

Response to the Draft Report on Local Government Rate Capping and Variation Framework.

Introduction

Bayside City Council is pleased that a number of the key issues raised by Bayside and other parties in the sector have been acknowledged and addressed as part of the proposed framework.

Bayside believes that there are some further refinements that can be made to make the system more efficient and to ensure unintended consequences are avoided. These suggested refinements are included against the relevant draft recommendations in the commentary below:

Response to Specific Recommendations

Draft recommendation 1

The Commission recommends that there should be one rate cap that applies equally to all councils in Victoria.

Bayside Response – Agreed.

Draft recommendation 2

The Commission recommends that:

- revenue from general rates and municipal charges should be subject to the rate cap
- revenue from special rates and charges, 'revenue in lieu of rates' and the fire services levy should not be included in the rate cap and
- service rates and charges should not be included in the rate cap, but be monitored and benchmarked.

Bayside Response – Agreed

In any public announcements relating to the Cap it is important that it is clear that it relates to the general rates and municipal charge only. Confusion arises when the phrase Rates and Charges is used as this can be interpreted as including the waste charge. Consistent language will assist ratepayers to understand how the cap works.

Draft recommendation 3

The Commission recommends that the cap should be applied to the rates and charges paid by the average ratepayer. This is calculated by dividing a council's total revenue required from rates in a given year by the number of rateable properties in that council area at the start of the rate year.

Bayside Response – Agreed

Draft recommendation 4

The Commission recommends that the annual rate cap should be calculated as:

Annual Rate Cap = (0.6 x increase in CPI)

+ (0.4 x increase in WPI)

- (efficiency factor)

With: CPI = DTF's forecast published in December each year

WPI = DTF's forecast published in December each year

The efficiency factor will initially be set at zero in 2016-17 but increasing by 0.05 percentage points each year from 2017-18. The Commission will undertake a detailed productivity analysis of the sector to assess the appropriate long-term rate for the efficiency factor.

Bayside Response

Whilst underlying CPI and the WPI are better measures of the cost movement of Councils than 'headline' CPI, neither of these indices take into account the cost shifting that occurs from other levels of government or the under indexation or freezing of government grants and regulated fees.

The cumulative effect of this cost shifting is considerable and should be factored into the setting of the rate cap.

The proposed efficiency factor, whilst initially small, ignores the substantial efficiencies that will have to be made year on year to live within the cap based on the proposed method of calculation.

The suggested productivity analysis to be undertaken by the Commission will not be able to take into account the current level of efficiency across 79 very different Councils.

Bayside believes that there should be no across the board efficiency factor applied

Draft recommendation 5

The Commission recommends that the 2015-16 rates (general rates and municipal charges) levied on an average property should be adopted as the starting base for 2016-17.

Bayside Response – Agreed.

Draft recommendation 6

The Commission recommends that the framework should not specify individual events that would qualify for a variation. The discretion to apply for a variation should remain with councils.

Bayside Response – Agreed.

Draft recommendation 7

The Commission recommends that the following five matters be addressed in each application for a variation:

- The reason a variation from the cap is required
- The application takes account of ratepayers' and communities' views
- The variation represents good value-for-money and is an efficient response to the budgeting need
- Service priorities and funding options have been considered
- The proposal is integrated into the council's long-term strategy.

Bayside Response

Bayside agrees that these five areas are relevant and should be addressed as part of an application for variation. However, the level of detail required needs to be kept to the minimum level necessary to justify the variation. The volume of material set out in Table 3.2 of the Report is extensive and the cost of collecting some of this data, particularly the community feedback will be substantial.

Bayside is concerned that the variation process will become so onerous that even Councils with a legitimate need for a variation above the cap will struggle to meet the required standard of documentation and will incur substantial costs in attempting to do so.

Draft recommendation 8

The Commission recommends that in 2016-17, variations for only one year be permitted. Thereafter, councils should be permitted to submit and the Commission approve, variations of the length set out below.

Bayside Response

Bayside sees no reason to limit the variation to one year in 2016/17. If a Council can demonstrate the need for multi year approvals it should be considered.

Given the level of justification proposed for an approval most Councils will not have the ability to do it on an annual basis which will mean few if any variations will be sought in the first year. This may suit the Government's interests but is not a reasonable approach that supports sound financial management by Councils.

Draft recommendation 9

The Commission recommends that it should be the decision-maker under the framework, but only be empowered to accept or reject (and not to vary) an application for variation.

Bayside Response

Bayside supports the Essential Services Commission as the decision maker however, it is concerned about the inability of the Commission to vary the application.

If the Commission can only accept or reject, how would it deal with a situation where a variation is sought for multiple reasons, where the Commission accepts the validity of some reasons but not others. Would each reason for variation need to be submitted as a separate variation? There may also be circumstances where the Commission accepts the reasoning for a variation but does not agree on the quantum. An 'all or nothing' approach to the assessment seems needlessly rigid.

MONITORING

Draft recommendation 10

The Commission recommends that it monitor and publish an annual rates report on councils' adherence to the cap and any approved variation conditions.

Bayside Response – Agreed

Draft recommendation 11

The Commission recommends that it monitor and publish an annual monitoring report on the overall outcomes for ratepayers and communities.

Bayside Response – Agreed provided that no further reporting burden is placed on Local Government.

Proposed Timelines

Bayside Response

The proposed timelines set out on Page 36 of the report should be amended to provide for applications for variations to be lodged in February with the notification of decisions by the ESC no later than mid April. This will allow Councils to complete the statutory advertising and submission process prior to the commencement of the financial year.

Matters for Further Consideration

The Commission recommends that the Government consider making a formal review of the rates capping and variation framework a statutory obligation. The review should draw on any data and trends identified through the ongoing monitoring regime and all interested parties should have an opportunity for the sector to provide input to that review.

The Commission considers a review period of 4 years to be appropriate.

Bayside Response – Agreed

The Commission recommends that the Government consider amending the *Local Government Act 1989* to require that service rates and charges must reflect the efficient costs of providing the underlying service.

Bayside Response – Agreed

The Commission recommends that the Government consider initiating a periodic review to ensure that statutory fees continue to reflect councils' efficient cost of providing

Bayside Response

Bayside believes that all statutory fees should be increased annually by at least an amount equivalent to the rate cap. The non or low indexation of these fees shifts the burden of delivering the services linked to those fees to the general ratepayer rather than the service user.

As a minimum, all statutory fees in all legislation and regulations should be quoted in "Fee Units" referring to Monetary Units Act 2004, rather in dollar amounts. For example, Planning Fees and Land Information Certificates.