

28 August 2015

The Hon. Robin Scott
Minister for Finance & Multicultural Affairs
Level 5, 1 Macarthur Street
EAST MELBOURNE VIC. 3002

Dear Minister Scott *Robin*

Maroondah City Council welcomes the opportunity to provide a further submission into the Local Government Rate Capping and Variation Framework given the Commission's recent release of 'A Blueprint for Change Draft Report July 2015'. A copy of the Council meeting report is attached for your information.

In essence, the Council seeks:

- (1). a clear and concise framework supported by a working example of how the cap would be applied;
- (2) removal of the efficiency factor as an unnecessary and unsubstantiated additional constraint on Councils;
- (3) the cost of implementation of the framework should not be borne by local government; and
- (4) clarity around the penalties that would apply for non-compliance.

Should you or your office require further information please contact Director Corporate Services Marianne Di Giallonardo on 9298 4289 or marianne.digiallonardo@maroondah.vic.gov.au.

We look forward to your consideration of our further submission and thank you for the opportunity to comment on the Draft Report.

Your faithfully



Steve Kozlowski
Chief Executive Officer

**LOCAL GOVERNMENT RATE CAPPING AND VARIATION
FRAMEWORK REVIEW**

ITEM 6

PURPOSE

To update Council on the recently released Essential Services Commission (ESC) 'A Blueprint for Change Draft Report Vol I and II'. Full copies of the material is available on their website (www.esc.vic.gov.au/local-government/Local-Government-Rates-Capping-Framework-Review).

STRATEGIC / POLICY ISSUES

The following directions contained in Maroondah 2040: Our Future Together and the Council Plan 2013-2017 (Year 3: 2015-2016) provide the strategic framework that underpins the purpose of this report.

Outcome Area: A well governed and empowered community.

Our Vision: Maroondah will be a vibrant and diverse city with a healthy and active community, living in green leafy neighbourhoods, which are connected to thriving and accessible activity centres contributing to a prosperous economy within a safe, inclusive and sustainable environment.

Key Directions 2013 – 2017: Provide enhanced governance that is transparent, accessible, inclusive and accountable.

BACKGROUND

At Council's May 2015 meeting a report outlining Council's submission to the ESC's April 2015 consultation paper on this matter was adopted by Council. Since that time the ESC has consulted widely with the sector, including:

- Councils through one-on-one meetings and various broader sector forums;
- ratepayer associations and individual ratepayers, including a forum with ratepayer associations;
- peak bodies in the local government sector such as MAV, VLGA, LGPro and FinPro;
- unions, private sector representatives and other peak bodies with an interest in local government; and
- with their colleagues in New South Wales at the Office of Local Government, the Independent Pricing and Regulatory Tribunal, and a few NSW Councils.

The next step in the consultation process is:

- consultation and information sessions during August 2015, including key stakeholder groups such as MAV, VLGA, LGPro, FinPro, Unions, Ratepayers Associations
- close of submission to draft report – 28 August 2015
- final report to the Ministers Local Government and Finance – end September 2015 and

**LOCAL GOVERNMENT RATE CAPPING AND VARIATION
FRAMEWORK REVIEW Cont'd**

ITEM 6

- final report Public Release – October 2015

ISSUE / DISCUSSION

There are three key components to the Draft Framework

i. THE CAP

The maximum annual rate of increase that Councils can apply to their rates revenue.

ii. THE VARIATION

A mechanism for Councils to seek (and have considered) increases in rates revenue above the rate cap.

iii. MONITORING AND PUBLIC REPORTING

A means for verifying and reporting on compliance with the cap or variation conditions and providing accurate and reliable information about overall outcomes for ratepayers and communities under the framework.

The monitoring and reporting also help identify unusual or unexplained outcomes that need to be addressed.

i. The Cap

Specifically the Draft Framework outlines:

- One cap applies equally to all Councils in Victoria
- Revenue from general rates and municipal charges only should be included in the rate cap
- Revenue from special charges e.g. waste charges, 'revenue in lieu of rates' and fire services levy should not be included
- Service rates and charges e.g. waste charges should not be included, but be monitored and benchmarked
- The Cap should be applied to the rates and charges paid by an average ratepayer
- Supplementary rates should be excluded from the cap in the year they occur

It applies CPI annually at 60% of CPI plus 40% of the Wages Price Index based on the State Government's Treasury Forecasts less an efficiency factor.

This is indicatively represented on the following table.

**LOCAL GOVERNMENT RATE CAPPING AND VARIATION
FRAMEWORK REVIEW Cont'd**

ITEM 6

**Indicative Forecasts for the Annual Rate Cap
(as at July 2015) Per Cent**

	2016-17	2017-18	2018-19
Underlying CPI forecast (60 per cent weighting)	2.75	2.5	2.5
<i>Plus</i> WPI forecast (40 per cent weighting)	3.5	3.5	3.5
Less Efficiency factor	0	0.05	0.10
FORECAST ANNUAL RATE CAP	3.05	2.85	2.80

In the Draft Report, however, they do not provide a rationale for the Efficiency Factor or how it is derived. It assumes Councils currently do not undertake efficiency measures and activities as part of their Long Term Financial planning and Annual Budget processes and hence, further information on this assumption would be useful, as would a worked example of the application to the "Average" rate payer.

ii. The Variation Process

The Draft Report outlines that:

- The variation process is the most efficient option for dealing with individual Council circumstances given the vast diversity between Councils.
- There are no pre-set thresholds proposed for Councils seeking a variation as they wish to maintain Council autonomy and for the same reason there are no pre-set thresholds proposed for Commission rejecting a variation.

They recognise Councils already have four broad options when considering budget pressures such as:

- Review options to deliver outcomes more efficiently;
- Ensure that services align with community's highest priorities;
- Examine possibilities/merits of alternative funding or financing options; and
- Increase rates

Maroondah actively undertakes all these options plus more when developing its Long Term Financial Strategy and Annual Budget process. According to the ESC the five matters that must be addressed in each variation application include:

- The Reasons for the rate increase greater than the cap;
- That applications take account of ratepayers' and communities views (Four principles above);

**LOCAL GOVERNMENT RATE CAPPING AND VARIATION
FRAMEWORK REVIEW Cont'd**

ITEM 6

- That the variation represents good value for money and is an efficient response to the budgetary need;
- That service priorities and funding options have been considered; and
- That the proposal is integrated into the Council's long term strategy.

Maroondah already considers these matters in its financial planning considerations. The Draft Report has provided guidance on how Councils are expected to address the above five subject matter areas as follows:

- Does Council require a variation and if so, the proposed form of variation?
- What actions should Council take when they develop a variation application?
- What evidence should Councils provide to support their variation applications?

The Draft Report further identifies ratepayer and community engagement principles as follows:

- Clear, accessible and comprehensive information and timely process;
- Ongoing and tailored to community needs;
- Prioritised to matters of significance and impact; and
- Leading to communities becoming more informed about decision-making.

According to the Commission the ESC should be responsible for assessing and determining the response to all applications and the role of the Commission is only to accept or reject applications. At this point in time the Commission is still determining what these aspects actually mean in practice.

The proposed maximum length of variations are as follows:

First year of variation	Length of permissible variation
2016-17	One year (i.e. 2016-17 only)
2017-18	Up to two years (i.e. 2017-18 only or 2017-18 and 2018-19)
2018-19	Up to three years (i.e. up to 30 June 2021)
2019-20 and beyond	Up to four years (i.e. up to 30 June 2023)

In seeking to keep the variation process simple, the practical application on how it will be administered requires further clarification so the Community, Councils and the ESC are clear on how and when to undertake the process, and hence this further clarification is sought in Maroondah's submission.

**LOCAL GOVERNMENT RATE CAPPING AND VARIATION
FRAMEWORK REVIEW Cont'd**

ITEM 6

iii. Monitoring and Public Reporting

The ESC are proposing to monitor (and report) that:

- Council rates and charges are set in accordance with the rate cap; and
- Where a variation has been approved, Councils rates and charges are set in accordance with the conditions of that approval.

They will also publicly monitor and report on outcomes for Councils' service delivery, asset management and financial performance.

From time to time, the Commission may issue one-off reports into matters pertaining to the operation of the framework.

The ESC will also undertake longer term consideration of the Draft Framework Implementation are seen as a review of the framework in four years to ensure no unintended consequences and that it is delivering on the State Government's intentions, meets sectoral accounts, provide guidance on financing options for local authorities and further assess cost reflectivity in certain rates and charges.

Again the details of what these aspects look like in reality require further clarification.

The application of the rate cap, variation process, and the monitoring and public reporting proposed Implementation Timelines for 2015-17 Rating Year are as follows:

Proposed Timelines for 2016-17 Rating Year	
ESC announces 2016-17 cap	December 2015
All Councils submit baseline date (actuals)	January 2016
Councils notify ESC of intention to seek a variation	January 2016
Council applies for variation, submits baseline data (budget)	March 2016
ESC assesses Council variation applications	March-May 2016
ESC notifies Councils of decision	May 2016
Councils consult on draft budget	May 2016
Councils adopt budget	June 2016

Again, the details regarding what the ESC expect and the form of the information requires further clarification.

**LOCAL GOVERNMENT RATE CAPPING AND VARIATION
FRAMEWORK REVIEW Cont'd**

ITEM 6

The Commission has broadly supported Council's May submission in relation to the Framework. Further clarification on five points is proposed in Maroondah's further submission.

1. Cost of implementation and what funding is available from State Government to undertake aspects of the proposed framework which are currently not undertaken by Councils.
2. Keep it simple – ensure the variation process is easily understood.
3. Clarification of the mechanics in application of the cap to the average rate with the inclusion of a worked example.
4. Efficiency factor argument justification. How and why were the 5% in 17/18 and 10% in 18/19 chosen?
5. Penalties for non-compliance. Are there any penalties and if so, what is proposed?

FINANCIAL / ECONOMIC ISSUES

It is imperative that Council continue to maintain its longstanding prudent financial management of Council's services to meet the needs and expectations of the Maroondah Community. Council has been actively managing the financial resources on behalf of the Community diligently over the years in a way which aligns to the intent of the Draft Report.

ENVIRONMENTAL / AMENITY ISSUES

Resourcing services for the Maroondah Community in line with the Maroondah 2040 consultation and subsequent document to meet ongoing and future environmental and amenity needs and expectations is imperative. The State Government needs to ensure the Rates Capping and Variation Framework provides the opportunity for this to be delivered.

SOCIAL / COMMUNITY ISSUES

Similarly, resourcing services for the Maroondah Community to meet ongoing and future social and community needs and expectations is imperative. The State Government needs to ensure the Rates Capping and Variation Framework provides the opportunity for this to be delivered.

COMMUNITY CONSULTATION

Council is already acutely aware of the Maroondah Community's needs and expectations and is ever vigilant in seeking to realise and deliver on these.

CONCLUSION

It is pleasing to see the Essential Services Commission has supported the majority of matters raised in Council's May 2015 submission. It is prudent that Council restates a number of the key elements such as, keep it simple, provide a working example regarding the application of the Framework to the average ratepayer, provide further background and justification for the efficiency factor, model the cost of implementation and outline possible penalties for those Councils who do not comply.

**LOCAL GOVERNMENT RATE CAPPING AND VARIATION
FRAMEWORK REVIEW Cont'd**

ITEM 6

ATTACHMENTS

Not Applicable

CONFIDENTIALITY

Not Applicable

RECOMMENDATION

THAT COUNCIL PROVIDES A FURTHER SUBMISSION TO THE ESSENTIAL SERVICES COMMISSION THAT RESTATES COUNCIL'S POSITION TO KEEP IT SIMPLE, PROVIDE A WORKING EXAMPLE REGARDING THE APPLICATION OF THE FRAMEWORK TO THE AVERAGE RATEPAYER, PROVIDE FURTHER BACKGROUND AND JUSTIFICATION FOR THE EFFICIENCY FACTOR, MODEL THE COST OF IMPLEMENTATION AND OUTLINE POSSIBLE PENALTIES FOR THOSE COUNCILS WHO DO NOT COMPLY.

