

DW:JC: LIAS33

28 August 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

By email: localgovernment@esc.vic.gov.au

Dear Dr Ben-David

**A BLUEPRINT FOR CHANGE LOCAL GOVERNMENT RATES CAPPING AND VARIATION
FRAMEWORK REVIEW – DRAFT REPORT**

Thank you for your invitation to comment on the *Local Government Rates Capping & Variation Framework Review Draft Report*.

I would firstly like to acknowledge the work the ESC has done in preparing the report and the conduct of the consultative process to reach this point. I am pleased that many of the recommendations that the City of Monash (Monash) put forward in our submission in July, have been acknowledged and accepted in the draft report.

We would also like to comment on a number of matters that we believe the Minister could also consider and accept, if recommended by the ESC, as part of the final report. Specifically, Monash recommends in this submission, that the ESC reconsiders the following factors when making its report to the Minister:

- **The efficiency factor**

We believe the efficiency factor should not be included in the rate capping mechanism. Local Government is already subject to enforced productivity gains via limits on grant revenues from other levels of government. Most service delivery grants are increased by only CPI (plus a growth factor for any additional services); councils must therefore bear the increase in the real cost, over and above the CPI. Also, the Federal Government's

freeze on the Victorian Grants Commission (VGC) funding will have a long lasting effect on councils as it has eroded the grant base going forward.

Furthermore, rate capping by its very nature and application, is a form of forced productivity improvement. We therefore assert that the imposition of an additional efficiency factor is unwarranted.

- **Treatment of waste charges**

Monash does not levy Local Government Act Section 162 service charges for waste or any other cost recovery. We also understand that there are five other Victorian councils that do not levy separate Section 162 Service charges for waste cost recovery.

We appreciate that the recovery of waste costs via a service charge is common across the industry however, we believe it would be seen as a regressive step to be forced to introduce these types of charges on ratepayers.

We expect that the rate cap mechanism (with respect to those six councils) will be engineered to treat all councils on an equal basis. We therefore request that we be given the opportunity to isolate waste costs from the rate capping mechanism, without being forced to introduce S162 charges, which will effectively shift the rate burden to lower valued properties.

- **Timing of the rate cap announcement**

Whilst we acknowledge that the linking of the rate capping index to the DTF CPI & WPI indices has some merit, we suggest that councils should be advised of the rate cap much earlier than December each year, which for many councils is well into the budget setting process. Perhaps consideration could be given to using the May Budget forecast for the subsequent fiscal year as the approved and final cap.

- **Timing of variation confirmation**

According to the draft report, councils will not be advised of the success of an application for variation of a cap until May. In the same month councils will be undertaking a public submission process in relation to their proposed budgets, in accordance with the Local Government Act 1989. This means that councils may well have to consult with their community on a budget that is subject to change, depending on the outcomes of the variation application. We do not believe this level of uncertainty is reasonable for our community and suggest that councils should be advised no later than March of the outcomes of their variation application.

- **Recognition of the need to maintain infrastructure renewal expenditure over the longer-term**

The draft report, although referencing councils' infrastructure renewal responsibilities and the shortfall in funding, does not provide for the long-term nature of these expenses in the capping mechanism or variation framework. An initial capping mechanism that only allows for a one, two-year, three-year and a maximum of four-year caps will likely force all councils to seek variations (related to long-term renewal expenditure) on a regular basis (e.g. all 79 councils lodging a variation request on 4 yearly cycle). This is not ideal and likely an on-going costly exercise. We recommend that rate cap variations should be allowed for longer terms, where appropriate.

- **Clarity around the treatment of supplementary rate income**

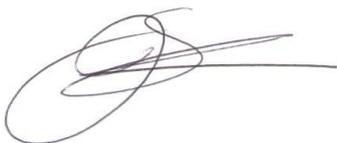
We are seeking clarity around the recognition of rate growth income & the rate growth allowed in the cap. We think the draft report is unclear on whether the rate supplementary growth is included in the base year (2015/16 being the base for cap application to 2016/17 year).

We are also unclear as to what "actual" data for the current year is required by the ESC in January of each year; is this actuals year-to-date, or actual YTD plus forecast projections to the end of the year?

We trust that you will give due consideration to the matters raised above. As stated in our submission in July, we also hope that the rate capping and variation framework will ensure that councils continue to have the ability to manage their finances, deliver a wide range of quality services and still have the ability to introduce new and exciting initiatives for local communities.

Should you have any queries in relation to this submission please do not hesitate to contact me or our Director Corporate Services, Jack Crawford (9518 3508).

Yours sincerely



JULIE SALOMON
Acting Chief Executive Officer