

THE DRAFT LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK AN OVERVIEW – AUGUST 2015

The rates capping and variation framework is designed to meet the Government's commitment to cap annual council rate increases as well as to develop a workable process to assess any proposals by councils for increases above the cap.

The framework seeks to promote a transparent and independently verifiable decision-making process with regards to the trade-offs involved in determining council rates.

In many ways, the proposed framework largely relies on the transparent, deliberative and consultative processes that councils advised us they already adopt when setting their budgets and their rates. In this sense, the framework can be viewed as a quality assurance mechanism seeking to give ratepayers confidence that disciplined decision-making is being exercised by their councils, and by the sector as a whole.

There are three elements of the proposed framework.

A brief summary is included below.

The rate cap — the maximum annual rate of increase by which councils can increase the rates paid by their ratepayers

The cap will be set annually and will apply to general rates and municipal charges only. It will be based on average rate revenue per assessment.

The level of the cap will be based on the forecast rate of increase in the CPI, together with an allowance for the wage price index. An efficiency factor will also be applied to the cap.

The 2016-17 rate cap will be based on the 2015-16 revenue from general rates and municipal charges.

The variation process — mechanism for a council to apply for an increase in rate revenue above the rate cap.

Under the proposed framework, councils will be able to apply to the Commission for a rate increase above the cap. The Commission, as

an independent authority, will be responsible for assessing all applications.

Councils and their ratepayers are best placed to decide which circumstances justify applying for a variation. Our approach recognises there are differences between individual councils and the need for flexibility.

To succeed, councils will need to show that levying higher rates represents good value-for-money for their ratepayers and is an efficient response to an identified budget shortfall. Local engagement will be an important part of the variation process and any proposals will need to be integrated into the council's long term strategy. Applications will need to take into account ratepayer and community views.

Councils should only consider applying for a variation to increase their rate revenues after carefully assessing their other options.

Monitoring and reporting — a means for verifying compliance with the cap and providing accurate and reliable information about overall outcomes for ratepayers and the community.

The Commission will collect information from councils each year and make the findings known publicly and on a regular basis. Reporting will include whether a council has adhered to the cap or the conditions of an approved variation above the cap, describing the relationship between rates and council performance in the areas of service and infrastructure delivery, and financial sustainability. This will help facilitate addressing unusual or unexplained outcomes of the framework, including service deterioration.

Interested parties are invited to provide feedback on the draft framework until 28 August.

We will also be holding a series of public information sessions across the state in August.

The draft report, associated materials and information on the public information sessions can be found on our website at: www.esc.vic.gov.au/Local-government



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