



**CORANGAMITE
SHIRE**

Our Ref: D/15/19139

6 May 2015

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

Sent via email: localgovernment@esc.vic.gov.au

Dear Sir

Corangamite Shire welcomes the opportunity to provide comments in relation to the Local Government Rates Capping and Variation Framework Review Consultation Paper.

Council considered the consultation paper at its Ordinary Meeting on 28 April 2015 and resolved to lodge this submission. Attached and summarised below are Council's responses to the matters the Essential Services Commission is seeking views on:

- CPI is not reflective of Council costs and a more appropriate index should be used.
- A rate capping and variation framework should be aligned with council planning cycles.
- The base to which the cap applies should only include rate revenue and the municipal charge and exclude services rates/charges and special rates/charges. For example, waste management charges are directly linked to the cost of kerbside collection contracts. Similarly, the cost of providing a regional landfill increases at a rate beyond CPI largely as a consequence of increasing EPA levies and associated compliance costs. These costs must be recovered by either as a component of the waste management charge or from user fees and charges payable by customers, which includes neighbouring Councils.
- The cap should apply to the total revenue generated including annualised supplementary valuations.
- The initial base year should be from 2017-2018. It is inappropriate to introduce rate capping from 2016-2017 as a transitional year is required.
- The variation process should not be prohibitive. It needs to be equitable and accessible for all Councils. The process should consider a tiered approach based on the variation sought. Variations of an immaterial amount should not be subject to the same process as variations of a material nature.
- A rate capping and variation framework will inadvertently or partially shift responsibilities for rate-setting to the ESC.
- A rate capping and variation framework must not lead to service deterioration and a failure to invest in maintaining and creating critical infrastructure. It needs to support services provision and infrastructure investment.

CORANGAMITE SHIRE COUNCIL

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- The ESC must give consideration to the broader adverse social implications a rate capping and variation framework may have. This should be included as a core principle.
- A poorly formulated capping and variation framework or a cap not representative of Council costs is likely to result in a reduction of services, including possible job losses, and the deterioration of community owned assets, such as roads. It is also likely that a range of services provided by Councils on behalf of the State Government will be discontinued.

Councils have an important role to provide for their communities. The capping of rates has the potential to impact on community liveability and wellbeing, create inequality amongst communities and adversely affect long term prosperity and economic competitiveness. The impacts are likely to be greatest in rural Councils, such as those within Corangamite Shire, because alternative income streams, namely property investment and car parking fees, are not available. Impacts could be greatest on small rural townships because providing services to small populations is not economically efficient but is obviously important for social reasons.

Corangamite Shire looks forward to receiving the outcomes of Local Government Rates Capping and Variation Framework Review. Should you require further clarification on the matters raised in this submission please contact me on 5593 7100.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Mason', written in a cursive style.

Andrew Mason
Chief Executive Officer

Local Government Rates Capping & Variation Framework Consultation Paper

THE FORM OF THE CAP

1. ***While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?***
 - CPI is not reflective of Council costs and a more appropriate index should be used. For example:
 - Fee income generated through the provision of statutory services, such as planning and building fees. Fees are set at by the State and are insufficient to cover the costs of service provision. This gap must be recovered from rates and charges.
 - Enterprise Agreements provide for annual increases often in excess of CPI. Rates would need to increase by a minimum quantum to cover this cost or alternatively employee numbers would need to be reduced.
 - The costs of providing a regional landfill increase at a rate beyond CPI largely as a consequence of increasing EPA levies and associated compliance costs. These costs must be recovered by either as a component of the waste management charge or from user fees and charges payable by customers, which includes neighbouring Councils.
 - Contracts for kerbside collection are long term and on commercial terms. The costs are recovered by through waste management charges.
 - Council infrastructure and construction costs increase at rates above CPI.
 - For the last five years the ABS Road and Bridge Construction Index for *Australia* has risen on average 2.9% annually to March 2015 whereas CPI has risen 2.3% on average for the same period. The comparative 10 year averages are 3.8% (Road and Bridge Construction) and 2.7% (CPI).
 - For the last five years the ABS Road and Bridge Construction Index for *Victoria* has risen on average 3.7% annually to March 2015 whereas CPI for *Melbourne* has risen 2.2% on average for the same period. The comparative 10 year averages are 4% (Road and Bridge Construction) and 2.5% (CPI).

2. ***What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?***
 - An appropriate index that reflects local government costs should be used.
 - The index should be developed independently to the state government and consider all inputs.
 - The ABS Road and Bridge Construction Index is an example of an alternate index. A hybrid of various indexes could also be used.
 - Consideration should also be given to a rolling average index. Significant short-term fluctuations of any index will make it difficult for Council's to plan effectively
 - Annual consultation and input from councils as to the make-up of the index should occur

3. ***Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative caps for the next two to three years to assist councils to adopt a longer term view in their budgeting and planning, particularly when maintaining and investing in infrastructure often takes a longer term perspective? How should such a multi-year cap work in practice?***

- Councils are required to develop a 4 year Strategic Resource Plan annually.
 - A determination of the cap applicable to year 1 of the SRP should be made prior to Council's commencing development of their annual budgets. This should be made in December annually.
 - Firm guidance on forecasts should be provided for years 2-4 of the SRP. Councils should not be required to set rates based on levels quantified in projections contained with SRPs.
- A rate capping and variation framework should be aligned with council planning cycles

4. ***Should the cap be based on historical movements or forecasts of CPI?***

- CPI is not an appropriate index
- A model should be adopted whereby the cap is based on the most recent data available and short-term forecast across the life of Council Strategic Resource Plans.
- Use of rolling averages should be considered.

5. ***Should a single cap apply equally to all councils?***

- A single cap should not apply equally to all councils. If a single cap does apply additional State Government funding to rural Councils will be required to reflect the fact that these Councils do not have significant alternate income streams. For example, car parking fees.
- The impacts of rate capping are likely to be greatest in rural areas because alternative income streams are not available resulting in higher reliance on rate income as opposed to large regional and metropolitan councils.
- A framework that also recognises the revenue raising capacity of Councils should be developed. For example, Councils with a low rate base have to meet the same governance obligations as Councils with a significantly higher rate base or revenue raising capacity – a significant portion of the annual rate increases of smaller councils is used to recover the costs of increasing compliance which is often externally imposed. An index that recognises this variation should be developed. Classification of Councils should be based on the VAGO categorisations.

THE BASE TO WHICH THE CAP APPLIES

6. ***What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?***
- The base to which the cap applies should only include rate revenue and the municipal charge.
 - Services rates/charges and special rates/charges are levied by council's to recover the cost of service provision. The cost of these services and charges is mostly driven by either commercial contracts/agreements or externally imposed levies. For example, waste management charges for kerbside collection is a consequence of contract pricing and EPA levies and charges for council administered special charge schemes reflect the cost of construction. Councils must be able to pass on the cost of these services to consumers
7. ***Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?***
- The cap should apply to the total revenue generated including annualised supplementary valuations that occurred during the year. Refer also to response to Question 8 below.
 - Applying the cap on average rates and charges per assessment is problematic, particularly where the number of assessments varies from year-to-year due to consolidation of titles and subdivisions.
8. ***How should we treat supplementary rates? How do they vary from council to council?***
- The annualised affect (favourable or unfavourable) on rate income from supplementary valuations should be included for the purposes of rate capping. That is, a part-year supplementary valuation should be grossed up. For example:

	\$Million
Budgeted Rate Income Raised	10.0
Supplementary Rates (Part Year)	0.5
Actual Rate Income	<u>10.5</u>
Budgeted Rate Income Raised	10.0
Supplementary Rates (Full year equivalent)	1.0
Base Rate Income on which cap should be applied	<u>11.0</u>

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

- For municipal purposes re-valuations are somewhat of a compliance exercise that re-distribute the “rate burden” amongst rate payers. Changes to property valuations generally do not result on any more or less rate income for Councils. Councils apply an increase in rate income on the total rate collect.
- Re-valuing properties every two years can have the following affects:
 - Short-term instability in the rate burden where individual or classes of property values vary frequently in the short-term, such as that experienced in a speculative market.
 - Equity of the rate burden where individual or classes of property values vary infrequently or sustainably over a long-term.
- A revaluation cycle aligned with Council terms maybe more appropriate. Supplementary valuations can be used to capture movements in valuations during the intervening period. A significant cost saving could be achieved for the sector by doing revaluations on a less frequent basis.
- If the rates capping and variation framework is commenced during a revaluation year it may result in confusion for ratepayers.

10. What should the base year be?

- The initial base year should be from 2017-2018. It is inappropriate to introduce rate capping from 2016-2017 as a transitional year is required.

THE VARIATION PROCESS**11. How should the variation process work?**

- The variation process should not be prohibitive. It needs to be equitable and accessible for all Councils, particularly for rural Councils that have fewer resources to allocate towards applying for a variation of the cap.
- The variation process should be cognisant of the current statutory obligations on councils when setting annual budgets.
- The variation process should consider a tiered approach base on the variation amount. Variations of an immaterial amount should not be subject to the same process of variations of a material nature. Immaterial variations should be subject to a self-assessment process by Councils. VAGO may have a role to play here has part of the annual external audit.

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

- Councils should be able to seek variations at their discretion.

13. ***Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, changes in funding levels from the Commonwealth Government, 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?***

- There are many circumstances that would justify a case for above cap increases. Such examples include:
 - Provision of services to dispersed populations in rural areas.
 - Provision of services to areas that experience high tourism visitation as there is often no means to recoup the costs of providing services to visitors.
 - Provision of services where funding by state government has declined or not kept pace with the cost of service delivery.
 - Recovery of costs associated with Enterprise Agreements as they often run above CPI.
 - Costs associated with Defined Benefit Fund calls.
 - Provisions of services where the underlying cost is subject to commercial arrangements or externally imposed costs, such as regional landfill or kerbside rubbish collection.

14. ***What should councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation? A possible set of requirements could include:***

- the council has effectively engaged with its community***
- there is a legitimate case for additional funds by the council***
- the proposed increase in rates and charges is reasonable to meet the need***
- the proposed increase in rates and charges fits into its longer term plan for funding and services***
- the council has made continuous efforts to keep costs down.***

- In addition to the above variations should include scenario analysis to demonstrate need and financial impact if the variation is not approved.

COMMUNITY ENGAGEMENT

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

- The ESC should refer to the International Association of Public Participation. The Public Participation Spectrum should be referenced as a best practice model.
- Is it effective and practical to extensively consult the community annually when seeking a variation? Perhaps there is an opportunity to place greater emphasis on the development of Council Plans, and consult more extensively as part of its development. This process could be used to determine the community priorities over the life of a council. This would require changes to legislation and regulations.

INCENTIVES

16. 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?

- An unintended consequence of the framework would be for Councils to not apply for a variation due to unnecessary complexity and cost associated with the process. Councils that do not seek a variation due to this will most likely reduce the level of services provided to their community. This could result in the
 - Deterioration of underlying financial position.
 - Reduction in capital expenditure resulting in an increasing renewal gap and deterioration of community owned assets. This will be significantly more costly in the longer term.
 - Cessation or consolidation of services including staff redundancies. This will have a significant impact on rural communities.
 - Significant “social re-engineering” of rural and regional communities.

TIMING AND PROCESS

17. A rates capping and variation process should ensure there is enough time for councils to consult with their ratepayers and for ratepayers to provide feedback, and for us to review councils’ applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with councils’ budget processes. We are interested in stakeholders’ views on how this can be achieved.

- Proposed timeline assuming there are no changes to the *Local Government Act* and supporting regulations:
 - November: ESC make determination on cap for forthcoming financial year.
 - December-January: Council officers draft budget incorporating proposed cap.
 - February: Community consultation:
 - March: Submission of application for cap variation to ESC and determination.
 - April: Draft budget considered by Councils.
 - May: Draft budget on public exhibition for consultation.
 - June: Council adoption of budget and SRP
- Proposed Timeline potentially requiring changes to the *Local Government Act* and supporting regulations for the purposes of improving public consultation and community engagement:
 - November: ESC make determination on cap for forthcoming financial year.
 - December-February: Council officers draft budget incorporating proposed cap.
 - March: Draft budget considered by Councils.
 - April: Draft budget on public exhibition for consultation and community engagement.
 - May: Submission of application for cap variation to ESC and determination.
 - June: Council adoption of budget and SRP.

TRANSITIONAL ARRANGEMENTS

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

- Transitional arrangements should exist for 2016-2017. Such arrangements could include:
 - Development of templates/models to facilitate the variation application process.
 - Engagement with the sector including local government practitioners to develop suitable templates/models.
 - Possible alignment with LGPRF.
 - Review and amendment of existing legislation and regulations.

ROLES

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

- The ESC's assessment should be determinative.
- There must be an appeal process for dissatisfied Councils.

OTHER MATTERS

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

- Yes. The framework should be reviewed after an initial period and either abandoned or modified as required.

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

- The state government should absorb the costs of administering the framework.

OTHER MATTERS RAISED IN EARLIER CHAPTERS**22. We are interested in hearing from stakeholders on:**

- ***whether we have developed appropriate principles for this review***
- ***whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important***
- ***supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.***

- The introduction of a rate capping and variation framework will inadvertently or partially shift responsibilities for rate-setting to the ESC.
- The onus is on Councils to demonstrate rates are being set in the long-term interests of their ratepayers. Councillors are democratically elected for this purpose not the ESC.
- A rate capping and variation framework will limit the ability of Councils to introduce and adopt new initiatives, construct new assets and attract discretionary grant funding.
- A rate capping and variation framework has the potential to stifle or compromise decision making by Councils.
- The ESC needs to address the significant effect cost shifting has had on Councils. A rate capping and variation framework has the potential for the services attached to cost shifting to be discontinued or hand back to the state government. Such examples include SES contributions, School Crossing Supervisors and HACC services.
- A rate capping framework will likely lead to significant job losses or an erosion of pay and conditions for Council employees. In rural and regional areas this is likely to increase unemployment levels or increase population loss.
- The ESC should consider how the LGPRF would support a rate capping and variation framework.
- The ESC needs to consider how Councils should demonstrate “efficiency” and how it will be measured. Will it seek to rely on the LGPRF for this purpose? If such, does the LGPRF need to establish efficient benchmarks?
- A rate capping and variation framework must not lead to service deterioration and a failure to investment in maintaining and creating critical infrastructure. It needs to support services provision and infrastructure investment.
- The consultation paper does not give adequate consideration to the health and wellbeing of communities. The consultation paper case for rate capping is an economic argument. The ESC must give consideration to the broader adverse social implications a rate capping and variation framework may have. This should be included as a core principle.