



Submission to Local Government Rates Capping & Variation
Framework Draft Report “A blueprint for change”
August 2015

Summary

The Bass Coast Shire Council is encouraged by and supportive of the level of feedback being sought from all stakeholders in the development and implementation of a state-wide capping and variation framework for council rates by the Essential Services Commission of Victoria.

Through the public consultation phase and the two (2) volumes of the most recent draft report, a clear emphasis has been placed on the annual impact on the average ratepayer, or in simple terms, what is the change to the average rate bill.

Council's principle concern is the apparent singular focus on rate capping as the solution to many ills, such as; reducing the cost of living for Victorians; increasing the efficiency of local government; and ensuring councils are more effective at involving their communities in decision making.

Council is further concerned that the intense focus on the rate cap and variation process will over time increase the disparity between the more urbanized councils and those outside the urban fringe, as less urban councils regularly seek a variation just to keep pace with what they already provide to their communities. Councils will ultimately be left with a choice of refusing to provide some of the expected services considered as normal in the Melbourne area or to seek a variation. This will almost certainly exacerbate the gap between average rates when comparing localities across the state and potentially increase the level of dissatisfaction with the framework.

Although the terms of reference also refer to supporting the autonomy of councils, the options remaining for Council's to address their own income sources, which is a core source of their autonomy, is further limited by reducing real grants, the lack of operational support from all levels of government, along with additional cost imposition or cost shifting.

To retain autonomy and long term sustainability is then to either reduce the services provided or to undertake a process of consultation and communication with the community with a view to garnering support to raise rates above any imposed cap. The risk for councils in any change outside the cap is that it may also come at some significant political risk.

Most councils will strive to achieve a balance through service and efficiency reviews (where they are not already undertaken). On its own, this change in how councils consider their business model is without a doubt a very positive change for the industry and for the community. However, with an additional efficiency factor incorporated into the rate cap, many councils will quickly reach a point where the ability to generate additional efficiencies is limited to cuts in services or at the demise of community assets. This is the point of most significant risk to the community and the outcomes sought by the State Government.

The Bass Coast Shire Council is supportive of seeking efficiencies within the local government business model, whether that is in how services are delivered or in reducing the red tape imposed by other levels of government. Council is also cautiously supportive of the intent of the rate capping and variation framework, however Council is concerned about the longer term impact of framework and is keen to work with Local Government Victoria, the Essential Services Commission and the community to ensure the long term sustainability of local government more broadly.

This paper contains Council's comments on the eleven (11) recommendations and the matters for further consideration. Council has taken the time to provide comments due to the criticality of establishing a robust, yet flexible regime to ensure that Council is able to provide for a viable and livable

community for the long term future and not just with respect to immediate short term demands and desires.

Such a framework must enable and support the use of Long Term Financial Planning frameworks and adopted council policies. Bass Coast Shire Council remains committed to the principles of accountability and in containing operating costs to live with an appropriate rate capping or containment regime.

The draft recommendations

THE CAP

Draft recommendation 1

The Commission recommends that there should be one rate cap that applies equally to all councils in Victoria.

Council is of the view that a single cap applying equally to all councils ensures the framework remains simple to explain to the community and provides an equitable base from which to start discussions with the community.

Draft recommendation 2

The Commission recommends that:

- *revenue from general rates and municipal charges should be subject to the rate cap*
- *revenue from special rates and charges, 'revenue in lieu of rates' and the fire services levy should not be included in the rate cap and*
- *service rates and charges should not be included in the rate cap, but be monitored and benchmarked.*

Council is supportive of this recommendation, but would add that the fire services property levy and all state land taxes should also be subject to a capping framework to ensure that there is consistency in how the state government and local government levy property taxes. Council believes that the Fire Services Property Levy (which is increasing by approximately 7% for 2015-2016) complicates and confuses the rate capping message.

From Council's experience, the community does not differentiate between the rates and the fire services property levy (FSPL). Whilst other charges like the FSPL are levied and managed by Local Government the community's faith and trust in the rate capping and variation framework will be adversely impacted.

Draft recommendation 3

The Commission recommends that the cap should be applied to the rates and charges paid by the average ratepayer. This is calculated by dividing a council's total revenue required from rates in a given year by the number of rateable properties in that council area at the start of the rate year.

Council is supportive of this recommendation

Draft recommendation 4

The Commission recommends that the annual rate cap should be calculated as:

$$\begin{aligned} \text{Annual Rate Cap} &= (0.6 \times \text{increase in CPI}) \\ &+ (0.4 \times \text{increase in WPI}) \\ &- (\text{efficiency factor}) \end{aligned}$$

With: CPI = DTF's forecast published in December each year

WPI = DTF's forecast published in December each year

The efficiency factor will initially be set at zero in 2016-17 but increasing by 0.05 percentage points each year from 2017-18. The Commission will undertake a detailed productivity analysis of the sector to assess the appropriate long-term rate for the efficiency factor.

This recommendation is where the aim or focus of the rate capping and variation framework is laid clear. That being, the framework's primary focus is to limit the increase for the ratepayer, with the sustainability of council being a secondary concern. Each year, each council grapples with that same challenge with the two (2) foci vying for primacy. The framework and particularly the formula for arriving at the rate cap, now makes this decision making process very clear.

The calculation, although not reflective of the cost of providing Council services, does provide a simple to understand method. Council has concerns with two (2) aspects of the calculation.

The first challenge in the calculation is with the arbitrarily determined "efficiency factor" that is incorporated to ensure that the rate cap is unlikely to vary to any great degree from the Department of Treasury and Finance forecast for CPI.

Council is of the view that the "efficiency factor" does not provide any value to the calculation, other than to increase the speed at which local government reaches the efficiency dividend gain wall. As illustrated in the United Kingdom, there is a point where no more efficiency can be gained from a service orientated community service. At that point it will be important that mechanisms exist to eliminate the inclusion of an "efficiency factor". Should no mechanism exist at that point, councils can be expected to eliminate vital services or allow community assets to deteriorate.

It is understood that the variation framework has been established in an attempt to address this issue, but it will add to the ongoing administration of the framework as councils regularly seek variations.

The second concern is with the Wage Price Index (WPI). Council is concerned about the message to Unions and those negotiating Enterprise Agreements with regard to level of any potential increases in conditions. For example, the inclusion of 3.5% increase over the next three (3) years is likely to set an expectation for the level of wage increases for the next three (3) years. Not only does this in effect preempt the decision but it also sends a false signal to the market. The reality of the WPI is that the 3.5% increase includes changes to employee provisions and other related employee costs that are not necessarily a component of Enterprise Agreement negotiations, but are an organisational cost of employing resources.

Draft recommendation 5

The Commission recommends that the 2015-16 rates (general rates and municipal charges) levied on an average property should be adopted as the starting base for 2016-17.

Council is supportive of this recommendation.

VARIATION

Draft recommendation 6

The Commission recommends that the framework should not specify individual events that would qualify for a variation. The discretion to apply for a variation should remain with councils.

Council is supportive of this recommendation and remains of the view that the reason for the variation should be an irrelevance if the appropriate process to request the variation has been undertaken. The reasoning behind this is that in providing an exhaustive list of circumstances there will always be an exception. For this reason the circumstances concept should be broad and allow scope for the community to understand the need for and consider a variation for any circumstance that the community or council deem necessary.

Draft recommendation 7

The Commission recommends that the following five matters be addressed in each application for a variation:

- *The reason a variation from the cap is required*
- *The application takes account of ratepayers' and communities' views*
- *The variation represents good value-for-money and is an efficient response to the budgeting need*
- *Service priorities and funding options have been considered*
- *The proposal is integrated into the council's long-term strategy.*

Council is supportive of this recommendation, however council is very concerned about the level or extent of evidence required to support a variation request.

It is important that the evidentiary requirements do not place an onerous burden on councils, as the one size fits all approach is expected to disadvantage those councils that are resource poor.

Draft recommendation 8

The Commission recommends that in 2016-17, variations for only one year be permitted. Thereafter, councils should be permitted to submit and the Commission approve, variations of the length set out below.

First year of variation	Length of permissible variation
2016-17	One year (i.e. 2016-17 only)
2017-18	Up to two years (i.e. 2017-18 only or 2017-18 and 2018-19)
2018-19	Up to three years (i.e. up to 30 June 2021)
2019-20 and beyond	Up to four years (i.e. up to 30 June 2023)

Council is supportive of this recommendation

Draft recommendation 9

The Commission recommends that it should be the decision-maker under the framework, but only be empowered to accept or reject (and not to vary) an application for variation.

This recommendation is fully supported by Council; however it will be important for an appropriate feedback mechanism to be established to support the continual improvement of the effectiveness and trust in the rating and variation framework.

Council seeks to ensure that feedback is provided by the commission on each variation lodged and that this feedback should be collected by Local Government Victoria and compiled into guidance notes for each year of the framework. Each year the guidance notes should then be updated based on the feedback from the Essential Services Commission and councils on the submissions for the most recent year. This guidance can be expected to assist all future submissions shift towards an industry best practice ensuring the continual improvement of variation requests.

MONITORING

Draft recommendation 10

The Commission recommends that it monitor and publish an annual rates report on councils' adherence to the cap and any approved variation conditions.

Council's initial comment is that there is considerable overlap between the information and analysis contained within recommendation 10 and recommendation 11 within the Draft Report Volume II – Supporting Material and Analysis.

Council is broadly supportive of the content of recommendation 10, as there is clearly little value to the community in having a rate capping and variation framework without regular reporting on councils' adherence to what has been agreed.

Draft recommendation 11

The Commission recommends that it monitor and publish an annual monitoring report on the overall outcomes for ratepayers and communities.

Whilst Council has no objection to the annual monitoring and reporting on overall outcomes, this needs to be tempered with the additional reporting burden and the need to ensure that standards and definitions are not determined by external bodies such as the commission or Local Government Victoria. Due to the diverse nature of the services provided by local government, any definitions or descriptions should be determined by the local government industry and should not be prescriptive and inflexible. It is even more important that the industry as a whole does not become mired in a compliance mentality and loses the adaptability and flexibility that enables continual improvement that comes from a guidance approach as opposed to a regulated and overly prescribed approach.

MATTERS FOR FURTHER CONSIDERATION

The Commission recommends that the Government consider making a formal review of the rates capping and variation framework a statutory obligation. The review should draw on any data and trends identified through the ongoing monitoring regime and all interested parties should have an opportunity for the sector to provide input to that review. The Commission considers a review period of 4 years to be appropriate.

Council is supportive of the need for regular review of any rate capping framework, with perhaps the inclusion of a sunset clause built into the regulatory environment.

The Commission recommends that the Government consider amending the Local Government Act 1989 to require that service rates and charges must reflect the efficient costs of providing the underlying service.

Council is supportive of the proposed change to the Local Government Act 1989; however it will be important that any such change is not overly prescriptive in nature.

The Commission recommends that the Government consider initiating a periodic review to ensure that statutory fees continue to reflect councils' efficient cost of providing statutory services.

Council is very supportive of all statutory fees and charges being reviewed on an annual basis to ensure that they are maintained at a level to reflect councils' efficient cost of providing statutory services. The challenge with such changes are that the cost of providing statutory services can be expected to vary between councils, depending on factors such as the size of the council, the efficiency of the service, the location of the council in relation to factors such as large urban areas, growth corridors and physical remoteness. The setting of such fees should not disadvantage those councils in more remote or challenged areas.

We will also establish a working group drawn from the sector, to refine some of the detailed design and implementation requirements of the framework.

The Bass Coast Shire Council is very keen to participate in the working group should the opportunity be available.

OTHER CONSIDERATIONS

Council proposes that the timelines for implementation be altered to ensure adequate time is allowed to deliver the budget for 2016-2017.

The proposed timelines indicate that the ESC will assess council variation applications during the period of March 2016 to May 2016, with the notifications being provided in May 2016. This timeframe does not allow sufficient time for the delivery of an annual budget.

A typical budget requires a minimum nine (9) weeks from release of a draft budget to the adoption of an annual budget.

Activity	Minimum Timeframe
Adoption of a proposed budget for release	Week 0
Advertising of a proposed budget (which will occur post Council decision and is subject to local media cycles) announcing the public consultation period.	Week 1
Closure of consultation period (at least four (4) weeks or 28 days).	Week 5
Announcement of hearing of public submissions.	Week 5
Collation, report preparation and delivery to council of submissions to be considered.	Week 6
Hearing of public submissions	Week 7
Consideration by Council of potential changes to the proposed budget	Week 7
Preparation of report (and potentially revised proposed budget) and delivery to council of draft budget.	Week 8
Meeting to adopt the draft budget	Week 9

Any timelines with notification being provided in May is too late to allow sufficient time for Council to meet the 30 June statutory deadline for adopting an annual budget.

Council proposes that the deadline for notification of decisions by the ESC should be mid-April 2016 at the very latest.

Conclusion

The Bass Coast Shire Council, although not in support of the imposition of a rate capping regime, is committed to ensuring that Council is in a position to get the best value possible from the framework. Council intends to use the framework to support the existing focus on remaining a low cost and low rating Council that seeks to use efficiencies and growth to further maintain and develop the Bass Coast community. Council will also continue to use a long term financial planning framework to assess the impacts of Council decisions and to further support future variation requests.

Council is keen to be an active participant in the development of the rate capping and variation framework and is eager to work with the Essential Services Commission to ensure the best possible outcome for the Bass Coast community.