Hindmarsh
Shire Council

Administration Centre

PO Box 250
92 Nelson Street
NHILL VIC 3418
Ph: (03) 5391 4444
Fax: (03) 5391 1376

email:
info@hindmarsh.vic.gov.au

website:
www.hindmarsh.vic.gov.au

ABN 26 550 541 746

Customer Service Centres

Jeparit
10 Roy Street
JEPARIT VIC 3423
Ph: (03) 5391 4450
Fax: (03) 5397 2263

Dimboola
101 Lloyd Street
DIMBOOLA VIC 3414
Ph: (03) 5391 4452
Fax: (03) 5389 1734

Rainbow
15 Federal Street
RAINBOW VIC 3424
Ph: (03) 5391 4451
Fax: (03) 5395 1436

4 May 2015

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

Dear Sir/Madam

Submission to the Local Government Rate Capping & Variation Framework Consultation Paper

Hindmarsh Shire Council (HSC) has considered the Consultation Paper prepared by the commission and is pleased to submit a response to the questions raised.

As an overall general comment HSC has 5 key points that it wishes to highlight:

1. CPI is not be the most appropriate index to use.

2. Defining the exact way in which the base is calculated is important to ensure that there is no ambiguity in what this should or should not be.

3. 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 ie Environmental Protection Agency fees for landfills, Audit costs re new Performance Reporting Requirements etc. These costs must be contained.

4. Funding for Infrastructure Renewal is a problem for all levels of Government. Recent loss of Country Roads and Bridges funding has removed 20% of HSC’s roads funding. The cessation of indexing on the Federal Governments Financial Assistance Grants has meant, in real terms, 25% of our revenue is reducing by approximately 5% per annum.

5. Rate increases have been utilised by HSC to address the renewal “gap” as well as deliver key goals in our Council Plan, prepared in close consultation with our rate payers. These goals have included strategic economic development programs aimed at building our economy, population and opportunity, as well as town amenity works aimed at improving the liveability of our towns. These programs have been extremely successful but are now at risk due to rate capping, the loss of Country Roads & Bridges and cessation of indexing on Financial Assistance Grants.

Responses to questions raised are as follows:

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?

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 years 2, 3 and 4 as in line with the four year strategic resource plan established by Councils as part of their budgeting process. Also, Councils should be able to make one submission to the ESC requesting a rate rise above this cap.

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

The cap should be based on historical movements of the cost index as this can be fairly established.

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

A single cap should not apply equally to all Councils. Small rural Councils carry a financial burden significantly higher than the larger metro and regional Councils. By way of example, HSC has 3,200 kms of roads to maintain, from a population base of 5,798. This population is spread over 7,000 square kms requiring considerable duplication of infrastructure. Importantly, HSC does not enjoy the multiple revenue streams larger Councils have, such as parking meters, natural rates growth through population increase etc. Rates make up 40% of HSC's revenue.

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 and government policy in relation to demands for recycling and greater requirements in relation to disposal of waste.

Unlike general rates, the municipal charge, service rates or charges and special rates or charges are levied to recover actual cost, see Sect. 159 following of the Local Government Act. Caps, checks and balances are already in place for these charges, see Sect 159 (the municipal charge is tied to the recovery of "some administrative costs" and "must not exceed 20 per cent of the sum total of the Council's total revenue from a municipal charge; and total revenue from general rates"), Sect 162 tying the charges to specific services, and finally Sect 163, 163B and Sect 165 specifying that special charges may "defray expenses", stipulating that only two thirds of the actual costs may be recovered and legislating the requirement to refund any funds exceeding these costs.

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 and provide a means of funding additional services and are required as the rateable properties increase. In addition, the application of a rates cap covering supplementary rates would be near impossible in a "rates cap for total rates revenue" scenario. Including supplementary rates in the rates cap would mean that at least once in a financial year, all rates would need to be reviewed and new assessments issued. If a Council were to set differential rates, the added value of the supplementary property assessments would mean that rates in the dollar would change retrospectively and be declared anew. Refunds as well as additional charges would likely result for most properties. The administrative burden of resolving these is frankly beyond imagination.

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 re-valuation of properties every 2 years?

We cannot envisage any challenges in relation to revaluations provided the rates cap does not cover supplementary valuations. 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 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 budget. So this may need to be a forecast figure at a specific point in time early on in a council's budget cycle, 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 and demonstrating the purpose to which will be put in the long term and supported by the four year strategic resource plan which outlines the future year rate increases proposed. We reiterate that small rural Councils such as HSC do not have spare capacity that would allow the preparation of a substantial submission.

ESC should prepare and provide a template submission for use by the sector in order to reduce duplication of effort and bureaucracy. Consideration should needs to be given to an exemption that is based on a 4 year SRP not an annual budget process.

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

Small Rural Councils require rate rises above CPI to meet asset renewal demands and to continue investing in the future of our communities via economic development programs including the development of Tourism, town amenity improvement projects and community development programs.

In the outline of the ESC's approach, Principle 4, the ESC explains that the "case for any above cap increases should be justified on the grounds of: - more or improved services that the community wants and for which it is willing to pay and/or – the closing of any critical infrastructure gap."
This justification fails to consider that for many, in particular rural councils, rates increases are not about new or improved services but about *maintenance of service*. Our capacity to raise revenue is essentially restricted to rates and grants. With the latter declining (see above), an inability to raise significant funds from other sources due to our small population base, and our service delivery costs increasing every year, simply to maintain the services we provide our community we need to increase our rates revenue.
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?

Changes in funding levels from State Government and general decreases in other sources of income should also be considered.

Closing of critical infrastructure gaps should also be included as stated in your Principle No.4. Some small Councils with declining population bases have increasing costs associated with diminishing economies of scale and this may also need to be a consideration.

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:

- *the Council has effectively engaged with its community*
- *there is a legitimate case for 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*

- *the Council has made continuous efforts to keep costs down.*

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

Submissions should consider:

- The Council has a robust 10 year Long Term Financial Plan and 4 year Strategic Resourcing Plan in place;
- The Council has a clear plan to bring rating increases back in line with appropriate levels within a reasonable timeframe;
- The 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: The 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 emergency or other disaster;
  - Legacy asset management concerns;
  - Shifts in global money markets affecting superannuation calls or other linked investments.
  - Declining populations and economics.
  - Size of road length
- Or, where rate increases are in direct relationship to increased service provision (e.g. the introduction of a new Green Waste Service) the 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?

Nil response

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?

Nil response

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 Sect 223 consultation processes to take place. So approval of variations will be needed by say the end of January, leaving February to April for budget preparation and adjustments, May for Consultation, June to listen to ratepayer submissions before approval by 30 June. Submission may not occur until January so it will be critical to have a quick turnaround in the process or the 30 June budget date will need to be moved which is a retrograde step.

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?

Phasing of the rate capping is required given Council has committed to funding projects under its 4 year Strategic Resource Plan.

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 administrating an ongoing framework be recovered?

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

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.

Principle 1 - should also reference population decline.
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 by CPI and not increase any of their charges by more than CPI.

For more information, contact Tony Doyle, Chief Executive Officer, on (03) 5391 4401 or tdoyle@hindmarsh.vic.gov.au.

Yours sincerely,

Tony Doyle
Chief Executive Officer

Ronald E Lowe

Cr Ron Lowe
Mayor