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27 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

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Dear Dr Ben-David

Thank you for the opportunity to make a submission in relation to the "A Blueprint for Change: Local Government Rates Capping & Variation Framework Review".

The concern of our Council is that we have been told many times by Ministers and bureaucrats that rate capping 'is not about councils like Towong' rather it is about a small number of metropolitan councils. Unfortunately there is nothing in the cap formula or the variation process that provides concessions to 'councils like Towong'. It is simply a one size fits all approach and the councils that it is 'not meant to be about' are affected most.

Please be assured that our Council supports the principle of keeping rate increases to a minimum. We do not believe our rate payers should be subjected to ongoing high rate increases. However we also believe that it is incumbent upon us to ensure our rural communities have access to a range of community services and suitable standards of infrastructure. Without additional external funding, be it State, Federal or own-source income, we are extremely limited in terms of the income we have access to and accordingly the services and infrastructure we can provide for our communities

### **1. Monitoring**

Our submission begins with the third element of the proposed framework "Monitoring".

We believe it is vitally important that the impact of the rate capping regime is monitored. It is important that the State has a clear understanding of the impact of its policy, particularly where it is to the detriment of communities and/or council sustainability.

We question whether the ESC or Local Government Victoria (LGV) should perform this monitoring role. We argue that LGV is best placed and should be given this responsibility.

For a lean, efficient Council like Towong, that does not have 'fat' to cut nor external own-source income, there are a couple of scenarios possible to meet the State's requirement to keep rate increases at or below the cap:

1. Reduce services and infrastructure delivery and maintenance; and/or
2. Allow Council's underlying financial result to deteriorate.

Whilst both outcomes are undesirable, if the State wishes for councils to contain rate increases we question what other options are available to an already lean, efficient council?

It is for this reason we welcome the 'monitoring' element of the framework. We strongly believe this element should be at the forefront of the framework and small rural councils like Towong should be 'fast tracked' in this regard.

LGV is already aware of the councils that are impacted by external factors outside of council control. LGV knows which councils, despite their best efforts, are 'doing it tough' and need increases above the cap just to continue the delivery of 'day-to-day' services and infrastructure.

We urge the ESC to recommend to the Minister that the position of rural councils be reviewed as a matter of urgency and arrangements be put in place by the State to support these councils.

Our council believes its ratepayers should not be subjected to rate increases above CPI however to enable us to contain increases to within the cap, whilst still providing a reasonable level of service to our communities, additional funding needs to be provided by the State or other external sources.

At Towong we have a mature, robust long term financial plan where we can see at the press of a button what impact a change will have on our financial position and sustainability. We can tell you today what the impact will be on our communities of adhering to a cap:

At Towong, forgoing a 1% Rate and Municipal Charge increase in year one results in a loss of revenue of \$63,000 which amounts to lost revenue of \$814,000 over a ten year period.

If we were to forgo a 1% Rate and Municipal Charge increase each year for a ten year period this would result in lost revenue of \$4.78 million over the ten year period.

In contrast, the impact on the 'average' Towong ratepayer of a 1% Rate and Municipal Charge increase is as follows:

Residential: CIV \$148,000, 1% increase = \$8.46 per annum **(\$0.16/week)**

Rural: CIV \$380,000, 1% increase = \$16.18 per annum **(\$0.31/week)**

If the ESC (or LGV) intend on undertaking a monitoring role the logical starting point is 'at risk' Councils like Towong. We believe it would be easy enough for LGV or the ESC to look at the small rural councils right now and determine that they need to have increases above the cap. This could be the precursor to a variation request and potentially eliminate the reporting/variation burden that the framework proposes or alternatively it would give the State the evidence required to provide additional financial support to these councils.

Our council is more than willing to be a pilot in this regard.

We note the draft report references the use of debt to offset the impact of rate capping. Our view is simple; you need cash to be able to make debt repayments, cash that invariably comes from rate revenue. Whilst we are not adverse to borrowing to fund capital projects we are ever mindful that interest is an additional cost that places a greater burden on our organisation. Given our small rate base we have historically been very prudent with the use of borrowings.

## 2. Cap

### 2.1 Cap formula

We appreciate the efforts of the ESC in recognising that CPI is not the most appropriate index to govern rate increases and addressing this by including the WPI in the cap formula. However we do not believe this goes far enough.

This is best demonstrated using Towong's 2015/16 budget figures:

Rates and Municipal Charge	\$6,295,000
Wages and related costs	\$5,774,000 (55% of annual expenditure (exc. depreciation))
Total expenditure exc. depreciation	\$10,489,000

Using the indices from the 'Blueprint for Change':

A 3.5% (WPI forecast) increase to Wages and related costs = \$202,090

A 3.05% (Forecast Cap) increase to Rates and Municipal Charge = \$191,998

Leaving a shortfall of \$10,092 (and this is before all the other increases to the costs of our operation are considered!). An impossible position.

Using the average proportion that labour costs represent across the sector (ie. 40%) significantly disadvantages our Council.

We also note the use of the "forecast" rate of increase in the CPI for the year. What if the actual CPI figure exceeds or falls short of the forecast? We believe there needs to be an adjustment factor in the following year to accommodate such fluctuations (be they up or down).

### 2.2 Different caps for rural vs urban

We do not agree with the 'one size fits all' framework.

Whilst we recognise the ESC position that all Councils are unique and different, we believe there is a strong argument for differentiation, based on the external factors outside of the control of rural councils and the inability of many rural councils to generate own-source income. We believe the 38 rural councils at the very least should be recognised as a distinct 'natural' grouping with this group having its own rate capping methodology and variation process.

## 3. Efficiency factor

Much work has been done over the last five years at Towong to make our operations as lean and efficient as possible whilst still meeting the needs of our communities. Many cost saving measures have been introduced and from where we sit there is simply no more 'fat' to cut. We recognise that not all councils are in this position however for Towong the efficiency factor can only be described as an insult.

## **4. Variation process**

### *4.1 Exceptional circumstances*

In relation to variation requests, the recently released Ministerial Statement on Local Government 2015 states under "Action 10: Fair Go Rates System" (page 9) that "Such applications will only be supported in exceptional circumstances". If this is the case the Local Government Rates Capping and Variation Framework needs to spell out what are considered to be 'exceptional' circumstances. This may well save Councils a lot of time and effort in applying for variations that will not be approved.

We suggest that the notion of 'exceptional circumstances' be embodied in the 'fast tracked' monitoring we have suggested earlier and for the councils that qualify there should be an 'as of right' approved increase above the cap or alternatively an 'as of right' allocation of funding from the State to enable the council to contain increases to the level of the cap. We strongly prefer the latter.

### *4.2 Application for a two year variation in year one*

Whilst we understand the view of the ESC that the framework is in its early days and 'things change' we argue that councils should be permitted to apply for a two year variation in year one.

Our argument is based on the fact that we have a clear understanding of our financial position and the constraints we face.

As stated previously, our council has a mature, robust long term financial plan where you can see at the press of a button what impact a change will have on our financial position and sustainability. We have no more 'fat' to cut from our organisation without there being a detrimental effect on the communities we serve and/or our future sustainability. Our circumstances dictate that we will need to apply for a variation for a number of years and accordingly applying for a two year variation in year one is an efficient way of achieving this, both from Council's perspective in terms of resources required to prepare the application, and from the ESC's perspective in terms of assessing a two year application instead of a single year application.

We understand a further argument against a two year variation in year one is the council elections in 2016. The approval of a two year variation does not mean a newly elected council must increase rates in line with the variation (the council could choose a lesser increase) so this would appear to be a moot point.

Further, newly elected councillors will have a very limited time to fully understand Council's Long Term Financial Plan and Budget and the Rate Capping and Variation Framework before applications for a variation must be made. Accordingly this could result in uninformed/uneducated decisions that may have a negative impact on the community.

## **5. Cost of ESC Variation Assessment process**

For Towong a 1% increase to Rate revenue and Municipal Charge revenue yields approximately \$63,000 of additional income.

Clearly a variation review process that places a financial burden on Council is unpalatable. The significant erosion of what would be additional income brings into question the value of seeking a

variation. Simply put, why would a Council like Towong apply for a 1% increase above the cap (\$63,000 additional revenue) when the ESC variation assessment cost is likely to be \$20,000 or more?

Secondly, if the State government was to meet this cost, why would the State wish to incur such an expense when they already know that a Council like Towong cannot survive on CPI capped rate increases? If there was spare money in the State system why not just give it to Towong instead of wasting it on a variation review process that confirms what is already known?

## **6. Messaging**

We encourage the ESC, when making its recommendations to the State, to emphasise the impact of messaging from the State in relation to the framework and the position of councils. There are small, lean, efficient councils who are doing a terrific job with extremely limited resources but still struggle because of external factors outside of their control. Telling our communities that councils are wasteful is not helpful, particularly when the external factors mean we need to seek a rate increase above the cap.

Towong Shire Council does not believe our rate payers should be subjected to ongoing high rate increases. Further, we do not believe our rate payers should have rate increases above the predetermined cap. However, given our circumstances, the reality is that rate increases at or below the cap will only be possible if the State provides support to our council or another source of external income is established.

Thank you for the opportunity to provide this submission. We would be pleased to speak to our submission if the opportunity is available.

Yours sincerely,



**Cr David Wortmann**  
Mayor