

10 May 2015

Mr Ron Ben-David
Local Government Rates Capping and
Variation Framework Review
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Dear Mr Ben-David,

Thank you for the opportunity for Council to provide a submission with regard to the matters raised in the *Local Government – Rates Capping & Variation Framework Consultation Paper*. This submission is provided subject to Council endorsement at its Ordinary Council Meeting being held on 26 May 2015.

We will advise you Council's position after the Council meeting.

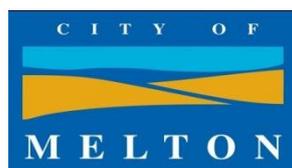
We welcome any opportunity to represent Melton in discussing the framework.

If you have any queries regarding the issues raised above please contact Peter Bean, GM Corporate Services on 9747 7234

Yours sincerely



Kelvin Tori
CHIEF EXECUTIVE



**SUBMISSION TO THE ESSENTIAL
SERVICES COMMISSION
ON
LOCAL GOVERNMENT-
RATE CAPPING & VARIATION
FRAMEWORK**

About Melton

The City of Melton is 530 sq km in area and has an estimated resident population of approx 130,000 with 1,000km of road network.

The City is in the Western growth corridor and has been one of the fastest growing Councils for over 15 years. Council have six approved *Precinct Structure Plans (PSP)* and another seven are in various stages of development.

The City has a diverse population and is a vibrant municipality experiencing significant population growth and residential development. These changes create opportunities for social and economic development in the municipality. However, they also create a number of complex challenges for council and local residents in areas such as access to community services and facilities, and opportunities for employment and education.

Council supports the emphasis in the Consultation Paper on the importance of promoting accountability and transparency. This is a fundamental aspect to Council's good governance practice and is consistent with the Local Government Charter as set out in the *Local Government Act 1989*. The Charter provides the objectives, role and functions for Councils and includes that Council must have regard to using resources efficiently and effectively, that services be provided in accordance with the Best Value principles to meet the needs of the local community and to ensure the equitable imposition of rates and charges.

Impacts of Rate Capping on Melton

Melton Council faces the significant challenge of meeting asset renewal requirement while providing the infrastructure required to service and stimulate the new community. Melton's population is divided between older townships and newly developed suburbs like Caroline Springs, Taylors Hills, Eynesbury and Atherstone.

In the recently published VAGO report on Local Government results 2013-14 audits, Melton is categorised as the only Council, within its group, with "medium risk" longer term sustainability concerns.

The risks facing Melton Council with the imposition of rate capping include;

- Potential underlying operating deficits;
- Limited ability to adopt new initiatives/projects;
- Increase in infrastructure renewal gap- with an annual average of \$50m infrastructure assets contributed to council by developers, which increases council's annual depreciation charge by at least \$1m. This results in an increased renewal & maintenance gap. Capacity to reduce the "Gap" will be diminished with the application of cap.
- With developer contributions not matching the funds required to build much needed new infrastructure in the new communities, council will be restricted in raising the required funds to meet these infrastructure obligations;
- Possibility of leaving Council no option other than increasing debt exposure which may restrict the amount of cash available for service delivery in subsequent years.

This submission has also been prepared keeping in mind that Council:

- is *'to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effect of decisions'*.¹

¹ Section 3(C) Local Government Act 1989

- *is elected to provide leadership for the good governance of the municipal district and the local community.*²

Council's specific comments about the issues raised in the Consultation Paper are below under the same headings that the Commission is seeking feedback about (section 5 of the Consultation Paper) to inform the development of the Framework.

THE FORM OF THE CAP

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

A cap based on CPI is not supported by Council as it has little relevance to the costs incurred by the local government industry.

The CPI measures the price movement of a basket of household items, and majority of these items are not used by local government in delivering its services to the community..

ABS has also noted that “A consumer price index measures the change in prices paid by households for goods and services to consume. All expenditures by businesses, and expenditures by households for investment purposes, are out of scope of a consumer price index.”

Therefore, Council does not consider Consumer Price Index (CPI) –All Groups index as an acceptable basis for setting the Cap. Instead we propose a **Local Government Index** to determine the “Rate cap” level that includes, recognising the impact of;

- Local government EBAs,
- Cost shifting from other levels of Government,
- CPI data affecting local governments,
- Effect of freezing of indexation to Grants Commission Funding,
- The movement on labour and construction costs.

What are some ways to refine the cap in line with the Government objectives

As stated above, an industry based cost index would be more relevant for rate capping rather than CPI.

This index should take into account cost movement of products and services commonly used by the local government industry

Single year or multi-year cap?

Council require more certainty in preparing the 4 year Strategic Resource Plan (SRP), and therefore propose to have indicator cap rates provided for at least current year plus 3 future years. This will enable councils to plan for major capital expenditures and service delivery obligations over the life of its current SRP.

Council recommends cap is set on a 4 year rolling period with firm cap for the first year and indicative cap, based on trend, for the next three years.

Should the cap be based on historical movement or forecast of CPI?

² Section 3(D) Local Government Act 1989

As stated above, Council does not recommend CPI as the basis for Cap. That said, any cap introduced should be based on the preceeding periods data, and the indicative cap for the “out” 3 years should be based on Treasury forecast.

Council recommends the cap be based on an index relevant to the industry and be available to Councils at the start of November to align with Council budget preparation. Having the cap rate advised early will assist councils to plan their income stream and consider the required rate levels and apply for variations if appropriate.

Should a single cap apply equally to all councils?

Ideally the rating cap should treat all councils equitably. However, the needs of individual councils vary significantly depending on their location, growth, size and road networks.

Council recommends that different a cap should apply to different council groupings. Growth councils with large requirement on infrastructure spending should have a higher cap compared to metro (established) councils. Similarly large rural councils with responsibility of maintaining larger networks of roads need to have different cap taking into consideration their specific requirements. This will reduce the number of applications to be presented by councils seeking to increase rates above the cap.

Melton Council with 6 approved Precinct Structure Plans (PSP) and others in development stage is already concerned about the shortfall in funding in completing the infrastructure requirements- Melton is expected to have a funding shortfall between the cost of providing infrastructure in PSP areas and the developer contribution as shown in the table below.

Development (PSP) area	Expected cost of Infrastructure (in \$millions)	Developer Contribution expected (in \$millions)	Shortfall in funding- Council need to contribute (in \$millions)
Diggers Rest	\$70.3	\$63.7	\$6.6
Melton North	\$33.0	\$17.8	\$15.2
Rockbank North	\$147.1	\$128.2	\$18.9
Taylors Hill West	\$47.5	\$39.4	\$8.1
Toolern	\$279.2	\$271.3	\$7.9
Total	\$577.2	\$520.4	\$56.8

THE BASE TO WHICH THE CAP APPLIES

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

Melton, like many other councils, impose a municipal charge in addition to ad valorem rates. The waste management charges are raised by Council to recover the expenses incurred in kerbside collection and disposal of waste.

Waste management charges:

Applying a cap to waste management charges will restrict Councils from recovering the full extent of increases that relate to this service

Special rates & charges:

Special rates & charges are purely based on benefit to a defined group of residents and the Special rate or charge is designed to recover the cost involved in providing these specific benefits. Therefore any rate cap would not be appropriate

Rate & Charges	Included in the cap	Comment
Rates (section 158 of the Local Government Act 1989)	Yes	
Municipal Charge (section 159 of the Act)	Yes	
Waste Management Charges (section 162)	No	User pay principle
Special Rates & charges (section 163)	No	Affects only a small group- special benefit principle
Fire Services Levy	No	State Levy- out of scope

Council recommends that the cap should only apply to annual rates and municipal charges, and not to waste management charges or special rates and charges.

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

Applying cap to total revenue would disadvantage councils that are experiencing high growth. Melton has been one of the fastest growing councils for past 15 years and raise over \$1 million dollars each year in supplementary rates. This revenue is raised during the year progressively and reflects additional properties created during the year through subdivision, and construction of dwellings (CIV) that represents increased capacity to pay within the community.

Applying cap to *average* rates & charges/assessment will create more confusion among residents.

We believe the cap should apply to the total potential rates and charges calculated based on the rateable value at the end of the preceding financial year (which will include the growth in value during the year).

Council recommends the cap should apply to the “calculated value” of rates that would have been raised if the rate in the preceding year was applied to the valuation at the end of the preceding year.

How should we treat supplementary rates? How do they vary from council to council?

As stated previously Melton is one of the growth councils and raises a significant amount in supplementary rates and charges.

Council recommends, that supplementary rates raised in any year be excluded from the cap applying to that year, and the cap only apply to the valuation of the municipality as at 1 July

What are the challenges arising from the re-valuation of properties every 2 years?

Councils spend a lot of time, during re-valuation year, to explain the reason for valuation movement and rate movement. Residents and the press are not familiar with the connectivity between valuation and rates, and the process of calculating the rate in the \$ to apply in any given year is not generally understood.

Introducing the cap in a revaluation year will further complicate this issue in terms of community understating. The fact of a “cap” will be lost in the variations that result from valuation movements in various sectors within the municipal district..

WHAT SHOULD THE BASE YEAR BE? THE VARIATION PROCESS

Council considers that the base year should be the year prior to the capping applying. If the capping first applies to 2016/17, then the base year be 2015/16. The actual rate & charges income raised in 2015/16 should include the rates raised at the start of the year and the full year impact of supplementary rates raised during that year.

How should the variation process work?

Council believe that the variation process should be simple to undertake, and timely so that unnecessary delays to the budget process dot not arise.

A variation should be able to be requested in a single application for up to 4 years based on a Council's SRP. This will eliminate the need to apply for a variation each year. This will gives councils certainty in preparing their future strategy.

Minor variations to the cap should not demand a major business case. Applications should be able to be submitted on a standard template.

The proposed cap should be available for councils early so that application for variation and approval process can be finalised on time for budget process.

Council recommends a clear timeline and decision making framework for applying and approval of cap variation. We further **recommend** that application for variation could be made on a up to 4 year cycle.

Under what circumstances should councils be able to seek a variation?

There will be variety of reasons that can trigger a variation request and may include;

- Circumstances outside council's control- freeze/ reduction in Govt funding, cost shifting by other levels of government, funding conditions for major infrastructure project,
- Implications of policy changes by State/Federal government etc;
- Natural disasters,
- Urgent, prioritised infrastructure,
- Major items of infrastructure
- Funding the maintenance/ renewal gap,
- Legitimate Policy shifts by Council responding to demonstrated Community demand

Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, 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?

We believe that there should be some guidance provided in the framework about the circumstances when a variation can be applied for. However there may other circumstances that may arise from time to time and councils should be allowed to seek variations. This may include.

- A loss of major income source to council- closing of major business (car manufacturing plant) which may have contributed significant portion of rate/ lease.
- Change in Municipal Boundaries
- Legitimate Policy shifts by Council responding to demonstrated Community demand
- Expenses to be incurred to avoid major disasters- identified from risk assessment process

What should councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation?

Councils seeking variation need to provide sufficient (minimum) information to justify their application. However the framework should give the clear guidance as to what supporting information is sought before consideration will be given for a variation.

Supporting information may include, long term financial plan, a business case for a major infrastructure, past history of council's rate increases supporting the justification for a variation.

COMMUNITY ENGAGEMENT

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

The Melton community is diverse and Council's commitment is to govern in the best interest of the community. Ratepayers are an important group within this community. Council considers that the engagement process must provide data and information about the development of its budget and therefore it's rating strategy.

The engagement starts with the City's Council Planning process which includes the adoption of the four year Council Plan, the Annual Plan, and a series of Council policies, plans and strategies which extend across Council businesses. Community engagement is integral to the development of these documents. In addition Council's service reviews and annual community satisfaction survey provides community feedback to inform the delivery of Council business. These existing forms of community engagement provide Council with advice about community priorities which then inform the budget process.

Council also conduct community engagement sessions at the start of the budget process to seek their input in the budget process.

It is suggested that community engagement plans which specifically relate to the budget process be submitted as part of the application for a rate variation by Councils to demonstrate community priorities, community involvement in the process and demonstrate

the influence that this has on the Council decisions with regard to the budget and the application for the variation. This engagement methodology must not be prescribed but be flexible to enable Councils to use their own existing methods and structures for community engagement to suit their communities.

Note: Council is currently in advanced stages of developing a “Community Engagement Framework:”

INCENTIVES

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?

Councils are already incentivised to provide Best Value to their communities.

TIMING & PROCESS

A rates capping and variation process should ensure there is enough time for councils to consult with their ratepayers and for ratepayers provide feedback and to review councils’ applications. Interested in stakeholders’ view on how this can be achieved.

Council agrees that it is particularly important that the Framework aligns with Councils’ budget process.

Council commences its budget process seven months prior to the 30 June. Any changes that will impact on Councils adopted rating strategies need to be introduced 12 months prior to implementation. Melton’s budget timeframe is as follows:

Process	Timing
Preparation of operational & capital works budget	Dec- Feb
Community engagement sessions	February
Councillor Briefings	February /March
Draft budget to Council	April
Proposed budget available for public comments	April / May
S.223 submissions closed - (28 Clear Days)	May
Meeting to consider submissions to Budget	June

TRANSITIONAL ARRANGEMENTS

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

Council agrees that there is merit in phasing in the implementation over a two year period; however, this must not be used as an opportunity to confine a rate increase to only CPI in 2016/17 and not to preclude the opportunity of a variation.

ROLES

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

Council considers that the Commission's assessment of rate variations should be an advisory one with the Minister making the final decision on the variation. This advice to the Minister should be made public.

OTHER MATTERS

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

Council agrees that there should be a review of the framework to assess its effectiveness. Three years seems reasonable. Council also suggests that such a review period should not be a one off event but continue at routine intervals into the future to enable the sector to raise issues of concern especially as the effect of the rate capping and framework becomes evident.

How should the costs of administering an ongoing framework be recovered?

The costs of administering the framework must be borne by the State Government, as the State is initiating the requirement.

The eight principles which the Commission has proposed to guide the review are noted. Council considers that the sector must continue to be involved in the development of guidelines, fact sheets and other material which will form part of the Framework as flagged in the explanation of the principles.