

HOBSONS BAY COUNCIL

RESPONSE TO LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK REVIEW

Recommendations

THE CAP

Draft recommendation 1

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

Council Response

The application of a single cap is certainly more transparent; however the proposal that individual councils can seek variations belies the resources and complexity of that process, particularly for smaller councils. It is likely that small councils may be reluctant to devote the resources to seek a variation when the costs of doing so may substantially offset the additional rate revenue generated.

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.**

Council Response

Hobsons Bay agrees with this recommendation.

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.

Council Response

This method of calculation is preferred as Council already uses average rate calculations as part of its budget considerations each year. The exclusion of supplementary rates means that this revenue is additional in the year the supplementary valuation is made.

Given that a general revaluation of properties is undertaken every two years and is often unevenly spread across suburbs and even localities across a municipality, as well as classes of ratepayer, transparency around the application of the cap is likely to be lost in those years. This issue should be more fully canvassed by the ESC in the final report to the Minister.

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.

Council Response

Council recognises that the cap calculation takes into account the significant proportion of its costs expended on employee costs. However the calculation does not take into account the flow on effect of wages increase on existing employee liabilities such as provisions for annual and long service leave that need to be accounted for each year. So the use of 3.5% as a wage forecast is still likely to underestimate future actual outcomes.

The cap calculation also ignores the fact that a substantial part of rates income is expended on Capital Works (in Hobsons Bay's case approximately 25%). These works are generally contracted out and there is little in the way of wage costs associated with them so the use of the WPI is not particularly relevant. In addition, the ongoing use of an "efficiency factor" over costs which are largely outside a council's control also means that "efficiencies" greater than the factor will need to be found within a council's operating budgets.

A further consequence of the rate cap is likely to be industrial unrest as unions continue to pursue agreements to maintain wage increases and who will look to other areas of councils for cost savings to be achieved.

Council has been heartened to hear that the ESC recognises that the imposition of a cumulative "efficiency factor" is not planned for the longer term which will only add to cost pressures. Inclusion of an efficiency factor that is cumulative is not sustainable in the long term.

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.

Council Response

Given that the cap will commence in 2016/17, the average property rate in 2015/16 is appropriate as the starting base.

VARIATION

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.

Council Response

On balance it is considered reasonable that trigger events are not defined. If definitions were included, it is possible that future unforeseen circumstances outside of these or not clearly matching could arise and prompt a reasonable application for a variation. The ESC should however consider relaxing the rules around applications for variations where the driver is common to a large number of councils. An example of this is a defined benefit superannuation call.

Council recognises that the impact may vary from council to council but a variation applicable to individual councils could readily be calculated if an appropriate formula was developed or methodology proposed by the ESC.

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.**

Council Response

It is likely that the resources required to make an application and in particular to effectively seek "ratepayers and communities' views" will be considerable, adding another resource cost to councils.

Resourcing of this requirement is also likely to be more onerous for smaller, less well-resourced councils who may have the greatest need to seek variations. This ongoing need has already been identified within the sector via the Rural Living Campaign which is aimed at ensuring that all Victorians have access to minimum levels of service that enable liveability and safety and that no communities fall below these minimums. The cost of an application for a variation is also likely to be disproportionate for those smaller councils where the revenue raised is less.

It is also not difficult to imagine community rejection of a request to increase rates beyond the cap, irrespective of the sound arguments for doing so. In that case, irrespective of sound basis for an additional increase, would the ESC have regard to the communities' views?

The rate capping experience in New South Wales is that applications for variations are not often made, suggesting that the process is too onerous (and costly), and there is no reason to suggest that will not be the case in the framework proposed by the ESC.

The ESC has also indicated that councils will be notified of its decision in a variation application in May, after assessment during March to May. This is likely to make it extremely difficult and perhaps impossible for councils to meet the legislative requirement to adopt its budget by 30 June.

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.

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 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. to 30 June 2023)

Council response

It is considered reasonable that a variation for a single year (2016-17) be permitted. This is the final budget that will be developed by an incumbent council.

However it is suggested that variations up to four years (which will coincide with the term of a new council) be permitted from 2017-18.

This will enable councils to consider their longer term financial planning aligned with council and other strategic plans, will enable councils to minimise the resources required to seek a variation, give certainty to future rate increases and potentially smooth rate increases over a number of years.

It is reasonable that councils will have to manage budgetary fluctuations within approved variations (as they largely do now) but it is hoped that the ESC will not be closed to already approved variations in the event of extenuating circumstances as they have indicated.

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.

Council response

On balance it is agreed that this is a reasonable proposal. It should not be the role of the ESC to nominate an alternative variation that it will approve.

However it is hoped that in the lead up to any variations being lodged, that the ESC would be available to discuss proposals and get some indication of the likelihood of the success or otherwise of an application, and afford councils the opportunity of fine tuning an application.

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.

Council Response

The ESC's proposal to monitor rate increases is understandable given the proposed framework but it is another imposition on councils in terms of proof of compliance.

Draft recommendation 11

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

Council Response

The application of similar regulation by monitoring and reporting on outcomes for ratepayers and communities is considered inappropriate for local government.

In proposing this regulatory oversight and making comparison with other sectors which the ESC regulates such as water and electricity, this recommendation ignores the fact that local government is autonomous, with councillors elected through a democratic process.

The report and recommendation equates local government, which supplies hundreds of services, with single business entities such as water corporations and electricity companies, and suggests a role for itself that it is frankly not likely to be able to fairly and impartially perform and which discredits the integrity of local government and its elected representatives.

Councils are already subject to the new Local Government Performance Reporting Framework (LGPRF) and financial scrutiny by the Auditor General, as well as a host of other regulatory requirements. In this instance the proposal is considered heavy-handed and inappropriate.