

# Victorian Government Response to the Final Report: Local Government Rate Capping Mechanism Review

The Local Government Rate Cap was legislated in Victoria in 2015 and was intended to balance the long-term interests of ratepayers with the financial sustainability of Victorian Councils. Part 8A of the *Local Government 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 *Local Government Act 1989* 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 *Local Government Act 1989* is still appropriate; and,
- whether Part 8A of the *Local Government Act 1989* is effective or needs to be amended.

The Grosvenor Performance Group (GPG) was engaged by the Victorian Government to conduct an independent review based on a defined scope which covered the rate cap mechanism, administration, and processes. The Review consultation ensured the Victorian community could have a say, along with input from councils and other stakeholders. The Government received GPG's Final Report on 20 December 2021.

The Government is pleased that the review has reaffirmed the importance of the rate cap mechanism and notes that the report is clear that the rate cap mechanism continues to support the long-term interests of ratepayers with the financial sustainability of Victorian local governments.

The Report's recommendations cover a range of reforms to improve the rate cap mechanism. The Government's response is supportive of the recommendations to improve communications about the rate cap mechanism to better articulate its purpose and function. It is also supportive of improvements to the arrangements for councils to seek a higher cap amount. The Government is supportive in-principle of the recommendation to shift the rate cap amount decision from December to an earlier date. The Government will consider the most effective means to implement this recommendation.

The Government also reaffirms two central features of the rate cap mechanism and their continuance:

- That the rate cap applies to the total of general rate revenue levied by a council and is not applied to individual properties or property categories. Therefore, the integral equity of the rating system – that rates are based on a proportion of a property's most recent value – is maintained year on year.
- That councils are free to seek to raise rate revenue by more than the capped amount via an application process that necessitates community engagement and consideration of a range of revenue sources.

As per the response to the final report of the 2020 Local Government Rating System Review the Government also believes local governments – within the confines of the rate cap mechanism - must take greater responsibility for their own rating decisions and levels, reflecting their obligations as a distinct and essential tier of government.

The Government thanks the GPG for their report. A response to each of the report's nine recommendations follows.

Recommendations	Government Response
<b>Time pressures experienced between the period of the variation process and finalisation of the budget that Councils adopt.</b>	
<p><b>Recommendation 1:</b> 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).</p> <p>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.</p> <p>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.</p> <p>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).</p>	<p>Support in Principle</p> <p>The Department of Government Services will work with the Essential Services Commission (ESC) to consider the most effective means to implement this change.</p> <p>Implementation: medium term (1-2 years)</p>
<p><b>Recommendation 2:</b> Councils to begin their planning earlier and utilise a projected value.</p> <p>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.</p> <p>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.</p>	<p>Noted</p> <p>The Victorian Government notes this recommendation is directed towards councils.</p>
<p><b>Recommendation 3:</b> ESC to review applications for variation all year round.</p> <p>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.</p>	<p>Support in Principle</p> <p>The Department of Government Services will work with the ESC and the local government sector to implement this recommendation, including determining an appropriate cut-off date for financial year applications. The Government notes the ESC can currently</p>

	<p>consider multi-year rate cap variation applications all year round.</p> <p>This recommendation will be considered alongside Recommendation 1 as the two recommendations are linked.</p> <p>Implementation: medium term (1-2 years)</p>
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<b>Communication and understanding of the sector</b>	
<p><b>Recommendation 4:</b> The Department to provide clear terminology and an explanation of the mechanism.</p> <p>The current terminology utilised differs across stakeholders. For e.g., the ESC refers to the mechanism as the Fair Go Rates System.</p> <p>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).</p> <p>The explanation should also clearly delineate roles and responsibilities amongst stakeholders. This should facilitate shared understanding across the sector.</p>	<p>Support in Full</p> <p>The Department of Government Services will work with the ESC and the local government sector to clarify the rate capping terminology and mechanism over the next 12 months.</p> <p>Implementation of this recommendation will be considered alongside Recommendation 5, which proposes to centralise communications.</p> <p>Implementation: short-term (less than one year)</p>
<p><b>Recommendation 5:</b> The Department to centralise communication resources of the mechanism at Minister or State level.</p> <p>The current scenario requires all stakeholders to explain the rate capping mechanism, which is not executed consistently.</p> <p>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.</p>	<p>Support in Full</p> <p>This recommendation aligns with ongoing efforts to provide increased clarity and transparency across the sector.</p> <p>The Department of Government Services will work with the ESC and the local government sector to centralise communications on the Essential Services Commission and Department of Government Services website over the next 12 months.</p> <p>Implementation: short-term (less than one year)</p>
<p><b>Recommendation 6:</b> The Department to strengthen support and education around the variation process by supporting the ESC in its annual roadshows.</p>	<p>Support in Full</p> <p>The Department of Government Services will support, as required, the annual roadshow and work with the ESC and the local government sector to strengthen communications and</p>

<p>Currently, there is a stigma surrounding both the ESC (as an enforcement agency) as well as the variation application process.</p> <p>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.</p> <p>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.</p> <p>Political and media barriers may continue to persist; however, education and engagement efforts may reduce the reluctance to apply for variation.</p>	<p>education on the rate cap variation process over the next 12 months.</p> <p>Implementation of this recommendation will be considered alongside Recommendation 5, which proposes to central communications.</p> <p>Implementation: short-term (less than one year)</p>
<p><b>Recommendation 7:</b> The Minister for Local Government to communicate rationale behind rate cap decision.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Support in Full</p> <p>The Minister for Local Government will publish a rationale for the rate cap decision on the by 31 December each year.</p> <p>The Victorian Government notes this recommendation aligns with ongoing efforts to provide increased clarity and transparency across the sector.</p> <p>Implementation: short-term (less than one year)</p>
<p><b>Greater engagement of the sector</b></p>	
<p><b>Recommendation 8:</b> ESC to include sector feedback in the provision of advice to the Minister on setting the rate cap.</p> <p>The current advice from the ESC to the Minister in setting the annual rate cap does not include any feedback from the sector.</p> <p>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.</p>	<p>Support in Full</p> <p>The ESC will continue to work with the sector to ensure that the advice provided to the Minister is informed by feedback from councils and other relevant stakeholders.</p> <p>Implementation: short-term (less than one year)</p>

<p>This would allow for greater sector buy-in as the views of the sector would have been captured as an input.</p>	
<p><b>Continued monitoring of the state of councils</b></p>	
<p><b>Recommendation 9:</b> The ESC to conduct 10 yearly assessments of the financial state of the sector.</p> <p>The current scenario allows for a four-yearly government review of the impact of the rate cap mechanism.</p> <p>As the ESC conducts the biennial reviews, it is recommended that the ESC would be best placed to also conduct the four-yearly review.</p> <p>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).</p> <p>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.</p> <p>Other stakeholders (such as VAGO) already monitor and report on financial sustainability of councils.</p> <p>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.</p> <p>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.</p>	<p>Do not support.</p> <p>There is a wealth of financial information on local governments currently available. This includes the Victorian Auditor General’s annual financial audits, the Know Your Council website’s service and performance indicators, the Victorian Local Government Grants Commission reports and the annual financial reports of local governments. An additional 10 yearly financial assessment may duplicate this existing work and not add materially to the understanding of local government finances.</p> <p>Additionally, a review of the RCM by the ESC may be perceived by stakeholders as a conflict of interest owing to the ESC having designated responsibilities under the RCM system.</p> <p>The next review of the rate cap mechanism is already mandated within legislation and no change is necessary to alter this.</p>