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26 August, 2015

Local Government Rates Capping and Variation Framework Review,
Essential Services Commission

localgovernment@esc.vic.gov.au

Dear Review Chair,

Central Goldfields Shire Council has considered the "Local Government Rates Capping and Variation Framework Review" Draft Report of July, 2015 and is pleased to have the opportunity to provide the following responses to the Recommendations contained therein:

Recommendation 1 – While rate capping may have implications for all councils, the potential varying impact is evidenced in the Whelan 'Financial Sustainability Overview May 2015' Report (paragraphs 52-55).

Whelan concludes:

"It is clear that smaller rural councils are most vulnerable because they;

- have the highest net costs
- have the highest rating levels in respect to capacity to pay
- incur the highest recurrent operating deficits
- are most likely to have curtailed provision of requires services, e.g. infrastructure

If a rate cap is imposed that is less than the actual cost increases applicable to local government, these councils will be forced to further cut their services and/or increase their deficits, unless compensated by corresponding increases in recurrent government grants."

Recommendation 2 – noted

Recommendation 3 – the application of the rate needs to be as simple as possible (to apply and to understand). Ratepayers are already confused by the rating process and the concept of an ‘average ratepayer’ is even more confusing, compounded by a revaluation year where any ratepayer can experience a significant movement. The method proposed is noted.

Recommendation 4 – the formula could be varied to reflect various weightings however based on the two components will not vary greatly. Application of a Local Government cost index, or, a local government wage index is more relevant and logical.

The Commission’s recommendations have not given sufficient weight to evidence provided by the sector about the nature of local government cost drivers – which include other components beyond wages.

The Efficiency factor is just another cap, and will have the same effect i.e. less revenue and therefore less works and services. Efficiency savings can also allow for a service to be extended or to lift the standard of an existing service. Many efficiencies have already been achieved.

The ESC acknowledge structural differences between Councils, cost pressures beyond councils control, and infrastructure renewal, however refers these to the variation process.

Recommendation 5 – noted

Recommendation 6/7 – a case-by-case basis provides flexibility but also little guidance for councils at this stage as to eligibility.

The variation process should not cost councils to participate in, and, a process involving some form of ‘pre-variation application meeting’ could be adopted for practical reference.

This whole area of variations requires far greater clarity and definition.

Recommendation 8 – noted

Recommendation 9 – some form of appeal (to the Minister) should be available.

Recommendation 10 – noted

Recommendation 11 – noted

The practical reality is that Council's budget is not finite. Council could undertake more (necessary) works but balances this with the community's capacity to pay. Forward rate increase projections in the current Council budget, for year 2016/17 to 2019/20 are at 4.8% annually.

Council's choice will be to apply the recommended increases (3.05%; 2.85%; 2.80% in the draft report), or to apply for a variance which the ESC will determine.

Based on the Council budget and the ESC Draft report, over the 4 year period 2016/17 to 2019/20, simply substituting the Draft Report rate increases sees a negative turn-around in Council revenue of approximately \$2.2m.

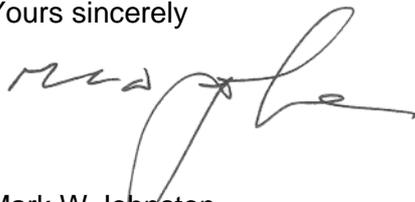
Should Council seek a variation it would be hoped there would be favourable consideration of matters such as flood mitigation works, and, efforts to address entrenched disadvantage. If the proposed ESC Draft Report increases are applied, either by Council or the ESC, the result will be less works and services, and invariably less jobs.

Council has been assured many times that the implementation of a rate capping and variation framework is not about regulating or rectifying the actions of smaller rural councils, yet the printed documents including this Draft report do not reflect this. As Whelan (see Recommendation 1 above) demonstrates "...smaller rural councils are most vulnerable..." In this regard the views of Rural Councils Victoria are strongly supported.

Council remains optimistic that an outcome of this rate capping/variation framework exercise will be a greater understanding of local government financial sustainability, and, a review of industry funding models.

Thank you for the opportunity to submit.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark W Johnston', with a stylized flourish at the end.

Mark W Johnston
CHIEF EXECUTIVE OFFICER