



28 August 2015

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

Dear Dr Ben-David

SUBMISSION – LOCAL GOVERNMENT RATES CAPPING & VARIATION FRAMEWORK REVIEW

In response to the Essential Services Commission's (the Commission) *A Blueprint for Change, Local Government Rates Capping & Variation Framework Review, Draft Report Volume 1, July 2015* Greater Shepparton City Council (the Council) welcomes the opportunity to make a submission.

The draft rate capping and variation framework provides another significant challenge to councils in the pursuit of long term financial sustainability while balancing community expectations and needs.

With the Federal Government's freezing of indexation on the annual Financial Assistance Grant funding and increasing cost shifting from State and Federal Governments, combined with increasing needs and expectations from the community, councils are facing even tougher environments to operate.

The Council accepts the rate capping and variation framework as an opportunity to look differently at how services and infrastructure are delivered to the community, however, the consequences of rate capping to councils through reduced rate revenue now and into the future should not be ignored.

Cap should apply to Fire Services Property Levy

The Council is of the opinion that the Fire Services Property Levy should also be capped. The draft report acknowledges the levy is outside of council's control however it is collected through the council rating process and by its simple inclusion on the annual rates notice is therefore associated with council activities.

Rate capping will set expectations for the average ratepayer that their total rates will be capped.

In 2015/2016 there was a 32.1% increase in the variable charge for the Fire Services Levy from the previous year¹.

¹ In 2014/15 the Fire Services Property Levy variable charge for the CFA area was 10.9 cents per \$1,000 of capital improved value. In 2015/16 this increased by 3.5 cents or 32% to 14.4 cents.



Excluding the Fire Services Property Levy from the cap, when it has a history of such increases, would increase the likelihood of councils not meeting the ratepayers' expectations on rate capping and generate ratepayer dissatisfaction with Councils.

Application of the cap to the rate revenue per assessment

The Council has concerns over the cap being applied to the rate revenue per assessment (referred in the draft report as "rates paid by average ratepayer").

The draft report recommends the rate revenue per assessment as this "most closely reflects most ratepayers' experience with the council rating".

The Council is, however, concerned about the ability to meet ratepayers expectations set by communicating an amount for an average ratepayer.

By applying the cap to the average it disregards the Council's rating strategy and generates an unnecessary distraction in communicating with ratepayers.

As acknowledged in the draft report, some ratepayers can expect higher increases, while others will experience lower increases.

In communicating the application of a cap to the average, ratepayers will understandably attempt to relate this back to their own situations. The Council believes unrealistic expectations will then be set for ratepayers for their own individual rate notices, increasing the likelihood of dissatisfaction with council.

Applying the cap at the total revenue required from rates would make that communication challenge easier and allow councils to enhance ratepayer understanding of its rating strategy and objectives.

Demonstrating that variation applications take into account ratepayers' and communities' views

The Council supports the draft report recommendation that ratepayers be made aware of any variations and that their views have been considered, however, is concerned about the ability to appropriately demonstrate this in any application.

Table 3.2 in Draft Report Volumes I and II provides the question "Is a rate increase the preferred option of the community?"

Such a question infers councils have evidence that ratepayers support a rate increase which is difficult in any situation to fully achieve. This is demonstrated by the implementation of a rate capping framework by the State Government in the first instance.

The question may be better phrased for councils to demonstrate that the options have been considered and appropriately explained to the community with opportunities for their feedback provided.

Monitoring and reporting

The draft report recommends that the Commission monitors council adherence to the rate cap and any approved variations.

In situations where the Commission identifies "significant or sustained instances of non-compliance" the recommendation is to carry out further investigation and referral.

The Council believes that absolute clarity is required for councils in regards to any compliance framework for rate capping from day one.

Such a subjective approach to compliance as currently recommended in the draft report does not provide the necessary assurance to both ratepayers and councils for the proposed framework.

Implementing the framework – maximum lengths of variation

The Council believes there should be no restriction on the length of permissible variation from 2016/2017 onwards.

The draft report recommends in 2016/2017 that a one year only variation (2016/2017) is permissible with a simple justification of the restriction through concerns over ratepayer and council familiarity with the framework.

If councils meet the framework for variations, in particular that the proposal is integrated into the council's long-term strategy, the Council believes there is no reason why councils should be restricted to a one year variation in 2016/2017.

The Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014 already provide a planning and accountability framework for councils including stakeholder and community engagement to ensure accountability to ratepayers.

The Local Government Victoria's *Local Government Strategic Resource Plan Better Practice Guide 2014* highlights that councils "should comply with the principles of sound financial management as prescribed in the Act being to prudently manage financial risk relating to debt, assets and liabilities; provide reasonable stability in the level of rate burden; consider the financial effects of council decisions on future generations; and provide full, accurate and timely disclosure of financial information."

With the legislation and planning and accountability framework already in place this further supports the argument to remove any restriction in length of variation in year one of implementing the rate capping and variation framework.

Yours sincerely



Chris Teitzel
ACTING CHIEF EXECUTIVE OFFICER