higher cap for each specified financial year	No challenges reported	The higher cap process is designed to address a long-term financial need within the Council. As such, short term financial needs within a Council can be reviewed using other mechanisms such as debt.
(2) The reasons for which the Council seeks the higher cap	Council is unsure of how reasons are judged by ESC	
(3) How the views of ratepayers and the community have been taken into account in proposing the higher cap	Council perceives that it is expensive to engage their community on this	
(4) How the higher cap is an efficient use of Council resources and represents value for money	Council is unsure as to how value for money will be judged by ESC	Councils which are undergoing similar problems due to geographic, population or experience similarity may not apply for a high rate cap due to pressing demands. As such, there is an opportunity to combine efforts to share the administrative burden across the councils.
(5) Whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate	Council perceives that should there be any cash reserves or has not cut services they will not be successful	
(6) That the assumptions and proposals in the application are consistent with the Council's long term strategy and financial management policies set out in the Council's planning documents and annual budget	Council is unsure as to how their unique requirements will be judged	

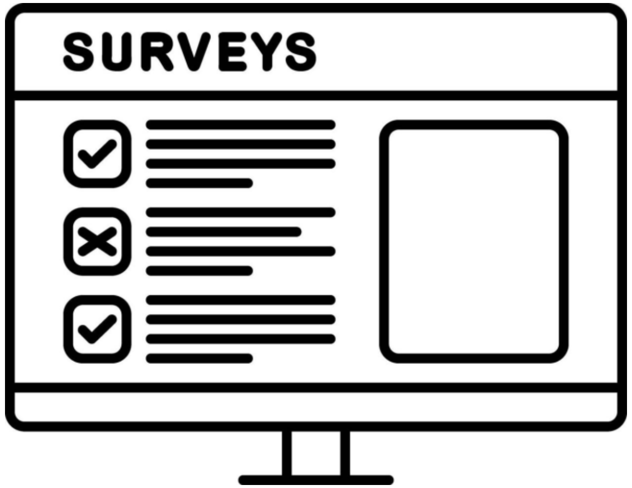
Source: Local Government Act (1989)

Surveys

We surveyed councils to collect feedback and insights to inform the review findings. The survey questions targeted councils and individual ratepayers (including ratepayer associations). Two different survey tools were developed to collect both the perspective of councils and the ratepayers separately.

Grosvenor contacted council representatives directly to promote and encourage participation in the council survey. the Department used public communications and advertisements to promote and encourage participation in the ratepayer survey.

Councils that had applied for a higher cap (under s 185E of the Act) at any time were privy to an additional set of questions.



Council survey – Rate Capping Mechanism and Base Rate

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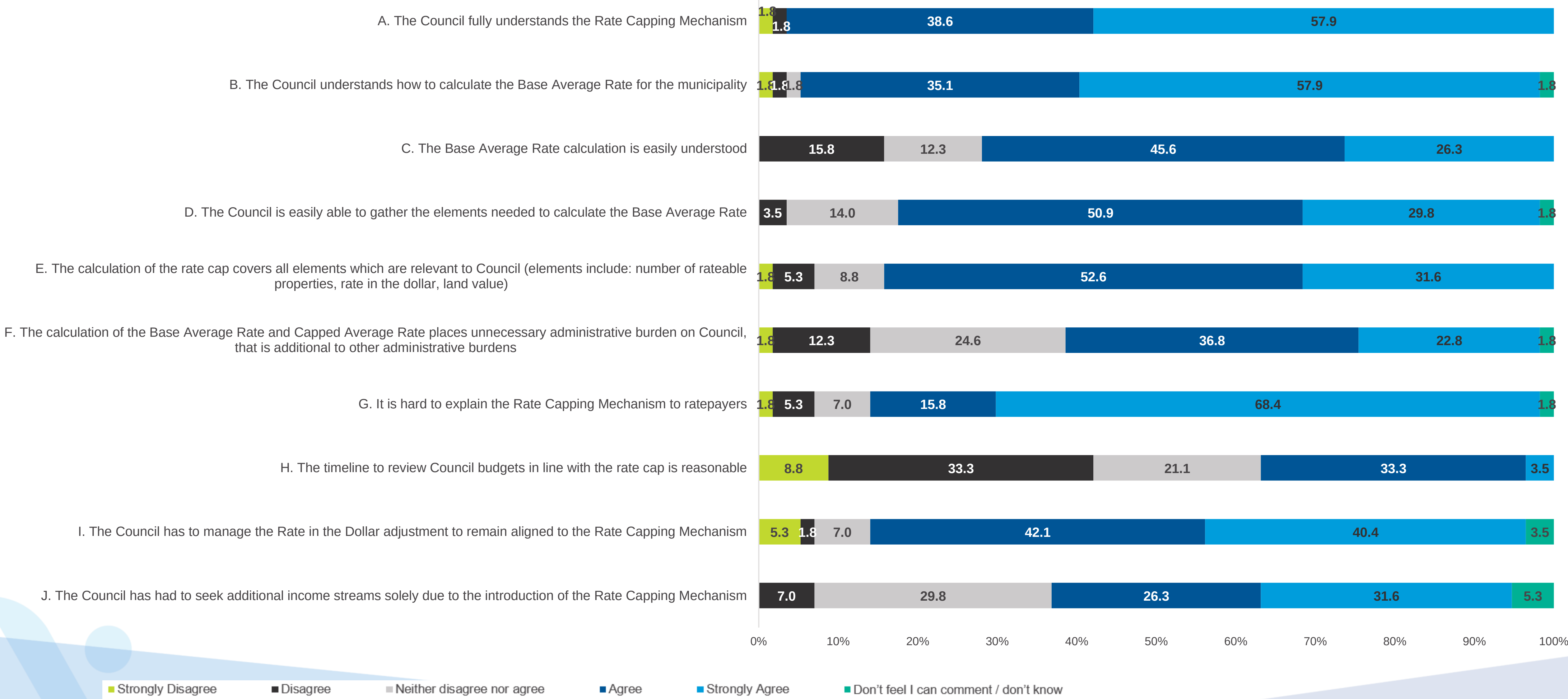

- *N = 57*
- *N refers to the number of respondents that answered a particular question*

Council survey – Process and Administration (1)

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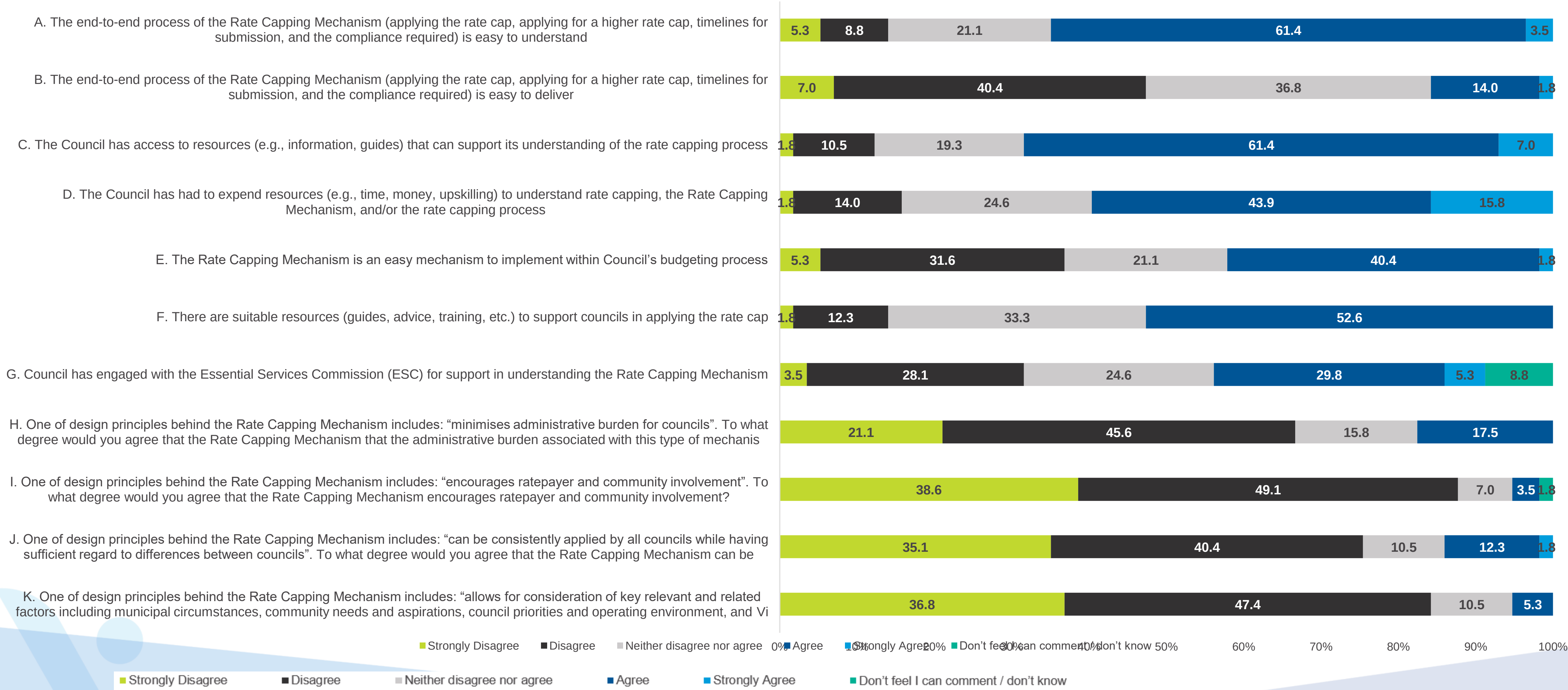

- *N = 57*
- *N refers to the number of respondents that answered a particular question*

Council survey – Process and Administration (2)
Applying for Higher Rate Caps

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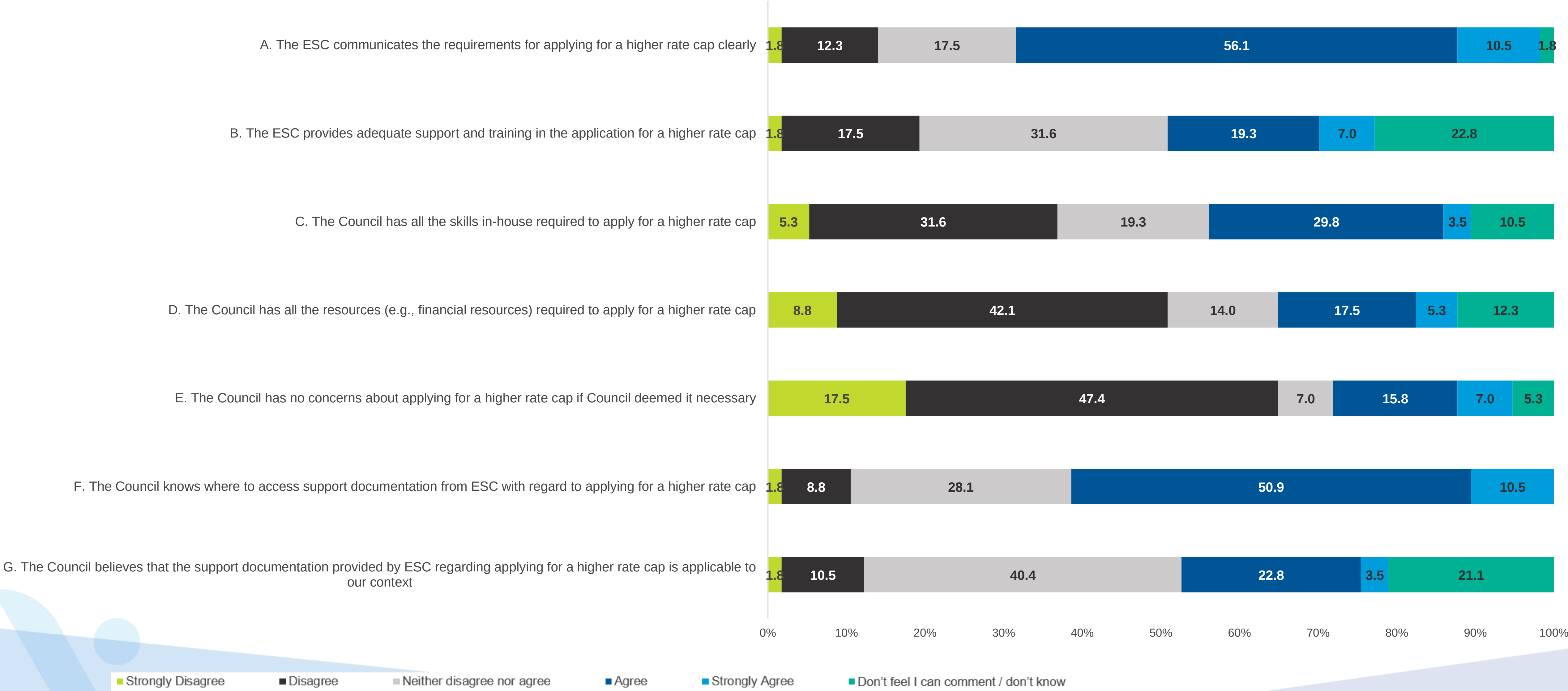
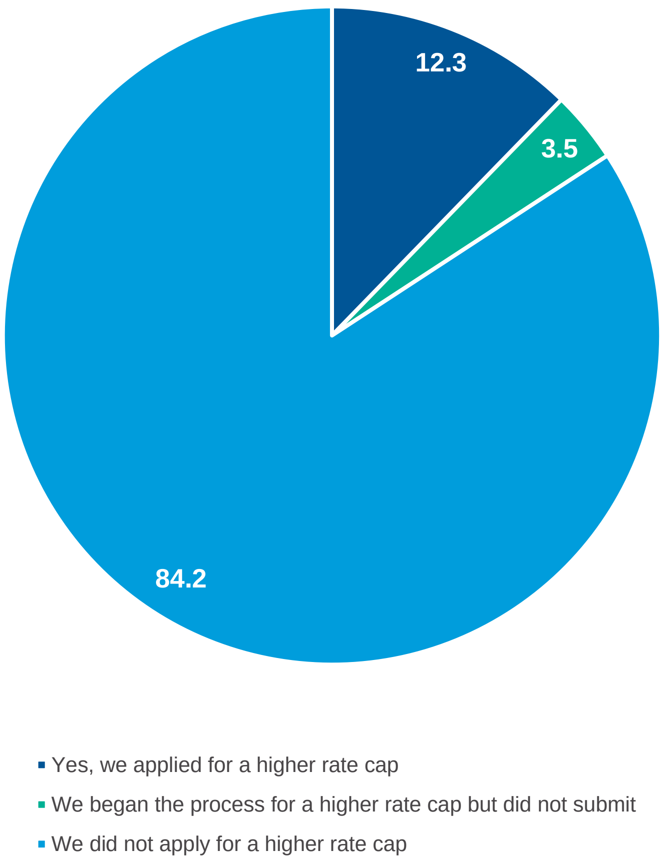


- *N = 57*
- *N refers to the number of respondents that answered a particular question*

Council survey – Process and Administration (3)
Applying for Higher Rate Caps – Council Applications

Has Council has applied for a higher rate cap in the past?



- *N = 57*
- *N refers to the number of respondents that answered a particular question*

Council survey – Process and Administration (4)
Applying for Higher Rate Caps – Council Applications – Started but Not Finished

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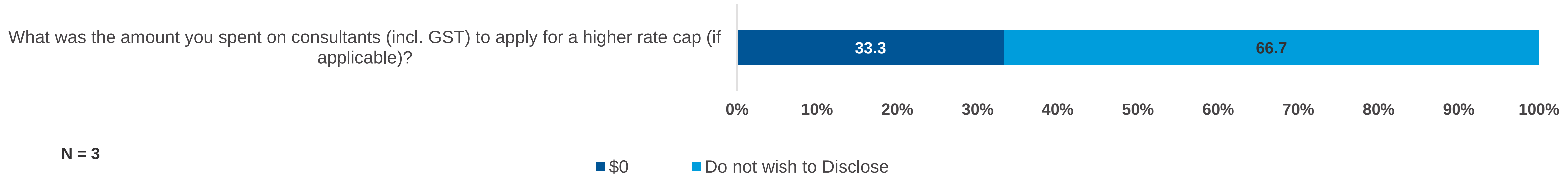
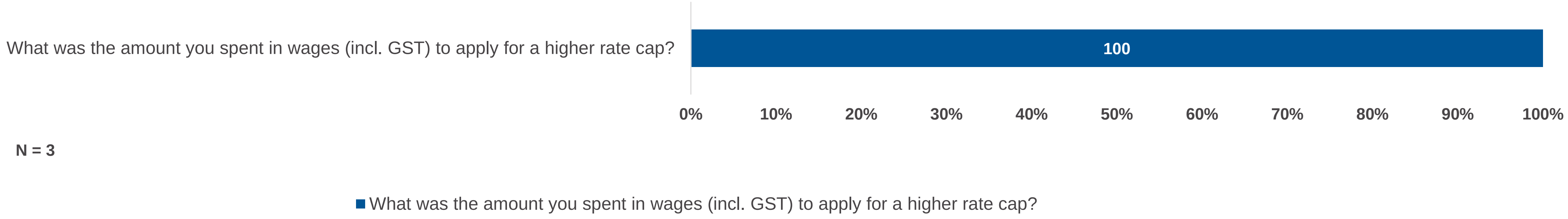


N = 3



N = 3

- *N refers to the number of respondents that answered a particular question*

Council survey – Process and Administration (5)
Applying for Higher Rate Caps – Council Applications – Completed

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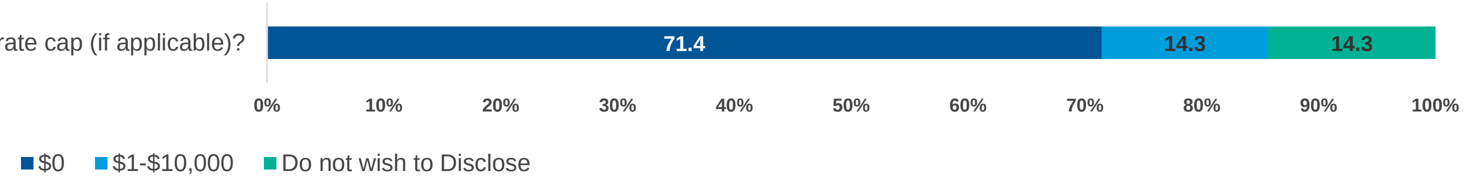
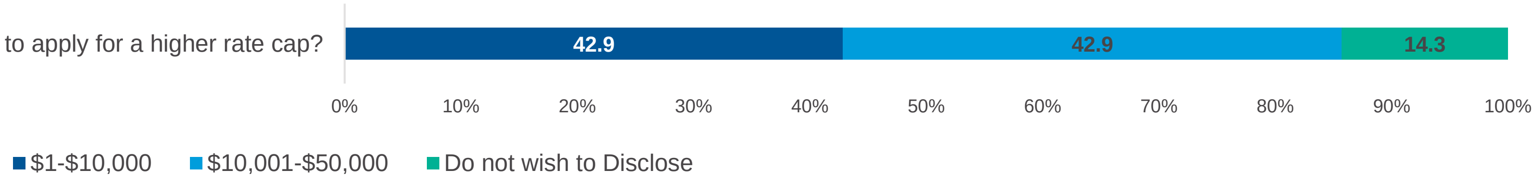
What was the amount you spent on consultants (incl. GST) to apply for a higher rate cap (if applicable)?

N = 7



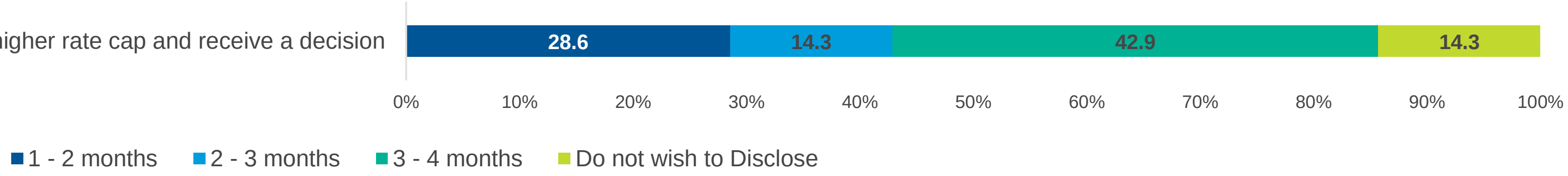
What was the amount you spent in wages (incl. GST) to apply for a higher rate cap?

N = 7



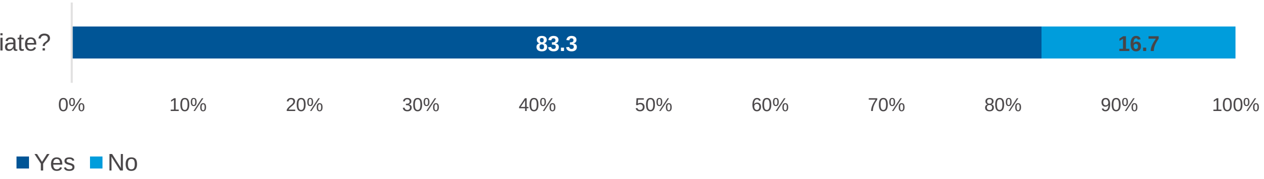
From start to finish, how long did it take for you to apply for a higher rate cap and receive a decision

N = 7



Is the ESC time frame appropriate?

N = 6



- *N refers to the number of respondents that answered a particular question*

ANNEXURE I

Council survey – Process and Administration Applying for Higher Rate Caps (6)

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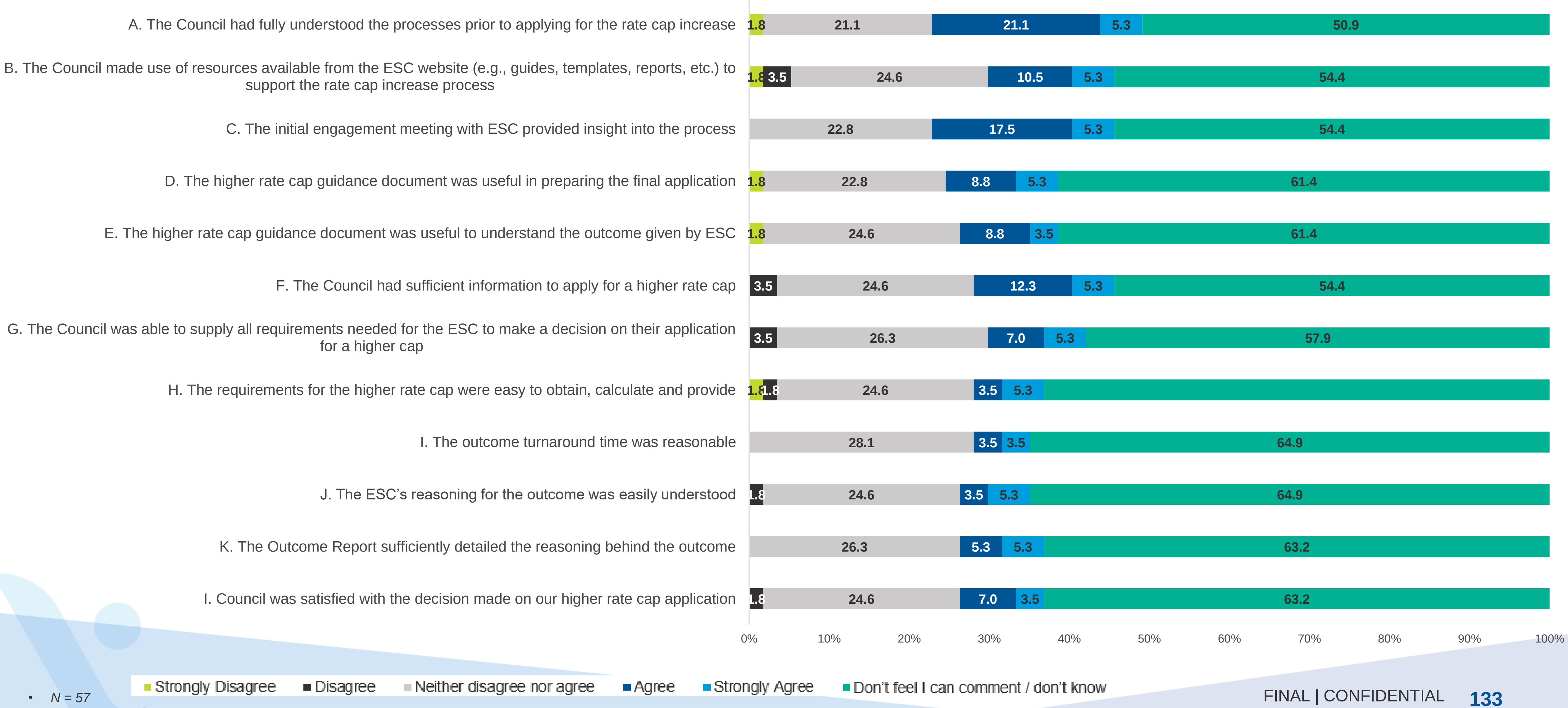

- *N = 57*
- *N refers to the number of respondents that answered a particular question*

Council survey – Legislative understanding, appropriateness, and policy objectives

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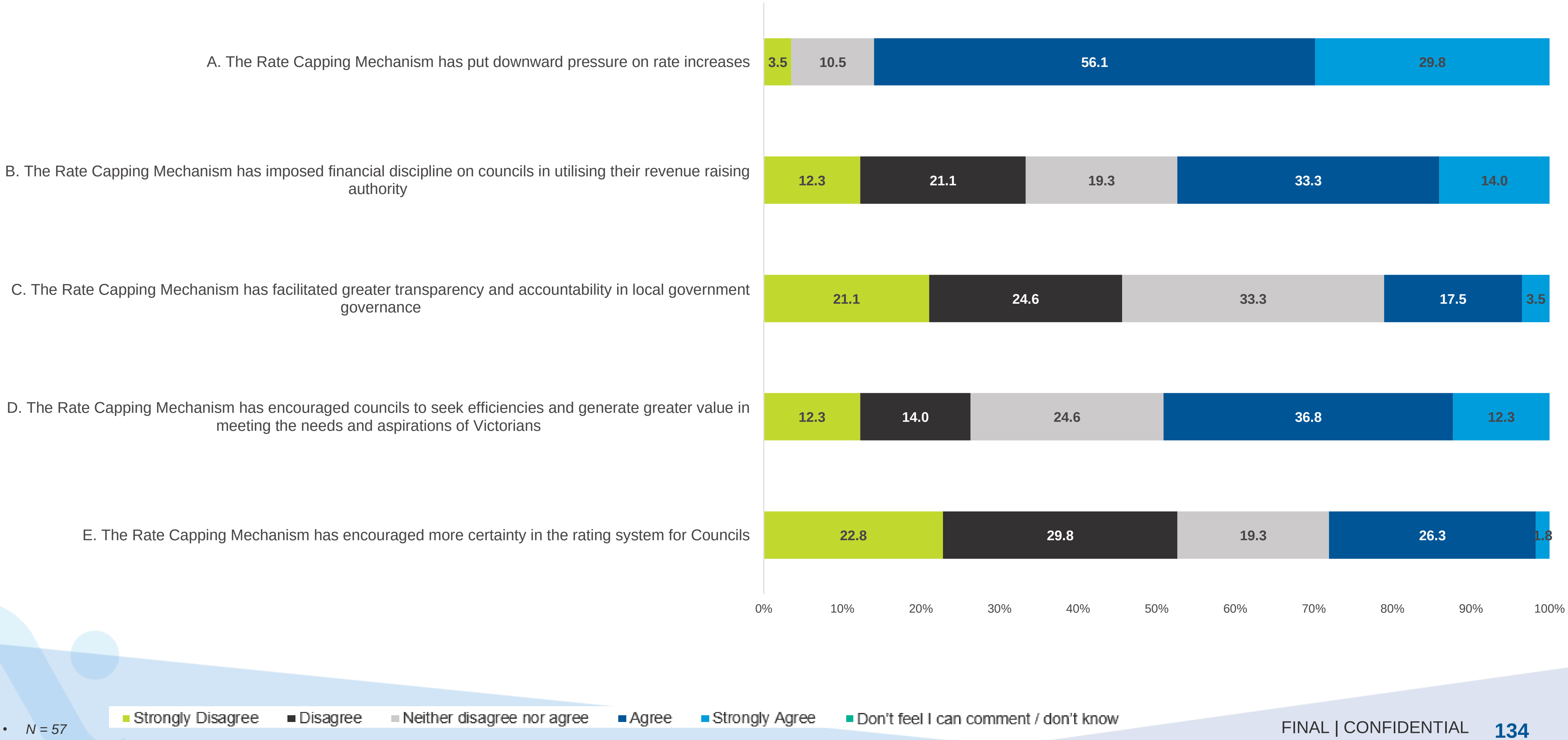
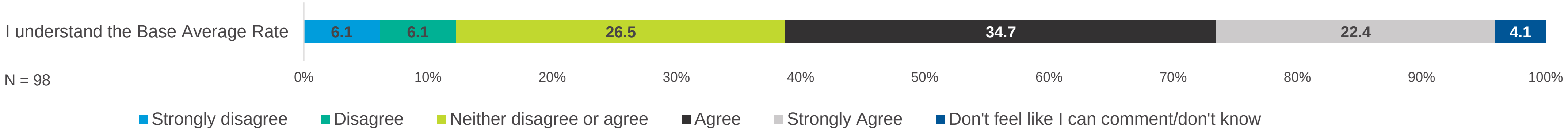


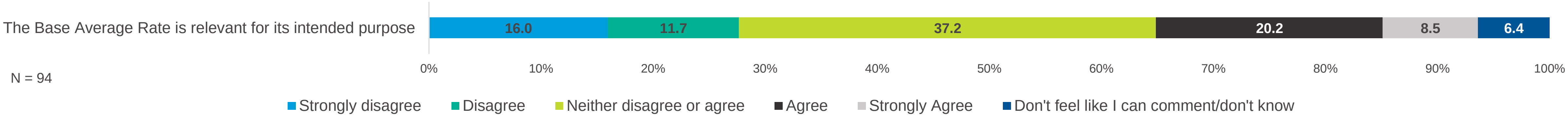
- *N = 57*
- *N refers to the number of respondents that answered a particular question*

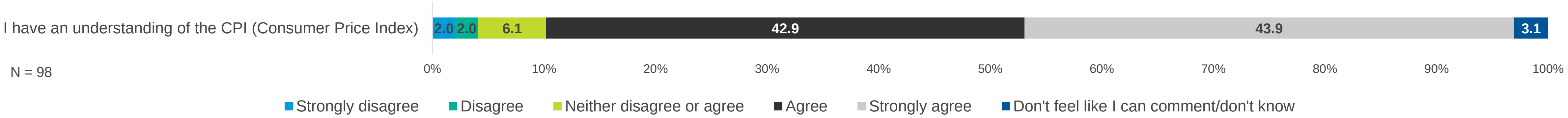
Ratepayer survey - Demographics

- *N refers to the number of respondents that answered a particular question*

Ratepayer survey – Mechanism (1)

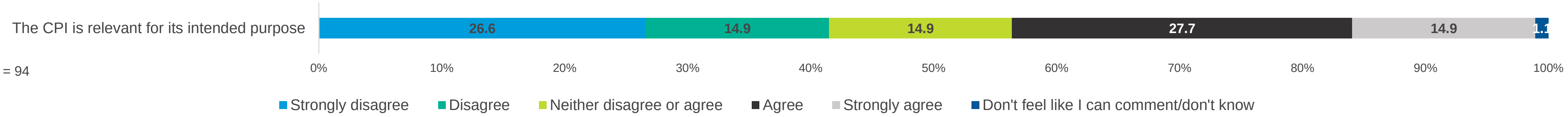




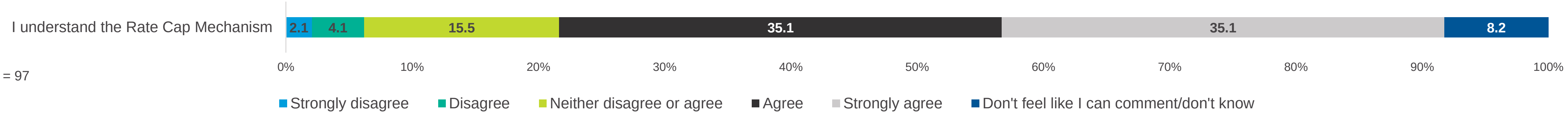


- *N refers to the number of respondents that answered a particular question*

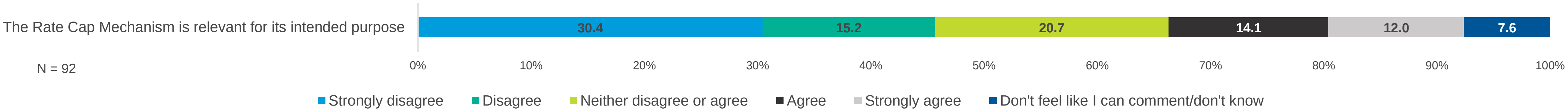
Ratepayer survey – Mechanism (2)



N = 94



N = 97



N = 92

- *N refers to the number of respondents that answered a particular question*

Ratepayer survey – Objectives (Information)

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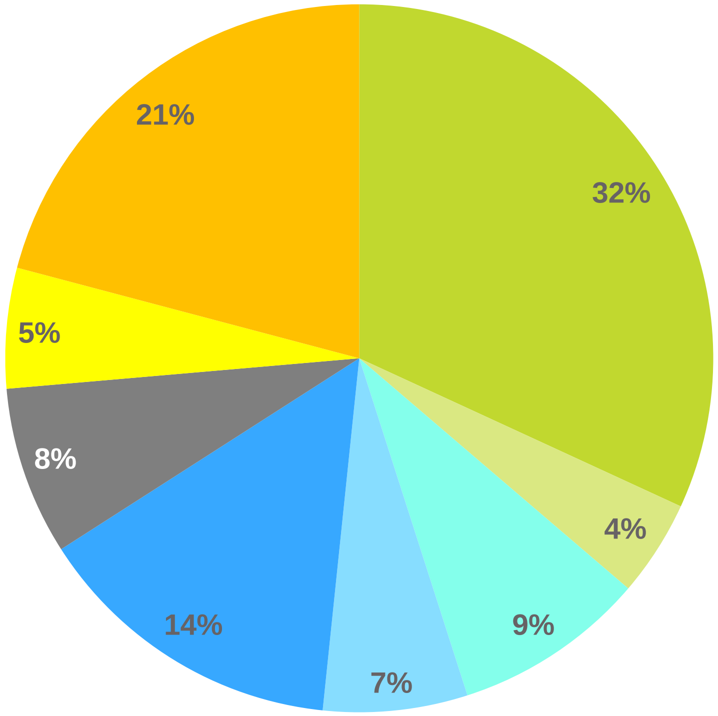
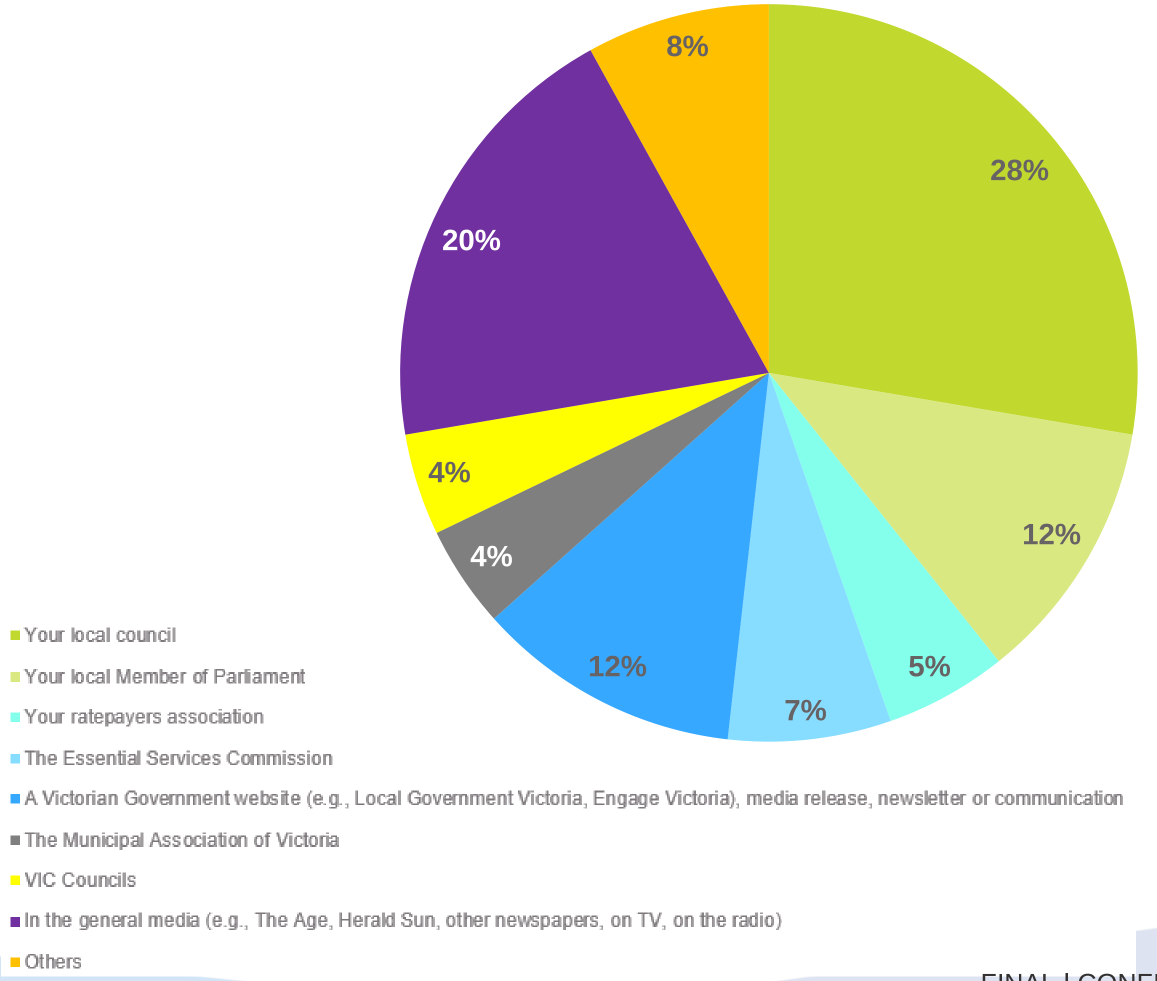
Prior to completing this survey, where had you been provided with or accessed information regarding the Rate Cap Mechanism?

N = 91



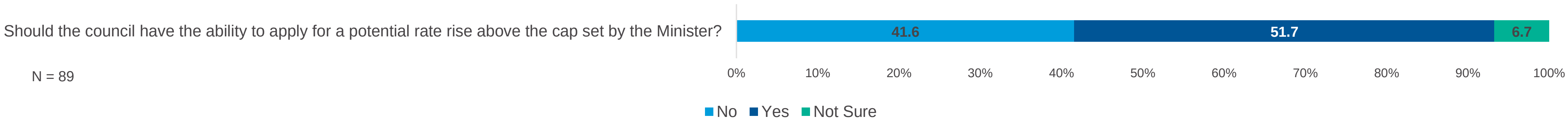
In what ways would you like to receive additional information regarding the Rate Cap Mechanism?

N = 112



- *N refers to the number of respondents that answered a particular question*

Ratepayer survey – Rate Cap Variation



- *N refers to the number of respondents that answered a particular question*