



**CORANGAMITE
SHIRE**

Our Ref: D/15/36018

26 August 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 Draft Report.

Council considered the recommendations contained within the report at its Ordinary Meeting on 25 August 2015 and resolved to lodge this submission. Council's responses are summarised below and discussed further in detail in the attachment.

- The cap must reflect a council's capacity (or incapacity) to raise income from other sources.
- The calculation of the cap must recognise infrastructure costs. Council opposes the introduction of an efficiency factor.
- Natural disaster events must qualify for an automatic variation to the cap.
- The ESC must develop a best practice guide for the sector as more clarity on the variation process is required.
- From 2017-2018 councils must be able to seek a variation for a period up to four years.
- Whilst Council agrees the ESC should be the decision maker, there must be opportunity to rework applications to meet the minimum requirements. There also needs to be an appeal mechanism.
- Council opposes any further reporting and monitoring as this is best delivered by existing oversight bodies.

Corangamite Shire looks forward to receiving the final report on the 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

Andrew Mason
Chief Executive Officer

Cc Hon Natalie Hutchins
Minister for Local Government

Local Government Rates Capping & Variation Framework Review Draft Report**The Cap****Draft recommendation 1**

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

Council's Response: Council does not support this recommendation as one cap does not reflect the capacity, or incapacity, of individual councils to raise alternate sources of income. The ESC should consider alternate models that reflect this inequality including:

- Categorising councils into banded ranges based on either total income or rate income and applying concessional treatment to those councils at a disadvantage.
- Increase general purpose grants through the Victorian Grants Commission to councils that have limited capacity to raise income from alternate sources.

Draft recommendation 2

The ESC 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.*
- *Service rates and charges should not be included in the rate cap, but be monitored and benchmarked.*

Council's Response: Council supports the recommendation. Council also suggests the fire services property levy, which is administered by councils on behalf of the State Government, must also be subject to the same cap as this would be consistent with the government's objective of reducing costs on ratepayers.

Draft recommendation 3

The ESC 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's Response: Council supports the recommendation in principle. This would be problematic where the number of assessments vary from year-to-year due to consolidation or splitting of rating assessments. The ESC needs to consider this anomaly. The ESC also needs to clearly articulate the treatment of supplementary rate income as this is unclear; supplementary rate must translate into a recurrent rate income which is not dissimilar to current practices

Draft recommendation 4

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

$$\begin{aligned} \text{Annual Rate Cap} &= (0.6 \times \text{increase in CPI}^*) \\ &+ (0.4 \times \text{increase in WPI}^\wedge) \\ &- (\text{efficiency factor}) \end{aligned}$$

*With: CPI = DTF's forecast published in December each year
WPI = DTF's forecast published in December each year
DTF being the Victorian Department of Treasury and Finance*

**Consumer Price Index*

^Wage Price Index

The efficiency factor will initially be set at zero in 2016-2017 but increasing by 0.05 percentage points each year from 2017-2018. The ESC will undertake a detailed productivity analysis of the sector to assess the appropriate long-term rate for the efficiency factor.

Council Response: Council supports the approach of a hybrid index in the calculation of the cap. However, the proposed cap fails to recognise the high costs of infrastructure incurred by councils. An additional component to recognise this must be included in the calculation of the cap with equal weighting. That is, one-third equally for CPI, WPI and an appropriate Infrastructure Index. Whilst forward projections are not readily available, Council proposed in its submission to the ESC on the consultation paper that the ABS Road and Bridge Construction Index should be considered as a suitable index, as it more appropriately reflected a council's infrastructure costs. The ESC could use historical differentials to CPI as a basis of forward projections. With respect to the proposed efficiency factor, Council is of the opinion the introduction of the cap will deliver efficiencies from the outset and therefore opposes its inclusion. At the very least, the inclusion of an efficiency factor must be deferred until the consequences of the cap become more apparent.

Draft recommendation 5

The ESC recommends that the 2015-2016 rates (general rates and municipal charges) levied on an average property should be adopted as the starting base for 2016-2017.

Council's Response: Council supports the recommendation.

Variation**Draft recommendation 6**

The ESC 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's Response: Council suggests events that are declared natural disasters must qualify for an automatic variation. This will assist in recovery efforts, particularly where external government funding is not readily available or insufficient.

Draft recommendation 7

The ESC 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's Response: Council suggests the ESC should develop a best practice guide for the sector as more clarity of the variation process is required. The five matters described above should be better defined in the guide including the minimum standard to be met. For example, what is considered appropriate consultation for taking account of ratepayers' and communities' views?

Draft recommendation 8

The ESC recommends that in 2016-2017, variations for only one year be permitted. Thereafter, councils should be permitted to submit and the ESC approve, variations of the length set out below.

<i>First year of variation</i>	<i>Length of permissible variation</i>
<i>2016-2017</i>	<i>One year (i.e. 2016-2017 only)</i>
<i>2017-2018</i>	<i>Up to two years (i.e. 2017-2018 only or 2017-2018 and 2018-2019)</i>
<i>2018-2019</i>	<i>Up to three years (i.e. up to 30 June 2021)</i>
<i>2019-2020 and beyond</i>	<i>Up to four years (i.e. up to 30 June 2023)</i>

Council's Response: Council supports the maximum permissible period of one year for the introduction of the cap in 2016-2017. However, from 2017-2018 a maximum permissible period of four years must be allowed as this aligns with the commencement of new council terms of office from 2016 and would coincide with the development of the 2017-2021 council plans.

Draft recommendation 9

The ESC 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's Response: Council agrees the ESC should be the decision maker. However, applications must not, in the first instance, be dismissed or rejected if deficient; councils should be able to rework applications to meet the minimum requirements. To avoid onerous rework, it is critical a best practice guide be developed (see response to recommendation 7). Councils should also have the right of appeal to VCAT if the ESC rejects an application.

Monitoring

Draft recommendation 10

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

Council's Response: Council opposes this recommendation as this information could be provided by existing reporting bodies and contained within annual reports. This recommendation adds additional red tape and bureaucracy to an already overburden compliance framework.

Draft recommendation 11

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

Council's Response: Council opposes this recommendation as this information could be provided by existing reporting bodies and contained within annual reports. This recommendation adds additional red tape and bureaucracy to an already overburden compliance framework.

Other Matters

- There should be no additional reporting burden imposed upon councils. The ESC should obtain the required baseline data from existing oversight bodies such as the Victorian Auditor General's Office or Local Government Victoria. Alternatively, the annual Grants Commission Return could be modified to capture the required data.
- Councils should not incur costs for seeking a variation. The ESC should absorb this.
- The draft report is somewhat critical of the sector's aversion to borrowing. If a variation is applied for and a council has low to nil debt, will the ESC be unlikely to grant a variation (see 6.3 at page 44)? Councils should not be "forced" to borrow for operating activities / deficits and the ESC should respect a council's borrowing strategy.
- Council supports periodic review of the framework so long as councils are provided the opportunity to participate.
- Council does not support amendments to the *Local Government Act 1989* to require that service rates and charges must reflect the costs of providing the underlying service. In Council's case, these costs are driven by commercial agreements established through a competitive tender process in accordance with the *Local Government Act 1989*. Conversely, the (increasing) levy imposed on Council by the Environmental Protection Authority generally results in an increase in the waste management charge above the underlying rate increase. The ESC and the Government should be cognisant of the impact on ratepayers such statutory imposts entail.
- The Government must undertake periodic review to ensure that statutory fees continue to reflect a council's cost of providing statutory services.