



Our Ref: F884

27 August 2015

Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Dear Dr Ben-David

Re: Rates Capping and Variation Framework Review

Thank you for the opportunity to comment of the Draft Report.

This matter was considered by Council at its meeting on 26 August 2015 when Council resolved to endorse the attached submission.

Council looks forward to the release of the Final Report.

Should you wish to discuss the submission or have any questions, please do not hesitate to contact me on 5422 0308.

Yours sincerely

Peter Johnston
Chief Executive Officer

Rates Capping and Variation Framework Review Submission – 26 August 2015

Macedon Ranges Shire Council acknowledges the State Government's objective, in the Rates Capping Framework Terms of Reference, to contain the cost of living in Victoria while supporting local government autonomy and ensuring greater accountability and transparency in budgeting and service delivery.

Council does not support rate capping. Council's view is that councils in consultation with their communities should be able to determine the standard and level of services and the corresponding level of rates.

Council supports the Government's intention to promote rates and charges that are –

- efficient, stable and reflective of services that the community needs and demands, and
- set at a level that ensures the sustainability of council infrastructure and council's financial capacity.

Council's view is that such an intention should apply to both levels of government, state and local, and in so doing, it will deliver the best outcomes for all Victorians.

Council thanks the Essential Services Commission for the opportunity to make a submission and offers the following brief comments on the draft recommendations.

Draft Recommendation 1 – one rate cap to apply equally

- Council agrees that one rate cap makes it easy to explain to all Victorian Ratepayers and assures them that, subject to valuation trends, rates will increase by up to the same percentage across Victoria.
- It does not reflect the diversity of local government in Victoria. The circumstances of an inner urban council are different to peri urban councils and rural councils.
- Rural and peri-urban councils have limited own source revenue, unlike inner urban councils which have more sources of revenue, in particular car parking fees.

- Inner urban councils have established assets (facilities and infrastructure), which need renewal, whereas peri urban councils not only have similar challenges of asset renewal but are also challenged with growing residential development, which needs new facilities and infrastructure and the expansion of existing infrastructure.

Draft Recommendation 2 – rate cap to only apply to municipal charge and rates

- Council agrees that the cap should be restricted to only municipal charges and rates.
- Council supports the Government’s announcement of a “Fair Go for Ratepayers” [5 May 2014] The recommended rate cap formula has been put forward as being a legitimate evidence based increase and therefore Council expects that in turn the Government will also be fair to Ratepayers by increasing its operational grants to local councils and increasing the statutory fees that local councils are able to charge by at least the same percentage as the rates cap.
- Operational grants – The Government has engaged councils to provide some health and education services. For example, maternal and child health, preschools, immunisation, school crossings, libraries, youth programs, home care and delivered meals. Over the years the cost burden of delivering these services has shifted from state to local government. To be fair to the Ratepayer, rate capping should also bring cost shifting to an end. The Government should ensure that the corresponding operational grants for Government services delivered by councils are adequate in 2016/17 and are increased by, at least, the same percentage as the cap in the future.
- Statutory Fees – The Government sets the statutory fees that councils may charge for many of the services they provide. Like operational grants, over the years the cost of delivering these services has increased without the Government increasing the statutory fees by a corresponding amount. To be fair to the Ratepayer, the Government should ensure that that the statutory fees it sets are adequate in 2016/17 and are increased by, at least, the same percentage as the cap in the future.
- If the Government accepts the previous two dot points, it will ensure that under the new rate capping regime, councils will still be able to do effective long-term income planning.
- The Government should become responsible for collecting its own revenue, such as the Environment Protection Levy and the Fire Services Property Levy.

Draft Recommendation 3 – cap applies to the average ratepayer

- Council accepts the choice of the average ratepayer and the relationship with the Government’s objective to contain the cost of living in Victoria. There is simplicity in this recommendation which makes it attractive.

Draft Recommendation 4 – cap based upon DTF’s forecast CPI and WPI less efficiency factor

- Council appreciates that the CPI is a widely accepted domestic measure of the cost of living and so once again it aligns with the Government’s objective to contain the

cost of living in Victoria. There is simplicity in this recommendation which makes it easy to explain to Ratepayers.

- It does not reflect the fact that costs of providing council services, infrastructure and facilities are closely linked to wage costs, construction costs, material costs and contract costs. These costs have little to do with CPI and often increase more than CPI.
- The efficiency factor should not be imposed on democratically elected councils which already have social contracts with their ratepayers and communities following the consultation process when developing council plans, strategic resource plans and budgets.

Draft Recommendation 5 – cap based applies to average ratepayer in 2015/16

- Council does not have any objection.

Draft Recommendation 6 – discretion to apply for variation rests with councils

- Council believes there should be the opportunity for a pre-variation request meeting with the Commission for a council which is considering making an application, particularly because the Framework does not include any criteria and does not allow the Commission to negotiate with the council.

Draft Recommendation 7 – matters to be address in application

- Council does not have any objection.

Draft Recommendation 8 – length of permissible variations

- Council does not support the need to control the length of variations. Councils are appointed for a four year term and it is the responsibility of each elected council to decide whether it wants to apply for a variation up to the length of its term.

Draft Recommendation 9 – ESC approves or rejects but does not vary applications

- Council believes there should be the opportunity for a council to lodge an appeal to the Minister if the application is rejected.

Draft Recommendation 10 – ESC monitors and reports in the framework

- Council supports the monitoring and reporting of the framework.

Draft Recommendation 11 – ESC monitors and reports on overall outcomes

- Council supports the monitoring and reporting of the overall outcomes on ratepayers and communities.

Other comments

- Council believes that the Government should be responsible for all its own costs in relation to the framework including variation requests, monitoring and reporting

- Council is concerned that there was no recognition given to existing agreements and studies such as the Victorian State-Local Government Agreement between the Government and the MAV or the National Financial Sustainability Study of Local Government by Price Waterhouse Coopers.

Conclusion

Council acknowledges that the “Fair Go for Ratepayers” election promise has resulted in the Rates Capping and Variation Framework and whilst Council does not support rate capping, it accepts the three elements of the framework – cap, variation and monitoring.

Council is currently in a strong financial position and wants to remain so. Therefore if the Government imposes control of its revenue raising responsibilities, Council wants the Government to bring cost shifting to an end in 2015/16 and also wants the Government to increase its operational grants and its statutory fees, each year by, at least, the same percentage as the cap.

Council is confident that it will be able to survive in a rate capping regime and it acknowledges that rate capping will eliminate and/or reduce some existing services. Council will concentrate on the delivery of core local government services and the Government should also ensure that it has the ability to assume responsibility for and delivery of its services.

Council will continue to consult annually with its community through the annual budget process and in so doing, Council will balance its ability to raise revenue with the community need and expectation in service levels and standards.