

Submission to Essential Services Commission Rate Capping Framework Review

We refer to the Commission's Local Government Rates Capping and Variation Framework Review draft reports volume one and two released July 2015 and submit the following comments.

While Council is opposed to the introduction of rates capping it recognises that the ESC is responding to the terms of reference given by the Government. That said there are a number of draft recommendations that Council strongly supports.

In particular we note Council's support for the following recommendations:

- That the rates cap index be applied to the base year 2015/16 and particularly the recommendation that it is to be applied to the average rate rather than rates revenue (Volume II page 45).
- That Council is not penalised for growth of properties to be serviced. Supplementary rates are excluded from the cap in the year that they occur (Volume II page 41) and we interpret that the base year calculation of average rates being based on "general rates" (Volume II page 45) also excludes supplementary rates for the year completed. As a result the average rate per property reflects the rates cap index while Councils resultant rates revenue budget includes rolled over supplementary rates into the base allowing some funding for growth of property numbers.
- That the triggers that qualify for a variation are not defined and hence limited to that definition (Volume II page 61).
- That the framework be reviewed after four years of operation (Volume II page 99). As we outline below Council is strongly opposed to any expansion from compliance monitoring to the realm of new and additional regulation of the local government sector.

Council believes there is further opportunity through the Commission's work to enhance community understanding of the rating framework. Council recommends that the final report include statements that confirm that the property revaluation process does not result in increased rates revenue to Local Government and in fact only provides an updated rates distribution tool. There is widespread community belief that property revaluation does increase rates revenue, a view that is reflected in a large number of resident submissions to the Commission. We note that concise wording exists for example on the MAV website as part of its 2015/16 rates review package and request that the Commission include it or like wording in appropriate parts of its final report. Council also repeats from its first submission our view that the State does have a communication responsibility when implementing rates capping to outline directly to the Victorian community the averages rates cap methodology and how the impacts of revaluation process will reflect differently on different property situations. The rates cap policy has generated high community expectation and to simply pass the communication burden to Local Government lacks equity and honesty and will result in further cost borne by the sector to manage the inevitable increase in resident enquiry.

Council notes that use the actual number of properties as at 1 July each year (Volume II page 46) to generate the budget average rate is a timing conflict with the need to adopt a budget by June 30. In practical terms this will necessitate use of an estimate from an earlier actual number in preparing a draft budget for community consultation and a final budget for adoption. In monitoring Council budgets for compliance with the cap we propose there be a modest tolerance and allowance made for this partial estimate.

While Council understands the role of monitoring for compliance we do not accept that rates capping become a vehicle to impose further regulation on the sector. The discussion of options (Volume II pages 90, 91 and 94 in particular) suggests introduction of significant further regulation. We contend that Resident satisfaction surveying coupled with community consultation based variation application processes and a review of the framework after four years (Volume II page 99) using existing baseline data provides a sound base from which to assess impacts over time. This baseline data includes VAGO and LGV measures, Resident survey results and Council annual reports.

Councils typically provide more than 100 different services to its community. These require a breadth of activities, inputs and expertise that is unmatched in the private sector or indeed statutory bodies such as water boards which typically specialise in a small number of well defined core offerings. The statement and implications of the discussion on page 94 of Volume II are alarming and without regard for the financial systems and additional staffing that would be required to meet the claimed shortcoming of the sector. “What is missing for the purposes of monitoring the outcomes of the rates capping framework is detailed financial information disaggregated on a per service basis.” This implies a manufacturing like cost accounting empire be imposed on broad based services delivery organisations. .

Council is strongly opposed to introduction of an expanded regulatory framework and support Option 1 (Volume II page 99). We recommend commissioning of an economic impact statement to establish the cost to the sector and community if recommendation other than recommendation one is the final ESC recommendation.

Some further matters that Council requests be reconsidered –

- The cap methodology is overly simplistic and ignores the diversity of circumstances across 79 Councils. This diversity includes significant other revenue raising opportunity such as the City of Melbourne car parking fees that are not available at all for many Councils. That councils are therefore required at further cost to its ratepayers to request a variation is an overly simple methodology that creates new bureaucracy to administer
- The Local Government Act requires Council to make longer term decisions in the best interests of its community. Rate capping reduces council autonomy and promotes short term decision making horizons. Principle 3 claims the recommended framework supports this objective but without proving the reader any basis to validate the claim.
- We recommend that the welcome monitoring of the State Land Fill levy be extended to other mandatory regulatory requirements such as EPA and Emergency Management. Again the rate cap methodology is simplistic
- The cost of seeking a variation should be capped at an audited (VAGO) and publically available cost standard of hours and hourly rate. Further the time to process a variation should be no more than four weeks to ensure council operations are not negatively impacted by lack of approved budget. Reports that Councils may face a variation fee of up to \$50,000 if correct, mean that either the fee is a mechanism to block councils from applying or that the ESC will charge for example \$166 per hour for 300 hours to consider a request.
- A rates cap by nature will require further efficiency be found. To overlay a % efficiency requirement in the cap is double dipping.
- The length of variation in the first years should allow for long term projects and so not be arbitrarily restricted to one year and then stepping up.
- That the legislation contains a three or four year sunset clause to ensure a full and open assessment is undertaken of objectives and outcomes.