

# TRANSCRIPT

## STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

### Inquiry into rate capping policy

Melbourne — 20 October 2015

#### Members

Mr David Davis — Chair

Ms Samantha Dunn

Ms Harriet Shing — Deputy Chair

Mr Shaun Leane

Ms Melina Bath

Mr Adem Somyurek

Mr Richard Dalla-Riva

Mr Daniel Young

#### Participating Members

Mr Jeff Bourman

Mr James Purcell

Ms Colleen Hartland

Mr Simon Ramsay

#### Staff

Secretary: Mr Keir Delaney

Research assistants: Ms Annemarie Burt and Ms Kim Martinow

#### Witnesses

Mr Asher Judah (affirmed), Deputy Executive Director, and

Ms Sandra Qian (affirmed), Policy Advisor, Property Council of Australia; and

Mr Hamish McKnight (affirmed), Director, URBIS.

**The CHAIR** — I welcome the Property Council of Australia to the table. Asher, if I could ask you to provide a short statement — we have got your submission — and then we will ask questions.

**Mr JUDAH** — Thank you for having us along today. We provided a submission in July, and we have also circulated in recent days a supplementary submission we floated to the ESC following on from that process. There are some additional ideas and feedback in that which we think are relevant, so that is why we have circulated it. Joining me today is Hamish McKnight, who is the director of valuations at URBIS, and Sandra Qian, who is our policy adviser at the property council. She oversees the tax committee, and that is part of the submission that she has drafted. I am the deputy executive director at the Property Council, and I oversee the policy development there.

The property council, for those who do not know, is the peak body for property owners, developers and service providers for property in Victoria. We have a couple of thousand members. Our members own, basically, large sections of the CBD, shopping centres and industrial estates. We build lots of Victoria's housing stock, industrial stock and commercial buildings. Membership will range from the big companies that build, the subcontractors and a range of service-providing companies — lawyers, accountants, consultants and sustainability experts.

We have provided a submission today because we basically pay the bills in this state. A recent report that we issued, I think on Monday, stated that 54 per cent of Victoria's state and local government tax is paid for by property. We obviously represent the vast bulk of those taxpayers, so we are very concerned about the escalation in rates, and it is part of our submission today. We will be presenting on a few different topics. I will just be talking about our views on rates, the cap, some variations to cap policy that we would like to see and our views on some of the alternatives, and Sandra will add a little bit as well on regulatory impact statements and a few other suggestions. I am happy to then sum up and answer any questions that you have.

Basically we think rates generally across the community are too high. We tend to be the source of too much of the rate revenue in Victoria. In many councils this is not sustainable and it is a disincentive for investment and for property ownership. We have done some research, which we have included in our submission, which talks about rate rises being above CPI year on year in a number of municipalities, especially in inner Melbourne. This is on top of the escalating property market prices, which also provide a windfall gain to councils. As a result we are in favour of a cap being wheeled out across the state to put a restraint on councils that see us as an easy target and that have not done the hard work in terms of reining in their expenditure and looking at savings within their service delivery and infrastructure programs.

We have one exception to the rate cap in that we think the growth area councils probably have a decent case to argue for some flexibility, so for the seven growth area councils we do not support a cap being imposed. A lot of our members do a lot of building out there, and we recognise that there are significant infrastructure and service delivery shortfalls. We do not think increasing rates is the solution. We think there is more money to be spent there from the state and the commonwealth governments, but we recognise that some of their circumstances are quite dire in terms of core service delivery, and we are prepared to wear a bit more cost in those communities to make sure we do not have a dislocated Melbourne.

Broadly speaking, in terms of finding alternative sources of revenue, we believe asset recycling is an area that has not been properly explored at a local government level. Local councils have a range of land, buildings and businesses which could easily be sold to the private sector, and that capital could be recycled into additional infrastructure expenditure to modernise the infrastructure base. Not all councils have the same asset base, but we certainly believe the inner city councils like the City of Melbourne, which owns Citywide, have vast assets at their disposal, so we do not support them going beyond CPI when they have alternatives at their fingertips. Some of the assets and businesses we have identified — Citywide, the Prahran market, certain meals on wheels companies which do turn a profit — do not need to be in the hands of the public sector and could easily be off-loaded for a capital boost.

We are in favour also of an audit of what councils' asset base is. That work has not been done. We are doing it ourselves now for our own research, but we think there is a government initiative there that is worth pursuing. We are aware of, for example, in Western Australia Karratha Airport is owned by the local council. I am not quite sure that is the purview of local government in WA, but infrastructure-poor councils that run airports that are profitable probably have an opportunity there to recycle. So we recommend an audit in that regard.

Generally speaking, the reason that we do not have a lot of faith in the rates policy in Victoria is that we think it is a poor determiner of wealth. One hundred and ten years ago owning property probably gave you a good indication of people who have money to pay rates. That is not necessarily true today. Nor does it reflect the drawing down of government services. We have many shopping centres and retirement villages that we represent which are fairly autonomous in the community and therefore contribute to rates but actually draw very few services from the council. We think that is the government having a lend of our membership in regard to the rate base when they probably should be going easier with a better differential.

I am happy to explore those matters with you if you have any questions on that. I am happy to pass to Sandra now, who will talk a little bit about the RIS.

**Ms QIAN** — Before I address the regulatory impact statement process, I just want to mention our submission to the Essential Services Commission earlier this year, in late August. We have been engaged quite closely with them on their development of the framework for rates capping. It is worth noting that in our response in August we said we were opposed to a wage price index requirement in the methodology for calculating the rate cap. The reasoning for that is we are concerned that it does not reflect accurately the potential rise in the labour costs for councils, given that it is quite a significant portion of council expenditure. Were this to increase, then we see the weighting given to the increase in CPI potentially coming down.

The other issue in addition to what I have just mentioned is the WPI did not specify whether or not it reflected the labour cost for the private sector or the public sector, and we feel that should be addressed as well. Then, moving on to the regulatory impact statement, our recommendations include those presented in the draft framework by the ESC. We agree with those conditions that the ESC has proposed for councils to meet in order to be allowed a variation, but we also suggest there should be some kind of regulatory impact statement discipline to assess the financial impact of any decision by councils to increase rates above CPI. This could involve things like demonstrating that they have first explored savings measures, demonstrating that they have undertaken an audit of existing assets which could be recycled, as Asher mentioned, and demonstrating that their expenditure over the past five years has not continuously exceeded their revenue forecasts.

**Mr JUDAH** — They are some additional areas that we thought we might cover. In summary, we are supportive of a rate cap in 90 per cent, I think, of councils. The growth areas we think are a special exemption, but we definitely think there is a range of alternative measures available for councils to meet their service and infrastructure obligations without increasing taxation. We are happy to answer any questions.

**Ms SHING** — Thank you, everybody, for the submission and also for providing additional oral evidence to the committee today. I would like to take you to the comment that you just made in closing, which builds upon the earlier comments you made around the rate capping policy being a desirable thing to implement in 90 per cent of councils, with the growth area councils being exempt. I would like to ask you how an exemption would meet the ends sought by way of the policy rationale that underpins this rate capping policy where a variation process through the Essential Services Commission framework might indeed achieve the same pressure release for those councils in growth areas to accommodate those changing circumstances.

**Mr JUDAH** — I understand your question is: how would the growth areas operate with a cap in place on other councils, how would they — —

**Ms SHING** — You have indicated in your evidence that you do not believe that a rate capping policy should apply to those growth area councils, so what I would like to know is: why is it that you believe that there should not be a rate capping policy as contrasted with the process for variation of a rate capping with exemptions as the Essential Services Commission has proposed in its development of guidelines.

**Mr JUDAH** — We would say that the process of going through variations is time consuming and — —

**The CHAIR** — Costly.

**Mr JUDAH** — That would be right, Chair. We think it is a distraction from the process. These councils do not have the resources to meet their current obligations. This would be imposing additional obligations on them. At the end of the day we do not see why the process needs to be made more complicated. They have an acute funding problem, and why send them through those hoops?

**Ms SHING** — But in meeting their financial responsibilities, surely they are going to be keenly aware of their financial positions. They are going to be doing a fair degree of work to understand what the cost of regulatory burdens will be on them in allocating funding and doing planning for the coming years. How is it that they, by your rationale, should be exempt from a rate capping policy where in fact we have just heard evidence from the Essential Services Commission that the desire is that the impact be as unburdensome as possible in order to achieve the transparency that is being sought by way of this policy?

**Mr JUDAH** — It is not surprising to hear a regulator say that regulation would not be burdensome. Our view would be it is always more complicated than advertised. With regard to councils in the growth areas, we think they consistently fail to forecast their future needs for their community, usually on the under side. That is not their fault; they simply are not in control of population growth and a range of other planning and population pressure measures which will dictate future budgets. We think they need to be given a freer hand, and all this does is impose more complication on a process that is already hard to steer.

**Ms SHING** — I want to tease this out a little bit further because I am still confused by the answers you have given in the context of the framework that the ESC has proposed. We have had evidence that regional councils will also find it burdensome, and yet there is a variation process there, there is a process whereby they can explain the exigent circumstances that warrant an exemption or a variation. Why is it that you are saying, based on your submission, that those councils should be included in a rate capping policy but the growth area councils should not? What is it that makes growth area councils special in the sense that in your submission they should not actually have any rate capping policy applied to them at all?

**Mr JUDAH** — We would say the growth areas are growing at a rate which is unprecedented. It makes them substantially different in their demographic and financial situations to other councils. We do not have, I guess, a huge stake in regional councils in terms of representing their interests, so we are sticking to our knitting. We are not trying to represent the entire state; we are representing our members interests and the communities that they work in predominantly. It does not mean that there is not a case to argue for for regional councils, but we are sticking to the areas of expertise that we have. Having worked for the farm community in a former life, I am aware of the funding challenges that regional communities have, especially councils, but I would say that they are different as a result of the declining rate base and population that is putting the pressure on regional councils when service delivery is going up and rate shifting is increasing, in contrast to growth area councils which are basically building communities the size of Adelaide over 25 years. I think that is a completely different pressure. It requires a different level of expertise. They are basically building a community whereas regional centres are trying to save what is left of them.

**Mr DALLA-RIVA** — You may have been present when I was talking to the previous witnesses in relation to their recommendation 4, and that was where the ESC was talking about their annual cap rate and how they were determining that. You indicated a variation on that. I just want to talk to why you suggested that an annual rate equals previous year's rate plus previous year's rate times CPI. Can you give me an idea what CPI you are talking about and why you have excluded their suggestion about a WPI?

**The CHAIR** — And what is a WPI?

**Mr DALLA-RIVA** — It is whey protein isolate that I take when I do gym work, but it has another meaning here, for those gym junkies.

**Ms QIAN** — The wage price index.

**Mr JUDAH** — I was just reading our submission at the same time. Can you just repeat some of the key elements of your question again for me, please?

**Mr DALLA-RIVA** — It is in relation to recommendation 4, and your response is that you do not support the WPI. You have also suggested that rather than the complex recommendations being provided, the ESC adopt a simple rates cap based on adjusting the previous year's rate. If you were here during the earlier evidence, I spoke about the variations that DTF always have. They predict something in the future; it is never right. And the witness also said it is never right, because there are variations and fluctuations. So I was trying to work out how you got to that response to recommendation 4, which is in your letter to us of the 28th. You can take it on notice and maybe get back. I just wanted some more clarification. There is a detailed response to

recommendation 4. There seems to be some confusion, and I wanted to get some clarification as to why you suggested this response as opposed to what the ESC suggested.

**The CHAIR** — And in doing that, is it the CPI as put out by the ABS — everyone imagines the CPI as the thing the ABS puts out — or is it some other new index we have never heard of?

**Mr JUDAH** — Why do we not provide a comprehensive written answer to that question. We found it very complicated to explain succinctly, but our main concern is that the determiner of how wages are calculated for councils does not necessarily match best practice elsewhere. We think — —

**Mr DALLA-RIVA** — Take it on notice and get back to us on that. That would be good — a more fulsome response to your response to recommendation 4.

**Mr LEANE** — I just want to piggyback on Harriet's question. Would you say the growth councils should also be divorced from your recommendation to look into asset recycling in the services that could be delivered by the private sector but may be non-core council services?

**Mr JUDAH** — The growth areas have not had the same amount of time to build up the asset base of the inner suburbs and inner councils have, so I think their ability to draw upon asset recycling to fund infrastructure is weaker. That does not mean they do not have land and public buildings that could be recycled for private sector capital generation. The growth areas, from our account, require tens of billions of dollars to lift them up to parity with the inner-city councils. That will not be funded entirely by asset recycling or rates alone. We need to find alternative measures. We have explored them internally through our own research, but I would say that some regional councils would be in a better condition than others to actually explore that.

**Ms BATH** — Just a quick question: of your 500 members, and I think you did touch on it before, the majority of your members are actually city based. Is that correct? So what is the percentage of your members that would be city based?

**Mr JUDAH** — City based as in CBD or as in greater Melbourne?

**Ms BATH** — Yes, and inner urban.

**Mr JUDAH** — I would say greater Melbourne. I mean they might be located around the corner, but that does not mean that they do not do business or build things around the state. But our organisation predominantly has a weighted interest in greater Melbourne and suburban Melbourne.

**Ms BATH** — So when you are endorsing rate capping you are endorsing it from your point of view with inner Melbourne urban councils rather than rural councils. I just wanted to clarify that.

**Mr JUDAH** — We have an understanding of regional cities, and some of them are in our membership, but beyond the urban footprint of Victoria our interests are weaker.

**Mr RAMSAY** — Just a quick one, Chair, to Mr Judah again. Do you support your New South Wales division in relation to its experience with rate capping and their seeking obviously for it to be abolished and for a rate benchmarking model to be introduced? What are the discussions within the Australian division as proposed by the New South Wales division, given they have experienced rate capping in the past?

**Mr JUDAH** — That is a good question. Whilst many of our policies are national and they then filter down across the organisation, managing local government and planning tends to be quite unique state to state. The Western Australian experience on amalgamations has not been the same experience as in Queensland and Victoria. In regard to the New South Wales model we have not adopted that as our approach down here. It does not mean that we would not look at it. Our focus in regard to the funding and financing of local government obligations is more focused on asset recycling, on amalgamation of government service delivery across council boundaries and on more accountability, as we talked about with RIS statements. In New South Wales they have to go through the amalgamation experience we went through in the mid-90s before we would think that we are on the same sort of page in terms of benchmarking. Their councils are considerably smaller and inefficient compared to ours.

**Mr DALLA-RIVA** — Whilst you have a question on notice, in respect of recommendation 7 and your response, can you talk about an RIS — a regulatory impact statement — discipline. As you are aware, they are very big, complex processes. Can you give us some clarity as to how you propose that to be. Is it something for every council where there is a variation, or is it across the board? Just take it on notice, because an RIS sounds easy to say, but it is a very complex and detailed process, as I know, having chaired a previous select committee. So I wanted that on the record. Thanks.

**The CHAIR** — All right. I have the last question and I want to follow on your response to recommendations 1, 2, 3 and 4 but specifically 4 concerning the suggestion by the Essential Services Commission of a wage price index. Has this been implemented, to your knowledge, anywhere else?

**Mr JUDAH** — We have heard there are versions of this in New South Wales.

**The CHAIR** — Right. Are we aware of the success or otherwise of that?

**Mr JUDAH** — We are not satisfied that it is the right model for local government. We think there are other areas that would deliver a better outcome, and in our submission we talked about the efficiency gain and why we do not think that would actually be a sufficient motivator. I think it is 0.05 per cent. That is just a statistical rounding error, in our view.

**The CHAIR** — With the wage price index as part of a sort of composite index — if I can invent a word — it seems to me that if the wage price index went up significantly, that would flow straight through into additional rate increases for consumers and property owners?

**Ms QIAN** — Yes, that is right, because the weighting given to the wage price index will affect the weight given to increases in CPI, as I mentioned. So if one goes up, then one will decrease. We are concerned about the potential decrease in the weight given to the CPI factor.

**The CHAIR** — You make the point that it is not clear whether it is public or private sector, but supposing in the public sector we had a 10 or even 20 per cent wage increase, that would flow through, as you see this in the model that is put out by the Essential Services Commission, to an increase in the wage price index and then consequently into the rates that would be charged to property owners, including your members?

**Ms QIAN** — That is right, to the extent that it clearly reflects the labour costs of the public sector. The uncertainty we have at the moment with the wage price index is whether or not there is also a component of private sector wage labour costs included in there, which could skew the index. So that was a point of clarification I made to the ESC.

**The CHAIR** — In terms of the final recommendation, which Mr Dalla-Riva has already referred to, with this CPI rise that you are looking at there is a simple rate there, you take the previous year's rate times CPI and add those two together to get the new rate. That, as I understand it — again, you might want to take this partially on notice — would be the ABS CPI for the previous year?

**Ms QIAN** — Yes, that is right, absolutely.

**The CHAIR** — This year the CPI to 30 June was 1.1 per cent, and yet we have seen rate rises of 3.8 per cent average statewide, so that is clearly a big disparity. Do you have any comment on the current situation, where 1.1 per cent was the promise in the election — 'We will cap rates at CPI' — and now we have a rate rise that is very different from that?

**Ms QIAN** — Absolutely. The first section of our submission to the committee acknowledges that there has been a consistent rate rise above CPI in the councils we examined, so in those four councils between financial years 2010 and 2015.

**The CHAIR** — So just looking at that table, which is in your July submission on page 2, I think —

**Ms QIAN** — Yes, that is right.

**The CHAIR** — So that is Melbourne, Port Phillip, Yarra and Stonnington. You will see the change in CPI. Is that the average, is it?

**Ms QIAN** — For the financial year, because the CPI is provided in quarters, yes.

**The CHAIR** — It is the wedge between those increases and the CPI, so this year you would see a 1.1 per cent rise to 30 June and a 3.8 per cent rise statewide, which, doing a simple calculation, would be a 2.7 per cent wedge over and above the CPI.

**Ms QIAN** — Yes.

**The CHAIR** — I thank the Property Council of Australia for its submission today, noting that you have taken a number of points of notice. The secretariat may need to come back to you for some further information. We may well in fact be interested in some of the points you have made about the growth areas in particular and some central city issues as well. Thank you.

**Committee adjourned.**