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8 May 2015

Dr Ron Ben-David
Chairperson
Local Government Rates Capping and Variation Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000



Dear Dr Ben-David

City of Casey Submission on “Local Government Rates Capping and Variation Framework Consultation Paper

Thank you for the opportunity to consider and prepare a submission on the *Local Government Rates Capping and Variation Framework Consultation Paper*. From reviewing the current Consultation Paper released in April 2015, it is obvious that the Commission has consulted broadly during its development, and considered the input and suggestions from a broad range of stakeholders.

Council broadly supports the concepts and principles articulated in the consultation paper, and the relevant questions currently identified for the review, however, Council also has some observations and other suggestions which it would like considered as the options and design of the rate capping framework to be recommended to the State Government is developed in the coming months.

Council makes the followings submissions on the Consultation Paper:

- » Council supports the recognition in the consultation paper that there has also been cost shifting in State Government Grants and Programs, as well as Commonwealth ones, primarily through insufficient indexation of grant funding or inadequate increases to government set fees, despite this issue not being listed in the initial Terms of Reference for this review.
- » The consultation paper discusses some of the items that have impacted Council rates in recent years that are outside Councils control. This included the Vision Super Defined Benefits Fund liability call, and increases in the EPA landfill levies. Another significant impact for Casey during this period has been Street lighting costs, which have been adversely impacted by significant and escalating increases in regulator determined network charges in recent years. With the EPA landfill levy, it should also be noted that prior to it being \$30/t in 2010-11, it had been \$9/t in 2009/10.

- » There is discussion in the consultation paper about whether CPI is the most applicable basis for setting a cap. It is Council's position that the basis for the cap should be based on the "basket of goods" that Councils consume, rather than it defaulting to CPI. For Casey, its annual expenditure (excluding depreciation) in its revised 2014/15 Budget is approximately 30% Labour, 42% suppliers (which includes some labour based contracts) and 28% construction. Councils are service based organisations, with most services delivered by people, which needs to be reflected in the index recommended in the final form of the framework.
- » It would be Council's preference that the rate capping framework is applied to general rates and municipal charges only, and that service rates and charges (such as waste services charges) would continue to operate under the existing provisions for service rates and charges within the *Local Government Act 1989*. It is the general experience across the local government industry that there can be significant change and volatility in the waste management area, which is not expected to moderate in the future. Not all of these elements are within Council's control or influence, of which the significant increases in the EPA landfill levy in recent years that was discussed in the consultation paper in an example.
- » The consultation paper canvasses the most appropriate form of a cap, and whether the cap should apply to total applicable revenue or to average (applicable) rates and charges per assessment.

At the current time, it appears that most Councils would apply their proposed annual general rates increase to the previous years "rate in the \$", although this becomes more complex for Councils with multiples differential rates, whereas Casey has a single uniform rate.

It is acknowledged that the General Revaluation every 2 years could be seen to impact on the transparency of this measure. However, it is a straight forward mathematical relationship, based on the movement in "closing" and "opening" CIV at each General Revaluation, to track how the "rate in the \$" moves after a General Revaluation. Utilising a "rate in the \$" methodology would allow changes to rates and charges from supplementary rates to occur as they currently do (which is generally linked to growth or development that expands service need and demand, as well as the rate base). A methodology of this type would avoid the need for a variation submission under the final form of the rate capping framework for routine supplementary rates, which would otherwise be resource intensive for the Council and the body responsible for assessing any variation submissions prepared (for supplementary rates only).

- » Another concept for defining the form of the cap that could be considered during the development of the framework would be a "per capita" cap. Councils are ultimately providing services to and for people within their communities, so it would appear reasonable that changes to applicable rates and charges could be linked to changes in the number of people within the municipality.
- » Within the consultation paper there is discussion about how Growth might be considered within the framework.

Council is clearly interested in this issue noting that Casey is in a growth phase, and will be for at least the next 20 years as Casey's population grows progressively within the State Government determined Urban Growth Boundary from just over 280,000 residents currently to an estimated future population of 459,000 by 2036.

Earlier in its submission, Council has put forward a suggestion on how supplementary rates (which generally come from "growth" within Casey) could be considered within the framework, which is consistent with current practice.

However, over and above supplementary rates, there can be other cost imposts on Councils from growth with a municipality that can put significant pressure on both operating and capital expenditure budgets. This is particularly so where up-front infrastructure is required that may be a traditional Council responsibility or is not fully or adequately allowed for in Development Plans for new suburbs and estates. Council supports the proposal in Principle 1 that “the framework should take into account distinguishing features such as population growth”

- » It is noted in Principle 4 within the consultation paper that guidelines and fact sheets on the key requirements of the framework will be prepared and published. Council considers that the timely preparation and promulgation of these materials will be critical to the successful and transparent implementation of the new rates capping framework across the industry.
- » In addition to the criteria for a variation under the framework that are already explored in the consultation paper, another concept that will also impact Councils during the initial transition to the new framework would be existing commitments that Councils have already made or entered into, prior to the concept of rate capping being announced.

Examples of this for various Council would include, but are not limited to:

- long term service contracts with indexation above CPI;
 - existing Enterprise Bargaining Agreements;
 - large infrastructure programs (including backlog remediation or new assets) which will have ongoing maintenance, renewal and operating costs in the future; and
 - loan repayments for the 2012 Defined Benefit Superannuation liability.
- » Within the consultation paper, there is a question in relation to whether the Commission’s assessment of rates variation submissions under the framework should be advisory or determinative. Without seeing the full details of the proposed framework and system here, it is difficult to provide a definitive answer on this question.

However, on balance, and to respect the autonomy of Councils decision making powers about its budgets on behalf of the community, Council considers that the assessment here should be advisory, rather than determinative.

If this advisory approach was adopted in the framework, a requirement could be included, that Councils would need to disclose the Commission’s assessment of any variations submissions made by the Council as part of the draft Budget that was put on display for review by the community.

If the final form of the framework had the assessment of any budget variation submissions by the Commission being determinative, which is not Council’s preferred option, then it would be important that there was an independent appeal process defined within the framework that Council’s could utilise if they strongly disagreed with the Commission’s determination and/or reasoning.

- » Another question raised in the consultation paper is “*how should the costs of administering an ongoing framework be recovered*”. Noting that the development of the proposed rates capping framework was an election policy commitment of the incoming State Government, which was silent on this issue, it would be Council’s strong view that any costs of administering the final form of the framework should be recovered from the State Government, either as a direct appropriation to the Commission in the State Budget, or through a funding transfer from Local Government Victoria.

It would seem perverse that Councils would be expected to incur an additional and ongoing cost, imposed by the State Government, as part of a State Government introduced framework to lower Council rates. If an outcome of this nature eventuated, with the ongoing costs being recovered from the Local Government industry, this would be

a further example of State Government cost shifting.


In addition, depending on the recovery mechanism utilised, an extra cost might occur for a Council, even if the Council set its rates within the announced cap and did not make a “variation” submission.

- » There were some final matters raised in the consultation paper related to transition and the timing and process to be incorporated in the framework. Council notes that it would need a better understanding and visibility of the proposed framework to provide its full input on these matters. However, Council has identified the following matters that it believes should be considered, or that the Commission should be cognisant of, when preparing the framework:
 - There is discussion about transition being necessary to move to the new framework. Noting that the options paper to the Government is required to be prepared by the Commission before the end of October 2015, and there is no timeline announced for the Government to consider and adopt the final form of the framework, it may not be possible for all aspects of the framework (depending what they are), particularly in relation to the foreshadowed requirements around community engagement and investigation of all non-rates solutions to be fully undertaken for the 2016/17 budget cycle.
 - In relation to the timing of Council planning and budget processes, it should be noted that most Councils begin their Capital Works planning 8 to 9 months prior to the start of the next financial year.
 - There is the potential with the development and introduction of the framework to create unintended consequences and inconsistencies between the requirements of the proposed rate capping framework and the requirements of the Local Government Act and supporting Regulations. This is particularly possible in relation to the development and review of the Council Plan and Strategic Resource Plan. This aspect will need to be managed carefully with Local Government Victoria, and care taken to ensure that the approach taken to review and update the relevant legislation to introduce the framework considers and updates all applicable sections of the Act and Regulations in a cohesive and comprehensive manner.
 - In relation to timing of introduction, it may be optimal to consider the full introduction of the new framework in the 2017/18 financial year. This would allow Councils to develop their 2017/18 budgets and Strategic Resource Plans based on the new Council Plans that will be developed by the newly elected Councils for the new Council terms beginning from late 2016.
 - The Council Plans prepared in this cycle would have the added benefit of being prepared with the requirements of the rates capping framework being fully finalised and announced, and should enable better quality variation submissions (if required) that will be able to be more efficiently and effectively assessed by the Commission. This timing would also enable thorough community engagement to be undertaken, in line with the guidance established in the framework, to inform the development of the new Council Plan for this period.
 - In relation to the format and period covered by variation submissions, flexibility should be allowed in the framework for either single year or multi-year submissions to be prepared and submitted by Councils for consideration and review by the Commission. The basis for the future year cap could be estimated, based on the expected future outcomes of the “index” that is determined during the development of the framework.

Council appreciates the opportunity that has been provided to review and prepare a submission on the Consultation Paper.

If the Commission has any enquiries in relation to Council's submission, please contact Council's Chief Financial Officer on 9705 5473.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mick Morland', written in a cursive style.

Cr Mick Morland

Mayor