



Borough of Queenscliffe

Queenscliff & Point Lonsdale, Victoria, Australia

Our Ref: QG2270101

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28 August 2015

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

Dear Mr Ben-David *Ron*

Submission to the Draft Local Government Rates Capping and Variation Framework

Attached please find the Borough of Queenscliffe submission to the Draft Local Government Rates Capping and Variation Framework.

We look forward to your favourable response in due course.

If you require any further clarification please don't hesitate to contact me on 03 5258 1377 or by email a lenny.jenner@queenscliffe.vic.gov.au.

Yours sincerely

Lenny Jenner
Chief Executive Officer

Attach.



Submission to Local Government Rates Capping and Variation Framework Review Draft Report – July 2015

Council welcomes the opportunity to prepare and present a formal submission to the Essential Services Commission (ESC) Draft Local Government Rates Capping & Variation Framework Review Report.

The Borough of Queenscliffe Council has publically acknowledged the State Labor Government's policy position on local government rate capping. This submission shows Council's fundamental concerns about the impact that the proposed ESC approach to rate capping will have on services and the positive working relationship with local communities. The consequences for small rural councils of applying the proposed framework provide Council with sound reason to remain resolute in its critical review of the draft report.

The Borough of Queenscliffe is not debating rate capping as such, but the ESC approach as detailed in the draft report.

In part the draft report is:

- Inconsistent with the Local Government Act 1989;
- Practically unworkable;
- Proposes actions that would undermine the positive working relationship between Council and the local community; and
- Provides outcomes that would be contrary to the State Government and Labor Party policies.

The Borough of Queenscliffe

The Borough of Queenscliffe is a lean and agile local government, our size necessitates a high level of productivity and requires an innovative approach to maximise efficiency in the Council operations. Small rural councils, such as the Borough of Queenscliffe, with fewer resources, are at a greater disadvantage if the proposed ESC approach to rate capping is implemented in its current form.

The Borough of Queenscliffe's programs and services reflect a dynamic mix of legislative obligations, agreed service arrangements with other levels of government and commitments to Council priorities, clearly expressed through the Council Plan and annual budget. Essentially, the range of services provided by the Borough of Queenscliffe Council is determined by three different and sometimes related processes:

1. Services we are obliged to deliver under various State and Federal legislative obligations;
2. Services we deliver under a formal agreement with either State or Federal government; and
3. Services we deliver in response to an identified high priority community need.

The following table provides a framework for understanding the drivers shaping the Borough Council's service obligations and program priorities that demand funding.

Driver underpinning Council Services	Examples of services in the Borough of Queenscliffe
Services councils are obliged under State and Federal legislation to carry out	Statutory Planning Services Public or Environmental Health Services Road Management Management of Domestic Animals
Services councils carry out under a formal agreement with State or Federal government	Home and Community Care Services School Crossing Supervision Foreshore Crown land assets Libraries
Services councils deliver to meet or respond to high community needs or interests	Provision of sport, recreation and community development services Provision of business and tourism development services

Council remains one of the lowest rating municipalities in Victoria, yet in order to deliver current services, we still cannot achieve a rate rise lower than CPI. Council's 2015/16 rate increase was contained to 3.8% following extensive community consultation and operational efficiency gains. This reflected the average increase of 3.8% as per the Municipal Association of Victoria's (MAV) Local Government Cost Index of around 3-4 per cent, which tracks councils' actual cost movements.

1. Impact of the ESC Proposed Approach to Rate Capping

The Borough of Queenscliffe Council is concerned about the impact that the proposed ESC approach to rate capping will have on services and the positive working relationship with local communities.

Council's priority concerns are:

1.1 'One size fits all' approach fails local communities

The ESC recommends that there should be one rate cap that applies equally to all councils in Victoria. This fails to recognise the financial sustainability challenges facing rural Councils and their limited capacity to raise revenue from sources other than rates. Rural communities and smaller councils have higher levels of asset management responsibilities and this is not recognised in the ESC draft report.

1.2 Addressing equity and disadvantage

The proposed ESC methodology undermines Council's ability to implement a more equitable distribution of rates to benefit lower value properties. Rural communities and smaller councils have higher levels of asset management responsibilities. This disadvantage is not recognised or addressed by the ESC proposal and is a significant financial challenge for local government because limited alternative opportunities to raise revenue exist.

1.3 Underpinning cost indexation is flawed

The proposed cost indexes utilised in the formula are not an appropriate cap. A significant proportion of Council's costs relate to construction, asset maintenance, waste management, contracts, wages, fleet/plant expenses and utilities costs. Other significant costs are mandated or imposed, such as election costs, property valuations, school crossings, insurance premiums and regional library contributions.

1.4 Inconsistent and misleading

The ESC report states "*On the basis of the evidence before us, we consider that any such refinements to the Rate cap should be limited to Councils main source of concern, namely labour costs.*" However the figures used do not reflect true labour costs but only wages and some overtime component. This is confirmed by ESC.

The wage price index has not considered other additional wage cost movements such as superannuation, leave and other labour costs. It also fails to factor in the year on year wage costs movement trends by using DTF forecasts, rather than actual data. This is misleading and if used as an input into the model for the rate cap, will perpetuate a misrepresentation of the true labour costs incurred by Councils.

Our financial modelling shows that this methodology equates to a gap of approximately 0.2% of wage costs annually. This .2 percent should be added to the calculation of the rate cap each year in Table 2.3 of the ESC report. In our table below we have allowed 14 percent for additional labour costs, a very conservative figure given superannuation is 9.5 percent. This would add 49 cents to the labour component moving it from \$3.50 to \$3.99.

We believe Table 2.3 for 2016/7 should read:

Underlying CPI forecast	2.75	(60 per cent weighting)
Plus Labour Costs	3.99	(40 per cent weighting)
Forecast Annual Rate Cap	3.25	

1.5 Back to front budgeting misses the mark

The application of the cap as presented does not reflect the way councils are required to prepare a budget to determine the rate rise. The rate rise is a product of the amount of rate revenue to be raised including annualised supplementary rates from the previous year, not the other way around. The proposed ESC approach to apply a fixed cap and work backwards to determine the level of rate revenue does not comply with the Act (s.158). Adopting the notional “average ratepayer” methodology will reduce total revenue available and by implication reduce the level of services that can be delivered to ratepayers.

1.6 Responsible use of available funds

The ESC report at Section 6.3 infers that councils should raise debt to offset the impact of rate capping and before applying for a variation. This would effectively shift the rate burden to future generations.

1.7 Proposed implementation timeline is unworkable

The proposed timelines, including assessment of Council variation requests to ESC from March to May, prevents councils from placing its draft budget on public exhibition by 1-2 months. The model proposed by the ESC undermines the trust between Council and the local community by compromising the consultation process and timing.

The opportunity to genuinely consult is extremely sensitive to the budget timeline. The timeline proposed by the ESC prevents councils from meeting the legislated requirements in relation to budget preparation and adoption. The fact that 2016-17 is a general revaluation year will mask any impacts of the proposed rate capping and confuse the general public.

1.8 Best value is the role of local government

The inclusion of an efficiency factor assumes that the productivity of councils is a matter for the ESC, and not individual councils. It is the role of councils to define, measure, consult and report on the assessment of value for money in service delivery, as defined by the best value principles in the Local Government Act (1989 s.208B/208C). The ESC proposal also flags additional performance reporting outside of existing requirements and new measures such as the Local Government Performance Reporting Framework (LGPRF), which is already a significant administrative burden on small rural councils.

1.9 Funding the operations of the Essential Services Commission

We strongly believe that the State Government should fund the operations of the ESC as applies in New South Wales.

2. Unintended consequences for small rural councils and opportunities for improvement

Inadequate attention has been given to the financial sustainability challenges facing small rural councils in developing the proposed rate capping framework. As a result, there are a range of unintended consequences for small rural councils that warrant further consideration and that present an opportunity for further refinement of the draft framework.

2.1 Represent the true cost of inputs

CPI represents a basket of household goods that does not reflect the typical basket of goods and services provided by Local Government. Council is often required to absorb external cost increases in construction and materials and services costs such as utilities, which may increase annually by as much as 10%. This issue is widely acknowledged in the industry and illustrated in the Local Government Cost Index.

Funding of service level changes to enable improvements in the quality and quantity of services that meet community expectations is also ignored. Further, grants continue to be indexed below councils' true cost of input changes. Rate increases typically assist councils to address these issues. The MAV's Local Government Cost Index remains the best indicator of forecast movements in input costs.

2.2 Exclusion of garbage charges from the cap

Many councils, including the Borough of Queenscliffe, do not have a separate municipal charge or garbage charge. Council does not have these separate charges due to the regressive nature of fixed charges. Rate capping will place pressure on Council to introduce a garbage charge to continue to recover the cost of the service. This will disadvantage lower

value properties, which represents a comparatively high percentage of older residents in the Borough who are retired and likely to be on fixed incomes.

2.3 Dependence on rate revenue to fund services

Metropolitan councils have greater capacity to adapt to reduced rates revenue due to significantly greater capacity to generate own-source revenue such as user pay fees for services and significant parking fine revenue. In contrast, small rural councils typically have a much higher dependency on rate revenue to fund community services. A multi-cap framework should be applied that recognises this disadvantage.

2.4 Small councils already operate with lean methodology

Small rural councils are already lean with low cost structures that emphasise direct service delivery and reduced administrative overheads. Small councils already deliver good quality (mostly non-discretionary) services for significantly less cost than larger councils. The efficiency factor treats all councils the same and does not recognise that small councils already operate with this lean methodology.

Small councils should be exempted from the efficiency factor and resourced properly to enable a smooth transition to the new framework. This includes sufficient resourcing to communicate the impacts of rate capping effectively to our local communities.

2.5 Application of a variation period

The phased approach to the period of a variation (one year in year 1, etc) is not supported. A maximum four year variation provides councils with greater confidence in applying for a variation for significant service improvements to meet community expectations that will demand a medium term increase in rating beyond the level imposed by the cap. In addition, consideration should be given to an exemption that is based on a 4 year Strategic Resource Plan (SRP), not an annual budget process to enable councils to have discretion to stage the rate capping to achieve the same average outcome over 4 years.

2.6 Assessment of variation applications

Councils already setting rates increases within a reasonable and determined tolerance level should have a light touch review by ESC and only those councils who need exemptions outside of that tolerance should have to do a more comprehensive submission to the ESC.

Council supports the advice provided at the recent ESC presentation, which indicated that the level of review to be undertaken by ESC will be commensurate with the variation from the cap. ESC should prepare and provide a template submission for use by the sector in order to reduce duplication of effort and bureaucracy.

2.7 Timing of introduction of rate capping policy

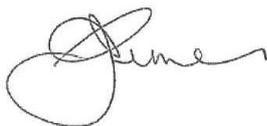
Consideration should be given to deferring implementation to 2017/18 to coincide with the commencement of a new 2018-2022 Council Plan. This approach provides councils and communities with the opportunity to align the Council Plan to the proposed revenue raising capacity and limitations imposed by the ESC rate capping framework.

2.8 Participatory democracy requires genuine community engagement

The Impact of the 2016-17 revaluation cycle, a significant increase in the Fire Services Property Levy (12-13% for Queenscliffe) and the introduction of rate capping will cause considerable public confusion during the transition. For genuine community engagement to occur, dedicated resources to communicate the changes and encourage participation are required.

The successful implementation of rate capping requires a genuine collaborative effort by the ESC, Local Government and the State Government to understand the impacts and what that ultimately will deliver to our local communities. The burden of this responsibility has been unfairly handed over to Local Government to manage - when it should be shared.

In light of the sustainability challenges facing small rural councils, serious consideration should be given to applying a different cap to the small rural Councils group or earmarking an allocation of grant funds to the small rural Councils group to offset the impact of a state wide cap.



Lenner Jenner
Chief Executive Officer

27 August 2015