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27 August 2015

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

Dear Dr Ben-David,

Re: *Rate Capping and Variation Framework Review – Submission from Campaspe Shire Council*

Thank you for the opportunity to comment on the Essential Services Commission (ESC) Draft Report on Rates Capping and Variation Framework.

Council would like to highlight the following issues in response to the Framework Proposed:

1. Single Rate Cap to be Applied

Given the complexities and variations across the Victorian Local Government sector Council supports the proposal that a single rate cap should be applied equally to all Councils in Victoria. Council emphasises that its support is contingent on the variation process being simple, streamlined and accessible to allow Councils, no matter how small or lacking in resources, to be able to apply successfully for a variation without significant additional and/or expensive work. Additional funding support for rural Councils should be considered compliment this recommendation.

2. Revenue Subject to the Rate Cap

Council supports the containment of the revenue affected by the rate cap to that revenue raised from general rates and municipal charges. The exclusion from the rate cap of:- revenue from special rates and charges; 'revenue in lieu of rates; and service rates and charges, is also supported. Council believes the Fire Services Levy should also be capped.

3. Application of Rates to Average Ratepayer

Campaspe Shire Council sees no difference, financially, in applying the rate cap to the average ratepayer or to total revenue. Council is, however, very concerned about community confusion in the first year of the rate cap particularly since it is a revaluation year, where property values may vary significantly. This volatility in rate increases for individual property owners would be exacerbated by any change in differentials between the different rating groups, should that occur.



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4. Calculation of the Cap

Council has reservations about the use of Consumer Price Index (CPI) as a measure of Council's costs. Council would prefer to see a more realistic factor applied, such as the Local Government Index which Council believes more accurately reflects Councils' costs. Council accepts that the ESC's Terms of Reference did, however, make direct reference to using CPI as the basis of future rate caps.

Council supports the inclusion of a wage related factor but is not convinced that the Wage Price Index (WPI) is the most appropriate factor to be applied for the local government sector. Other alternatives that take into account Councils' multi-year commitments to wage increases through the Enterprise Bargaining Agreement (EBA) process would be preferred. Council is aware of some Councils' interest in (the ESC) exploring some form of a uniform cross-sectoral EBA to standardise employee costs and looks forward with interest to the ESC's view on this suggestion.

The proposed quantum of the wage costs to be applied to the rate cap calculation (40%) is regarded as too low and not reflective of local government employee costs as a percentage of budget. This percentage doesn't take into consideration rural Councils that generally have a high percentage of community services that are labour intensive. Council proposes instead that a figure of 45% be applied. This equates to employee costs as a proportion of budgeted expenses in Campaspe Shire Council's 2015-16 budget.

Council does not support the inclusion of an efficiency factor to further reduce the rate cap. Given the clear inaccuracy of CPI and WPI to adequately reflect Councils' actual costs, an efficiency factor - no matter how apparently small initially - further reduces Councils' ability to adequately provide services to their communities. It is noted that the proposed efficiency dividend is set at zero for Year 1 and then increases in 0.05% increments each year up to an as yet undetermined level. The cumulative effect of say a 2% efficiency dividend subtracted from the rate cap each year will have a significant impact on this Council over time.

5. Use 2015-16 Rates as Starting Base.

Council does not object to the proposal to use the 2015-16 rates (general rates and municipal charges) as the starting base for 2016-17 rates cap calculation.

6. Specification of Individual Events

Council understands the myriad of possibilities that could be proposed as qualifying for a variation, and is therefore prepared to accept the ESC proposal that the framework should not specify individual events that would qualify for a variation.

While Councils can, and should, have the discretion to apply for a variation it is hoped that in circumstances where a major disaster occurs there would be some early guidance or support provided by the ESC to those Councils affected and in need of rate revenue supplementation, particularly if they are already financially challenged.

7. Matters to be Addressed in Variation Request

Council has no objection to the list of matters proposed to be addressed in a variation request, but is concerned at the level of additional work or detail that would be required to satisfy the criteria listed.

Some concerns or challenges that this Council sees are:

- It is understood that documentation should (largely) already exist to support the basis for the request eg. in Long Term Financial Plan, Council Plan, other strategic plans, etc and that these documents would be sufficient evidence of Council's need for a particular level of rating effort.
- Proposed timing of submission of variations and subsequent notification is very tight. There is no time for community consultation after notification from the ESC.
- Taking into account communities views should not mean that activities identified by Council that would significantly benefit the Shire would be excluded from consideration as part of a rate cap variation if wholesale community support was not in evidence.

8. Period of Variation

The draft Framework proposed a scaled increase in the period that variations could be approved for, commencing with one year only in 2016-17. As highlighted in many of the consultations held by the ESC this arrangement is not practical in terms of the timing of Council Elections and the certainty required for good financial, asset management and strategic planning. This Council believes it would be a backward step to improvements in forward planning made in recent years if the ESC were to limit the period for which variations would apply, as proposed in the draft Framework. Council would propose a longer period of 4 years (or more), to accord with the period of the Council Plan and Council Election cycle, unless the applicant indicated otherwise.

9. Decision-Maker

Council supports the proposal that the ESC be the decision-maker on any application for variation in the rates cap.

The proposal that the ESC only accept or reject (and not vary) an application for variation is not supported. While it makes sense in terms of managing the ESC's resources, it is not at all beneficial to Councils who miss out on a rate cap increase and have to wait another year to reapply. Those Councils that have already been identified as being financially unsustainable would be particularly disadvantaged by this proposal.

10. Monitoring and Publishing of Cap

Council supports the Commission's proposed role in monitoring and publishing the annual rates report on council's adherence to the cap and any approved variation conditions, contingent on Council's having an adequate opportunity to include an

explanation of reasons for any non-adherence. Council believes that direct comparisons between Councils is inappropriate given the unique composition, infrastructure, resources, history and priorities of each Council.

11. Monitoring and Publishing an Annual Monitoring Report on Overall Outcomes.

Council has no objection to the proposal that the Commission undertake this role.

12. Implementation

Council believes the proposed timetable for 2016-17 is too tight even if the legislation is approved in the allocated time. Council agrees with suggestions of others that in future years the process be brought forward so that applications for exceeding the cap are considered by the ESC and budgets finalised by 30 June each year. Council does not support the later adoption of budgets, as floated by the ESC in recent presentations.

Council is of the view that the cost of ESC administering the rate capping and variation process should be borne by the state government and not an additional impost on ratepayers.

Mindful of the negative experiences of NSW local governments in terms of debt financing this Council would welcome advice from the state government on Guidelines for the prudent use of debt funding for financing Council infrastructure and other priorities as an alternative to rate funding.

Finally I would like to emphasise the importance of consulting with the local government sector, particularly rural Councils, in any future reviews of, and decisions in relation to rate capping and its impact on Councils' abilities to meet the expectations and needs of our communities.

Yours faithfully



**CR LEIGH WILSON
MAYOR**