

Our process and approach to assessing higher cap applications

Extract of slides from a council webinar held in December 2021



Introduction



Legislative context

- Fair go rates system was established in 2015.
- It limits the annual increases in Victorian local government rates.
- It is administered by the Essential Services Commission.
- LG Act 2020, as passed, hasn't changed the rate cap provisions.

Local Government Act 1989
No. 11 of 1989
Part 8A—Rate caps

Part 8A—Rate caps

185A Purposes of this Part

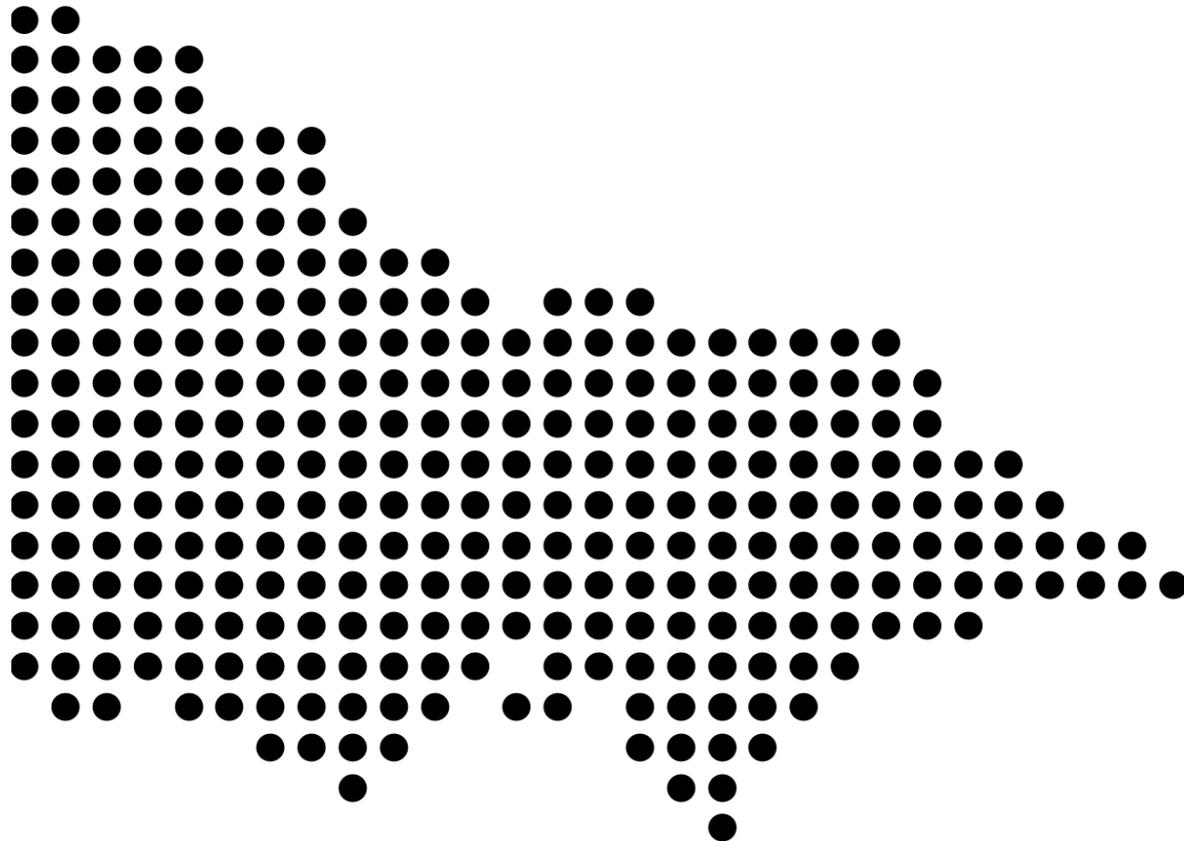
The purposes of this Part are—

- (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.

Our role

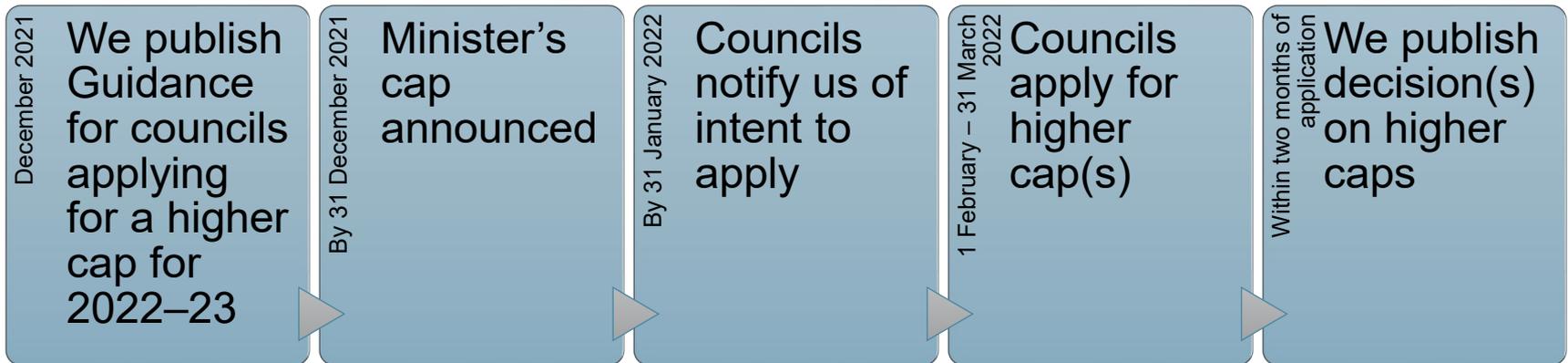
- Provide advice to the Minister for Local Government on the rate cap and other matters
- Assess council applications for higher caps
- Monitor and report annually on council compliance with the Minister's cap or a higher cap approved by the commission
- Monitor and report biennially on outcomes in the sector under the Fair Go Rates system
- Provide guidance to the sector and undertake studies as required

Applying for a higher cap



Timelines and process for 2022–23 rating year

Higher cap assessment process



As requested or needed: pre-application meetings with councils

Expectations of higher cap applications

Councils apply for 1 – 4 years of higher caps:

- Plans are robust, efficient and reflect outcomes from community engagement
- Long-term financial need is demonstrated
- Each legislative matter is addressed

LGA 2020 does not materially affect
LGA 1989 Part 8A – Rate caps:

- Changes that councils made for compliance with LGA 2020 may make applications easier

Legislative matters

1. Proposed higher cap
2. Reasons
3. Engagement
4. Efficiency and value for money
5. Alternative funding and offsets
6. Long-term planning

Higher cap and reason (1&2)

The application should address:

- the rate increase(s) being sought and the year(s) in which the increase(s) will have effect
 - should be consistent or any differences explained
 - enough information for us to understand long term need and impacts
- the reason(s) for the higher cap
 - explain why council is seeking the higher cap
 - can be more than one reason
 - If previously funded need to explain changed circumstances

Engagement (3)

The application should address:

- How the views of the ratepayers and the community have been taken into account in proposing the higher cap
 - **The plan** = what, why, when, who and how:
 - effective ways to engage
 - different people, times, places
 - **Contents** = debating major trade-offs, e.g.:
 - services or infrastructure
 - financial impacts
 - **Results** = if & how feedback influenced council decision:
 - how council manages unmet expectations

Efficiency and value for money (4)

The application should address:

- how the higher cap is an efficient use of council resources and represents value for money
 - council has adequate policies and processes in place and has put these into practice
 - relevant to all council operations (services and infrastructure delivery)
 - quantify efficiency savings gained and reflect in forecasts

Alternative funding and offsets (5)

The application should address:

- whether consideration has been given to reprioritising proposed expenditures and pursuing alternative funding options and why those funding options are not adequate
 - what other options has council considered
 - explain why those options judged inadequate
 - why higher cap is most is the most appropriate funding option

Consistency with long-term planning (6)

Financial impacts

- council priorities
- long-term impacts
- financial policies
- key assumptions
(financial plan, council plan, revenue rating plan, budget)

Service impacts

- community preferences
- service planning and reviews
- service performance principles

Long-term planning

Community engagement

- engagement policies and plans
- community feedback on major trade-offs

Infrastructure impacts

- community preferences
- asset management plans
- asset condition & life
- renewal needs

Application requirements

- Application cover sheet
- Statement addressing 6 legislative matters
 - cross-referenced to sections/pages of supporting documents
- Budget baseline information – consolidated & condensed financial information
 - long-term changes requiring higher cap
 - expected outcomes with/without higher cap
 - forecast actuals for base year and higher-cap year(s)
 - input for calculating LGPRF indicators
- Supporting documents such as:
 - key strategic plans and budgets
 - council's relevant policies and procedures
 - working records of engagement plans, tools and outcomes

Assessing applications

Our role is to assess any application for a higher cap and to decide whether the proposed higher cap is appropriate.

Our assessments are based on:

- our statutory objectives to promote the purposes of the rate capping framework
- the six legislative matters
- the council's compliance history
- the council's compliance with the commission's application requirements

4 questions and 2 objectives to consider

1. What is the underlying financial position?
2. What has been done to manage the underlying position?
3. How were ratepayer and community views taken into account?
4. Are the plans, policies and processes in place sufficient to demonstrate a long-term funding need?

We integrate those questions and the answers to the above with our assessment of the following objectives:

- a. The interests of ratepayers/community in sustainable outcomes in service delivery and critical infrastructure
- b. Maintaining the council's financial capacity to perform its duties and functions

The result leads to a recommended decision on the application.

Typical application process

1. Council makes an application and we confirm receipt
2. We check that cross-references work, that materials appear physically complete, and we follow up verbally
3. We ask for any items still needed (e.g. plans, policies, records, etc) and missing info (e.g. use of rate revenue over estimated costs) and send a *Request for Info*
4. We get independent expert advice on engagement, assets, planning, etc, and incorporate in draft analyses
5. We draft analysis & recommendation for commission
6. We finalise the decision and special Order and publication

Commission decisions

The commission may decide:

- to approve a higher cap, set at the same percentage(s) and for the same year(s), as stated in the council's application
- to approve a higher cap, set at lower percentage(s) and/or for fewer year(s), than requested
- not to approve a higher cap.

In reaching and documenting its decision, the commission may identify necessary improvements in a council's management or engagement processes.

Past higher cap applications

2016-17	Decision
City of Ballarat	Not approved
City of Casey	Not approved
Wyndham City Council	Not approved
Murrindindi Shire Council	Approved in part
Buloke Shire Council	Approved (qualified)
Horsham Rural City Council	Approved (qualified)
Pyrenees Shire Council	Approved (qualified)
Moorabool Shire Council	Approved
Towong Shire Council	Approved
2017-18	
Pyrenees Shire Council	Approved
Hindmarsh Shire Council	Approved
Borough of Queenscliffe	Not Approved
Towong Shire Council	Approved
West Wimmera Shire Council	Approved
2018-19	
Monash City Council	Approved an alternative higher cap
2019-20	
Mansfield Shire Council	Approved
Warrnambool City Council	Approved in part

Reflections on past higher cap applications

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Minister's cap	2.5%	2.0%	2.25%	2.5%	2.0%	1.5%
Buloke Shire Council	3.05%					
Horsham Rural City Council	3.5%					
Moorabool Shire Council	3.5%					
Murrindindi Shire Council	4.3%					
Pyrenees Shire Council	3.83%	3.5%	3.5%			
Towong Shire Council	6.34%	5.55%	5.55%	5.55%	5.55%	
Hindmarsh Shire Council		4%				
West Wimmera Shire Council		3.5%	3.5%	3.5%	3.5%	
Monash City Council			2.57%			
Mansfield Shire Council				13.94%		
Warrnambool Shire Council				4.5%	4.5%	
Number of higher caps	6	4	4	4	3	0

Reflections on past higher cap applications

Quality of applications varies:

- gaps in engagement (trade-offs) & long-term financial planning

Applications do successfully rely on mix of engagement:

- specific work for the higher cap + earlier general engagement

Success factors identified by councils

- prior action on a need for shared services, demand reduction, innovations
- early interaction with ESC
- simple community-forum questions
- drawing on previous engagement
- discussing trade-offs in all consultations
- focusing community engagement and engage early
- avoiding confusion of multiple budgets, expect push-back on belt-tightening
- robust long-term planning
- starting work with commission staff early

More information



www.esc.vic.gov.au/local-government

Contains all our guidance, higher cap decisions, advice to the Minister, compliance reports and other publications.

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