

File Ref: FM0002/WWSC

13 May 2015

Local Government Rates Capping and Variation Framework Review  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
MELBOURNE VIC 3000

Dear Sir/Madam,

**Re: SUBMISSION TO THE LOCAL GOVERNMENT – RATES CAPPING &  
VARIATION FRAMEWORK – CONSULTATION PAPER – APRIL 2015 - WEST  
WIMMERA SHIRE COUNCIL**

**Our Ref: 15/001478**

West Wimmera Shire Council (WWSC) has considered the Consultation Paper prepared by the commission and provides responses to many of the 22 questions posed.

As an overall general comment, WWSC has the following key points that it wishes to highlight:

1. Capping Council rates would impact significantly on WWSC's ability to reach its target 10,000 population by 2050. West Wimmera has the fastest population decline in the State.
2. WWSC cannot afford to borrow money to undertake special projects to increase its population, as the rate base is too low and it is not sustainable.
3. WWSC's rates are low per acre compared to any other rural council. A rate capping regime will affect WWSC's ability to be on par with other small Councils.
4. Consideration must be given to the low staff base WWSC has, to undertake the process on an annual basis to obtain permission to increase rates beyond a standard rate. Consideration must be given to approval over 4 years on a rate increase arrangement, not every year, to eliminate unproductive administration work. Also the process of seeking rate increases over the standard rate set by ESC needs to be very simple.
5. A 1% rate raise provides WWSC with an additional \$65,000. Hence all costs associated with requesting the rate capping must be paid by the Victorian Government, not by WWSC.
6. CPI is not the appropriate index to use in Local Government, and is even more inappropriate for small rural Councils.

7. One of the largest cost pressures for Council is cost shifting from other tiers of government, with cuts to funding and also charges from other tiers of government increasing above CPI, for example, Environmental Protection Agency fees for landfills, and audit costs regarding new Performance Reporting Requirements. These must also be maintained and contained.
8. Funding for Infrastructure Renewal is a problem for all levels of Government, but additional rate increases have been utilised by WWSC over many years as a way to be pro-active in addressing this issue, and this opportunity needs to continue to be available.
9. Defining the exact way in which the rate base is calculated is important, to ensure that there is no ambiguity in what this should or should not be.

In addition, WWSC would like to respond to the twenty-two questions posed in the discussion paper.

#### **A. THE FORM OF THE CAP**

1. *While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?*

Yes, the Local Government cost structure is very different to general CPI; small rural councils don't have similar volumes to large councils to gain efficiencies through volume. Fuel, cost of supplies, consultancy services and training are more expensive for rural and remote councils like WWSC.

2. *What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?*

Serious consideration should be given to adopting the Local Government Cost Index as the relevant measure for the Local Government Sector.

3. *Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative caps for the next two to three years to assist Councils to adopt a longer term view in their budgeting and planning, particularly when maintaining and investing in infrastructure often takes a longer term perspective? How should such a multi-year cap work in practice?*

We suggest caps should be indicative for years 2, 3 and 4, in line with the four year strategic resource plan established by Councils as part of their budgeting process.

4. *Should the cap be based on historical movements or forecasts of CPI?*

The cap should be based on forecasted local government specific CPI

**5. *Should a single cap apply equally to all Councils?***

No, a cap for rural and small rural Councils must be different based on their cost structures.

**B. THE BASE TO WHICH THE CAP APPLIES**

**6. *What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?***

The cap should only apply to rates revenue and municipal charges. Garbage charges are clearly not influenced by CPI as much as by the requirements of the EPA, government policy in relation to demands for recycling and greater requirements in relation to disposal of waste.

Garbage and other fees and charges should be market tested/based and not included within the cap.

Special charges are negotiated with a segment of the community and should be excluded.

**7. *Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?***

The cap should apply to total revenue arising from rates revenue and municipal charges.

**8. *How should we treat supplementary rates? How do they vary from Council to Council?***

Supplementary rates should not be covered by the rates cap, as these rates are collected on new properties. Supplementary rates vary from Council to Council, provide a means of funding additional services and are required as the rateable properties increase. Supplementary rates however should not be excluded from the calculation of the prior year's base figure on which the cap is applied.

**9. *What are the challenges arising from the revaluation of properties every 2 years?***

We cannot envisage any challenges in relation to revaluations. This is an issue of rate capping, revaluations only serve to provide a basis for establishing the amount of rates paid by each property, not the total rates collected by the Council.

**10. *What should the base year be?***

The base year should clearly be the financial year 2015/16, which is the year immediately prior to the introduction of rate capping, and the base rate figure should be the actual amount of rates collected and not the budgeted rates. So this may need to be a forecast figure at a specific point in time, based on known supplementary rates.

## THE VARIATION PROCESS

### ***11. How should the variation process work?***

The variation process should provide for a simple application by Council outlining the reasons for the proposed rate increase, demonstrating the purpose to which it will be put in the long term, and supported by the four year strategic resource plan which outlines the future year's rate increases proposed. ESC should prepare and provide a template submission for use by the sector, in order to reduce duplication of effort and bureaucracy. Consideration should be given to an exemption that is based on a 4 year SRP not an annual budget process. ESC must also proactively provide variation of a certain percentage, if a Council area has a natural disaster, without Council having to apply for variations.

### ***12. Under what circumstances should Councils be able to seek a variation?***

Councils should be able to seek a variation to support the implementation of Council plan objectives, bridging asset renewal gap, address the funding gap due to reduction of VGC grants, projects addressing population decline, natural disasters, and any other one-off cost pressures like defined benefit superannuation scheme call outs to top up the funding.

### ***13. Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, changes in funding levels from the Commonwealth Government, changes in State Government taxes and levies, increased responsibilities, and unexpected incidents such as natural disasters), are there any other circumstances that would justify a case for above cap increases?***

See response to 12 above.

### ***14. What should Councils need to demonstrate to get a variation approved? What baseline information should be required for Councils to request a variation? A possible set of requirements could include:***

- Council has effectively engaged with its community
- there is a legitimate case for obtaining additional funds by the Council
- the proposed increase in rates and charges is reasonable to meet the need
- the proposed increase in rates and charges fits into its longer term plan for funding and services
- Council has made continuous efforts to keep costs down.

***We would like stakeholders' views on whether the above requirements are adequate.***

Submissions should consider:

- Council has a robust 10 year Long Term Financial Plan and 4 year Strategic Resourcing Plan in place;



# WEST WIMMERA SHIRE COUNCIL

- Council has a clear plan to bring rating increases back in line with appropriate levels within a reasonable timeframe;
- Council can demonstrate clear and transparent communication and consultation with their community in the development of their annual budget and/or 4 year SRP; and
- Council is subject to extraordinary financial drivers that are outside of their control which may include such factors as:
  - Implications of State or Federal Government policy changes;
  - Recovery from emergencies or other disasters;
  - Legacy asset management concerns;
  - Shifts in global money markets affecting superannuation calls or other linked investments;
  - Declining population and economics;

OR, where rate increases are directly related to increased service provision (eg: the introduction of a new Green Waste Service) and Council can demonstrate community consultation and preparedness to pay.

## C. COMMUNITY ENGAGEMENT

- 15. *What does best practice in community engagement, process and information look like? Are there examples that we can draw from?***

Council to provide 28 days' notice in the local newspapers to seek submissions on proposed rates above the set rate, and forward all the submissions to the ESC for a final decision.

## D. INCENTIVES

- 16. *How should the framework be designed to provide Councils with incentives to pursue ongoing efficiencies and respond to community needs? How could any unintended consequences be minimised?***

Not commented on.

## TIMING AND PROCESS

- 17. *A rates capping and variation process should ensure there is enough time for Councils to consult with their ratepayers and for ratepayers to provide feedback, and for us to review Council's applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with Council's budget processes. We are interested in stakeholders' views on how this can be achieved.***

Council must adopt its budget by 30 June, so any variations will need to be approved well before that date to allow for S.223 consultation processes to take place. So approval of variations will be needed by approximately the end of February, leaving March and April for budget preparation and adjustments, May for Consultation, June to listen to ratepayers submissions before approval by 30 June. Submission may not occur until January, so it will be critical to have a very quick turnaround in the process or the 30 June budget date will need to be moved, which is a retrograde step. Also, consideration over 4 years makes it easier for Councils.

## **E. TRANSITIONAL ARRANGEMENTS**

- 18. *What transitional arrangements are necessary to move to the new rates capping and variation framework? Is there merit in phasing in implementation over a two year period to allow for a smooth transition?***

Small Rural Councils like West Wimmera Shire Council must be exempt from rate capping for at least next 4 years, to allow time for making the necessary changes to adopt to a rate capping regime.

## **F. ROLES**

- 19. *What are stakeholders' views on the respective roles of the key participants? Should the Commission's assessment of rates variations be advisory or determinative?***

The ESC should be determinative so as to remove any potential for political interference.

## **G. OTHER MATTERS**

- 20. *Is there a need for the framework to be reviewed to assess its effectiveness within three years time?***

Yes.

- 21. *How should the costs of administering an ongoing framework be recovered?***

The Victorian State Government should bear all the costs of administering the ongoing regime.

## **H. OTHER MATTERS RAISED IN EARLIER CHAPTERS**

- 22. *We are interested in hearing from stakeholders on:***

- whether we have developed appropriate principles for this review*
- whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important*
- supporting information on the major cost pressures faced by Councils that are beyond their control and the impact on Council rates and charges.*

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Principle 1 - should also reference population decline, and acknowledge that small communities who are prepared to work towards reversing the decline in their population must be given the opportunity to do so.

Principle 2 – is a good principle, however, in practice it is very difficult for an individual ratepayer to assess Council, as a shift in their rates can be a result of changes in rating policy/strategy and valuation, and not just because of any increase in the rates.

The State Government should also undertake to increase funding to Councils at the rate of CPI, and not increase any of their charges by more than CPI.

Yours faithfully



**Mark Crouch**  
Chief Executive Officer