

Please quote our reference in your reply
Our Ref: RM:jh GT/06/002

28 August 2015

Ms A. Garces
Local Government Rates Capping and Variation Framework Review
Essential Services Commission
Level 37
2 Lonsdale Street
MELBOURNE VIC 3000

Via email: localgovernment@esc.vic.gov.au

Dear Ms Garces

RE: INQUIRY INTO LOCAL GOVERNMENT RATE CAPPING

Thank you for the opportunity to provide a further submission to the Parliamentary Rate Capping Inquiry.

Please find attached Mitchell Shire Council's Submission to the Essential Services Commission's consultation on a Fairer Rating Framework. Please accept our submission for the consideration of your Inquiry.

Should the Committee wish to explore any of the issues contained in Mitchell Shire's submission in further detail, please do not hesitate to contact me directly.

Yours sincerely



REBECCA MCKENZIE
CHIEF EXECUTIVE OFFICER

Enc.



Submission in response to the Local Government - Rates Capping & Variation Framework Review (August 2015)

Council have reviewed the ESC Draft Report on Rate Capping and appreciate the consultation being undertaken and the opportunity to provide further feedback. It is pleasing to see that a number of the recommendations reflect feedback during the initial consultation period.

In making this submission, council acknowledges and generally supports the propositions put forward by our colleagues from Rural Council's Victoria, Interface Councils, and LGPro. Further to these submissions Council would like highlight three key aspects which remain of concern.

1. The Cap

- Council acknowledges that a single rate cap will be simpler to administer and those councils requiring a higher rate increase could be managed through a variation process, however we believe that the community and the general public are expecting councils to adhere to the cap as announced. Of concern is the potential community back lash associated with seeking a variation and how that might affect the long term sustainability of councils if variations are avoided. The long term affects would be seen in the deterioration of the asset base of councils. Clear communication to the community would be required to create understanding that although a cap is being introduced that variations are expected and encouraged for those councils with genuine need.
- The alternative and something Council would support is the application of two caps at a minimum to recognise and support those councils without the ability to raise revenue outside of rates and charges (Parking, etc.) and that have an additional burden of a higher proportion of local road infrastructure when compared to inner / middle metropolitan councils where a greater proportion of the road network consists of state funded arterial roads. This higher proportion of local infrastructure places an additional burden on our budgets compared to those other Councils. The application of two caps would of course not hinder the Council if a decision was made to apply the lower cap, however would provide sufficient flexibility to councillors as the decision makers for community infrastructure and services.



- Council supports the recommendation that the cap applies to the general rates and municipal charges only. We also suggest the same capping principles should apply to those levies set by the state, by example the Fire Service Levy will increase by 7 to 12% in 2015. And on the same vain would encourage the State Government to increase the Statutory Fees that are the responsibility of State Government to set however for Council's to manage.
- Council does not support the proposed rate cap formula, in calculating the impact to Mitchell Shire Council we calculated \$78k in lost revenue when using 2015/16 as a sample year. When applying a methodology based on a % increase to rates paid by the average ratepayer including annualised supplementaries, no loss in revenue was experienced. In the 2014/15 financial year Councils rates paid by the average ratepayer increased by 0.25% when including annualised supplementaries.
- In relation to the rate cap calculation Council supports the inclusion of the Wage Price Index recognising that a significant portion of Councils expenditure is in wages. For Mitchell, approximately 41% of expenditure relates to staff costs, therefore aligns to cap formulation.
- The use of an efficiency factor being applied through the rate capping framework is problematic, especially given it is unclear as to intent and no upper limit identified. Council considers that the use of incentives that reward councils who invest in transformation for long term sustainability would be more helpful.

Councils provide many services to the community and often achieve efficiencies followed by redirection of resources to assets and services that require additional funding to increase or improve services. Councils current long term modelling has been developed based on a 4.5% increase over 10 years. In year one without a variation the impact would be just over \$400k and this will increase annually, the need to introduce efficiencies and reduce or eliminate certain services will already be a requirement without the additional burden of an efficiency factor, which further restricts Council.



2. VARIATION PROCESS

In reviewing the proposed variation process Council has identified a number of areas that will be difficult to achieve.

- Council does not support the suggestion that Councils budgets should be moved to a later (August) adoption but rather believes that the timeframe for applying and deciding on variation outcomes should come forward. The timeframe as it currently stands would potentially require Council to run two parallel budgets, one with capping and one without to ensure no delay in providing services and capital works projects.

In accordance with the Local Government Act, Councils are required to adopt annual budgets by 30 June each year. Prior to this a public display period of 28 days is required, which means Councils have to endorse draft budgets in early April to allow time for public display, consideration of submissions and final adoption.

Council suggests the following timeframe

○ ESC Announce Cap	Nov
○ Notification of intention to apply for a variation	Dec
○ Variation Application	Jan
○ Variation assessment	Feb – March
○ ESC decision notified	March
○ Council consult on budget	May
○ Council formally adopts budget	June

- Further to consultation requirements we challenge whether there is a risk of consultation fatigue from a community perspective leading to the statutory processes becoming tokenistic. Council is supportive of the framework placing greater emphasis on engagement throughout the year to support more informed decision making, however we question the need then for a further statutory consultation at the end of the budget cycle, adding time and further resourcing pressures. Understanding that the statutory process is part of the Local Government Act 1989, any change would require legislative amendment. Council would support this matter being referred to the Act Review currently underway for consideration. In addition we are keen to better clarify the engagement requirements to support a variation. In particular the intent around demonstrating wide engagement undertaken with community versus a consensus from community supporting the need for a variation. Council's concern is, that in practical terms, the ability to reach an all of community consensus on a need for a variation is likely to be very difficult to capture.



- Council does not support the short permissible variation lengths. The variation process will require additional resources and will place additional burden on councils when an application is required. For some councils such as Mitchell, these resources are not readily available or accessible. Many councils may choose not to apply for a variation in the short term to maximise the outcome of variation efforts, and as unintended consequence may impact on the short term via job losses and / or service cuts to ensure short term sustainability.

Council is also concerned that this decision undermines the planning already undertaken by some Councils where long term models are established and demonstrate long term requirements. In the draft report it is acknowledged that councils are best placed to decide on the decision to seek a variation or not, it is a contradiction to then take the length of the variation decision from Councils who would be best placed to make this decision.

3. MONITORING AND REPORTING

- As stated in Councils previous submission, Council strongly believes that the rate capping framework and variation process should not be onerous or create unnecessary levels of bureaucracy, particularly in relation to Mitchell Shire which already is financially constrained. Council strongly argues that any costs associated with the administration of the framework should be the responsibility of the State Government and not imposed on municipal ratepayers.
- Council agrees with the ESC that adherence should be monitored, however in saying that, any increase on reporting requirements of Council will create further process and lead to increased resource requirements. Therefore the preference is that the ESC remains focused on developing a streamlined approach to monitoring requirements that are consistent with the terms of reference of the ESC.

Further Matters

- As per our initial submission, Council does not support implementation of the capping as at 1 July 2016. We would recommend a voluntary cap be introduced in year 1 with the cap to become mandatory from year 2 (2017/18 financial year). Council decisions should be made with appropriate and accurate information, the cap is a substantial change to practice and planning. Councils will need adequate time to educate all stakeholders in the impact the capping will mean to current strategies and projects.



In some instances council may need to review funding agreements with community parties and capital works priorities. Furthermore, Council has entered into a number of longer term commitments prior to State Government announcing a rate capped framework that require time to conclude.

- Council supports a formal review process and the principal that service rates and charges reflect the efficient costs of providing the underlying service. We also support statutory charges being reflective of the cost of providing the statutory services.

Conclusion

Council is committed to working with the State Government on implementation of the Rate Capping Framework and fully supports initiatives that promote and enhance transparency as well as efficiency of Local Government. Council hopes the explanations provided assist in the development of the final rate capping and variation framework. If any further clarification is required please contact Tammi Rose, Director Corporate Services or Nicole Maxwell, Manager Finance on 03 5734 6000.