

Yarra City Council submission to the Essential Services  
Commission  
– A Blueprint for Change: Local Government Rate  
Capping & Variation Framework Review

28 August 2015

## Executive Summary

Yarra City Council acknowledges that the Essential Services Commission (ESC) has invested significant time and energy in developing the draft Framework and genuinely engaging the local government sector in the development of the Framework. This is particularly appreciated as the ESC was given a part-formed policy – an expectation to limit rate rises to at or below CPI and some assertion that Councils had increased rates inappropriately.

The timelines for the ESC review has not allowed sufficient time to take account of the impacts of cost shifting, the burden of regulatory changes and enforcement, declining State and Federal funding for services delivered by Councils, and the impact of significant population growth in Victoria and the services and infrastructure required to support this growth and change (as well as the cost of delivering planning services to support the growth).

The Victorian local government sector faces a continuing and large gap between its asset base and the cost of maintaining these assets at appropriate levels to deliver the services our communities need and expect.

The Ministerial Statement on Local Government (August 2015) notes that Councils manage \$70 Billion in assets, invest \$2 Billion each year into assets, and spend \$7 Billion on service delivery per annum. Many services are jointly funded, or regulated, across 2 or 3 tiers of Government, with historically an increasing share of funding responsibility being expected of local communities through Councils and property rates. In 2012 the Victorian Auditor General's Office estimated the asset renewal gap for Victorian Councils at \$225 million.

Yarra City Council's services, and the infrastructure to deliver these, need to change to meet the growing and changing community needs. We cannot afford to keep doing all of the old things the same way plus deliver new and enhanced services. And it would be a poor use of community resources to try.

There is greater pressure on Yarra City Council to service a community that is largely at work 9-5pm Monday to Friday, so expects services when they are home and out and about in their city. People expect greater choice in the services they want: when, where, how and at what price. And, the expectation of Council is to work more cleverly to manage the competing use, and users, of limited public space.

The ESC and Government cannot build a rate capping model that assumes inner-city Councils are 'wealthy' without understanding the pressures unique to our situation. Financial Assistance Grants and State and Federal grants already favour rural and outer growth municipalities.

People choose to live in, and move to, Yarra for its amenity, vibrant community, its services and infrastructure, the proximity to work, recreation and leisure, and all that an inner-city lifestyle offers.

Yarra has a rapidly growing residential population: we have the 6<sup>th</sup> fastest or the 10<sup>th</sup> largest residential population growth in Victoria in the year to June 2014 (ABS Estimated Resident Population), amounting to an additional 3,000 residents in a single year. To meet the needs of this growing and diverse community we need to invest in bringing old infrastructure up to be fit for modern services. We enjoy many iconic and heritage buildings but they are expensive to make fit for purpose. Our infrastructure is critical to economic, environmental and social wellbeing of the community.

Accepting that the rate capping framework will be implemented for the 2016-17 Budget process, Yarra's submission focuses on what will make the process less burdensome and deliver greater value for Yarra's community.

## Specific Responses to Framework Review

### Rate Cap Definitions

Yarra City Council supports the ESC's definition of rates, for the purpose of the rate cap, to only include general rates and charges and to exclude special rates and charges, service rates and charges, and supplementary rates. This is consistent with Council's position in the earlier submission on the ESC's Consultation Paper.

Special rates and charges undergo their own process and are tied to specific outcomes – for example a charge that contributes to marketing of an Activity Centre or for capital improvements such as road construction – and therefore should not be confused by adding another decision process .

Service rates and charges are tied to the delivery of a specific service to properties and changes to these should reflect variations in the actual changes in the service cost.

Supplementary rates are an unknown quantity and are difficult to forecast each year. Specific property developments may happen sooner or later than Council assumes, and more generally market trends will see the overall level of activity fluctuate. Additionally, in a municipality undergoing significant growth and development, Supplementary Rates contribute to the expense of providing services and infrastructure to a growing and changing community.

### Rate Cap Formula

The inclusion of a Wage Price Index (WPI) in the rate cap formula in part acknowledges that the Consumer Price Index (CPI) does not reflect the actual cost of service and infrastructure provision by Councils. Wages are a large component of Council service delivery, and overall expenditure, and the addition of this variable will reduce the negative impacts of a simple CPI measure.

Yarra City Council acknowledges that the ESC has not been able to identify an index that would reflect the second largest component of Council expenditure, construction and infrastructure. Council proposes that instead the ESC build into their rate cap model an allowance for the asset renewal gap experienced across Victorian local government.

Consistent with the position put forward by the Inner South Metropolitan Mayors Forum (ISMMF), Council proposes that the ESC include a standard additional 0.5% per annum for 10 years into the rate cap. This allowance would address the asset renewal gap by the end of the decade.

Council does not support an efficiency factor being included in the rate cap. Council already undertakes service planning and review processes to ensure the services it delivers meet current community needs and can transition to meet future community needs.

The logic of an efficiency factor is that Council will deliver like services more efficiently into the future, or we will reduce service levels and standards, and that service delivery can then be accommodated within rate levels that are increasing below cost increases.

Councils are already delivering efficiencies through absorbing the ongoing effects of cost shifting from State and Federal Governments and declining State and Federal grant funding relative to real service costs.

If the ESC does proceed with the inclusion of an efficiency factor it should at least be time limited to a maximum of 5 years to recognise that there is a point of optimum efficiency at which services

cannot be delivered more efficiently without changing (reducing) service levels and standards, or that the cost of achieving efficiencies is greater than the savings that will be realised.

## Rate Cap Variation Process

Ultimately the variation process must respect community choice and priorities, and the independence and autonomy of 'local' government as recognised under the Local Government Act and Victorian Constitution. Where Council applies for a variation this must align with our Council Plan, the outcomes of community consultation, our Strategic Resource Plan (and Long Term Financial Strategy), our Service Plans & Reviews, our Capital Works Program, and our Local Government Performance Reporting Framework targets.

Yarra City Council supports the ESC as the independent assessors of any variation application and that the application be judged on its merits, whether this is a one off proposal or a more ambitious longer term proposal (e.g. a community plan). The assessment process should be free of any sense of political intervention by Government, Ministers or public servants within the Department.

Importantly, the variation process should not be so onerous that it discourages communities from applying for a variation. The Framework should also not have a default logic that a variation application would be exceptional, rather the assessment of a request should be based solely on the merits of the case put forward.

The resourcing required for a variation application will be significant for individual Councils where it is not primarily based on existing processes and documents such as the Council Plan and existing, common, data sets such as LGPRF financial data, Annual Reports and Budgets, and the extensive other reporting to State Government Departments. The Framework should prioritise the use of existing data and reporting as the basis for variation applications and as the criteria for assessment.

An onerous additional process, or data requirement, will be costly to individual Councils and will need to be recovered through any 'above cap' rate increase sought. Yarra wants flexibility in the process but also clear and consistent standards for assessment, a known 'bar' or threshold.

## Rate Cap Variation Process – ESC Decision

Council appreciates that the ESC should be able to simply assess the merits of a variation application and reach a decision. The Framework Review paper describes the ESC reaching a 'yes' or 'no' decision on the application.

Council proposes that the Rate Capping Framework specifically outline that Council can design their application to include discrete options and that the ESC would be able to accept or reject one or more of these options within the application. As an illustration, the variation may include two capital works projects each of which would be funded through a 0.5% rate increase over and above the rate cap, and that the ESC could then decide on the merit of the application to reject the application, approve a 0.5% rate increase or a 1% rate increase above the cap.

## Rate Cap Variation Process – 2016-17

The proposed timeline for submitting a variation for the 2016-17 Budget process, and receiving a decision from the ESC, is not workable. Yarra City Council adopts its proposed Budget in mid-April to allow for the 28 day public notice and submission process, as required under the Local Government Act, as well as providing Councillors sufficient time to read submissions prior to the public meeting

to hear submitters, as well as time for officers to review submissions and provide informed feedback to Councillors. For the 2015-16 Budget process Council received around 120 submissions.

If we do not receive advice from the ESC on a variation request until sometime in May it is unlikely that we could meet legislative timelines, take community feedback seriously, and adopt the Budget by 30 June as required under the Act.

Additionally, we will require Senior Officers to prepare Branch Budgets, as well as Fees & Charges calculations, prior to Christmas if we are to decide on whether to submit a rate cap variation and notify the ESC of our intention in January. The decision about applying for a variation will in part be determined by the ability of the Long Term Financial Strategy to fund recurrent expenditure (Capital renewals and ongoing operational service delivery) as well as existing commitments such as the North Fitzroy Community Hub project.

Yarra City Council requests that the State Government ensure adequate resources be provided to the ESC to enable them to process all variation applications and advise Councils by the end of March. This would allow all Councils to meet the mandated timelines. The assessment of variation requests should be simple enough that this can be achieved within the timelines set under the Act.

## Rate Cap Transition Period

As Council argued in its May 2015 submission, a one to two year transition period would be valuable to support Councils to rework their Strategic Resource Plan (SRP), Long Term Financial Strategy and long term Capital Works program to align with the impact of the proposed rate cap model and variation process.

SRPs have a four year horizon matched to the Council Plan, and the LGPRF has a four year financial forecast. These need to reconcile changed revenue assumptions with current service delivery and planned Capital Works programs. In particular for Yarra, Council has commenced a large community facility (North Fitzroy Community Hub costing around \$15 million) and has a current Enterprise Bargaining Agreement that was decided upon based on different assumptions in the SRP.

## ESC Annual Reporting

Council supports the ESC's proposal for an Annual Report on the rate cap and approved variations as well as an Annual Report on the 'overall outcomes for ratepayers and communities'. As part of the Annual Report on the rate cap the ESC should include the cost burden of the rate cap and variation process on each Council. This will ensure the community can understand and assess the true costs and benefits of the Framework and its implications.

## Advocacy By ESC

### Awareness Raising

The introduction of rate capping has been strongly promoted by the Victorian Government, particularly the sense that property rates will be lower in the future. It can be expected that the community will understand a very 'simple concept' of rate capping, based on the Consumer Price Index. In valuation years, however, this will be confused for most as their rates will increase by an amount different to the CPI.

The implementation of the framework will be complex to explain to ratepayers and to reduce the burden on Councils the ESC should recommend that Local Government Victoria resource an awareness campaign to ratepayers and communities on what the rate cap framework is, how it will

operate, and the consequent pressure this will place on Councils to prioritise service and infrastructure delivery.

### Financing Borrowings

Council proposes that the ESC recommend to the State Government that further work be done to investigate other sources of finance for local infrastructure. Opportunities for Councils for a more efficient use of, and access to, borrowings for infrastructure would help to offset the efficiency dividend in the rate cap formula. A sector or partnership approach to accessing borrowings to invest in important community infrastructure is preferable to Councils working on their own solutions.