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MANNINGHAM

15 May 2015

Dr Ron Ben-David
Chairperson
Local Government Rates Capping and Variation Framework Review
Essential Services Commission of Victoria
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

localgovernment@esc.vic.gov.au

Dear Dr Ben-David

Local Government Rates Capping and Variation Framework Review

I refer to the *Local Government Rates Capping and Variation Framework Review* Consultation Paper released by the Essential Services Commission of Victoria in April 2015.

I am pleased to provide Manningham City Council's submission to the Consultation Paper for consideration.

Council is supportive of the principles that underpin the objectives of the framework review and takes seriously the onus placed on it to demonstrate that rates are set in line with services being provided to our community and in line with the long-term interests of our ratepayers.

I look forward to continuing to contribute to the sector's input on achieving the development of an appropriate and robust system of fair and transparent rating by Councils that best serve the community.

Yours sincerely

J. Carbone

JOE CARBONE
Chief Executive Officer

Manningham City Council

Submission to the Essential Services Commission

Local Government

Rates Capping and Variation Framework

Consultation Paper

May 2015

Introduction

In January 2015, the Victorian Minister for Finance issued a Terms of Reference to the Essential Services Commission of Victoria (ESC) to consider and report on the development of a Rate Capping and Variation Framework for local government. The ESC is required to undertake and complete the review by October 2015 for implementation in 2016-17.

In April 2015, the ESC issued a Consultation Paper seeking submissions on their proposed approach to the design of a rate capping and variation framework.

The Terms of Reference set out a number of objectives for the framework, including to:

- *contain the cost of living in Victoria while supporting Council autonomy and ensuring greater accountability and transparency in local government budgeting and service delivery.*
- *promote rates and charges that are efficient, stable and reflective of services that the community needs and demands.*
- *promote rates and charges that are set at a level that ensure the sustainability of the Council's financial capacity and Council infrastructure.*

This submission represents the Manningham City Council's response to the questions and issues raised by the ESC in the consultation paper.

If you require clarification or which to further discuss the issues raised in this submission, Manningham City Council's Chief Executive Officer, Mr Joe Carbone, will be pleased to assist.

Background

Manningham City Council raises approximately 74% of its revenue from general rates and waste charges. Similar to other Melbourne Metropolitan Councils, Manningham's reliance on rate income is higher than the Victorian average of around 56%. Commensurately, the impact of rate capping on Manningham would be proportionally greater than on those Councils with a lower reliance on rate revenue (for example, with large parking revenue sources). This is a significant structural difference that must be adequately addressed in any rate capping framework to avoid inequity and disadvantage.

As part of its commitment to the community, Council has been implementing strategies to improve the efficiency and effectiveness of services and cap the growth of operating expenditure. Limiting the growth in operational expenses over the last three years has in turn limited rate rises while still preserving Manningham's investment in priority community assets and services. Council's draft 2015/16 Budget is based on a 3.53% increase in the total rates and charges bill (general rate plus waste charges) for an average residential property. This represents the lowest rate increase in Manningham in over a decade.

Council acknowledges that local government must continue to strive to provide services and infrastructure to the community that are both relevant and cost effective.

This submission also acknowledges the detailed commentary provided in many other local government submissions, and noted in the ESC Consultation Paper, on a range of issues from CPI not being a singularly relevant cap through to the material impact that cost shifts have had in being taken up as contributory components of Council rate increases over the years.

The Form of the Cap

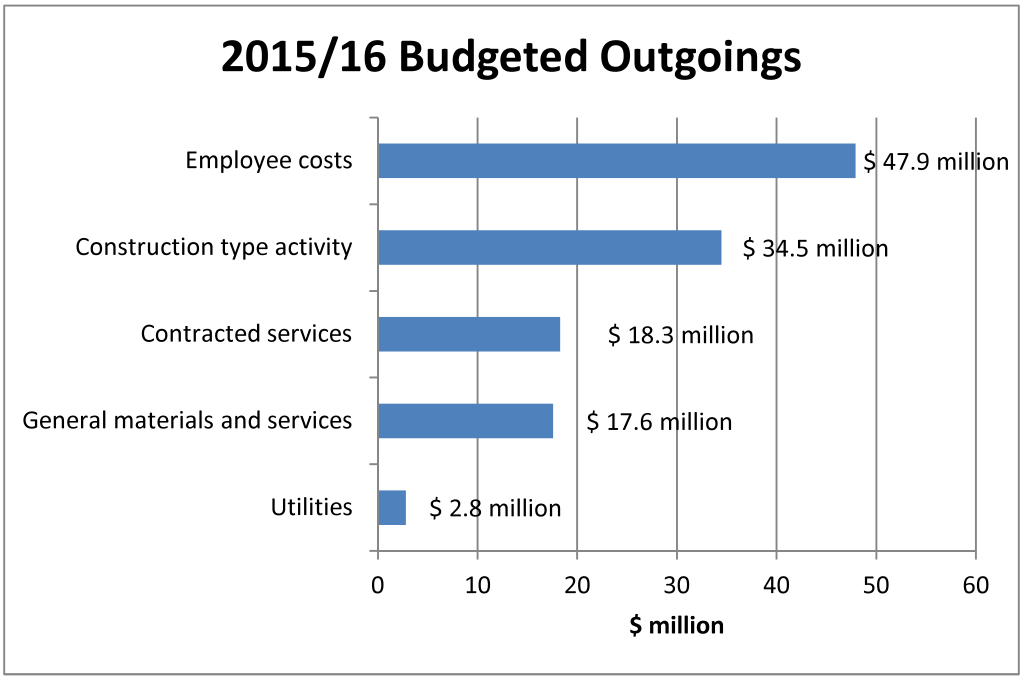
Each year Council's rate rise factor is determined by applying:

- the expenditure base build up each year, after allowing for real growth in the municipality
- the level of increase in actual known costs arising from fixed price contracts (for example long term waste contracts)
- changes to Council services including adjustments to service levels following consultation with the community
- the level of fees and charges for users of Council services
- cost shifts from State and Federal Governments
- non-indexation or under indexation of grants
- new regulatory obligations imposed on Councils.

In applying a rates cap, the Consumer Price Index (CPI) has been proposed as a possible measure. While CPI is simple to understand and apply, it is not a relevant sole basis for setting Council rates. CPI is a consumer price measure made up of a weighted basket of household goods, and has little correlation to the inputs that are utilised in delivering Council services to our communities.

Chart 1 below details the expenditure break up of Council's draft 2015/16 Budget. Consumer-type spending represents only a very small proportion of Council's expenditure, and mostly within the General materials and services line item. More representative indicators of cost increase factors are Council's Enterprise Agreement, Building Price Index and contract fixed price increases.

Chart 1: proposed Budget 2015/16 Expenditure



Any rate capping framework should take into consideration the underlying nature of the key income and expenditure categories, and the extent to which Council can control the unit costs of each category. The rate capping framework should also consider the most appropriate indicator for each category, as detailed earlier. CPI is not relevant in most cases.

Council submits for consideration a framework that incorporates the following elements:

1. Recognition of municipality growth – impacting on both operations and capital
2. Application of industry based indexation factors other than CPI for relevant non-controllable budget components eg. Building price index, known fixed contract cost variations
3. Recognition of additional net costs to Council to take up cost shifts, under indexation shortfalls etc
4. Application of an operational expenditure growth cap on baseline labour and goods and services budget lines (Efficiency Dividend).

The proposed framework takes into account the underlying nature of Council's cost and revenue base, and also the significant impact that cost shifting has had, and continues to have, on Council rate rises.

Diagram 1 Proposed rate capping framework

Elements 1 and 2

Non "controllable" cost increase

- Municipality growth
- Construction based expenditure
- Contracted services
- Utilities

Industry relevant cost indexes

Element 3

Adjustments for additional net costs transferred to Council through:

- Direct cost shifts
- Non indexation of grants
- Impact of new legislation
- Non indexation of statutory fees
- Increased State charges above cap
- Defined benefits superannuation

Any cap on controllable costs is "adjusted" for these items

Element 4

"Controllable" operational cost increases

- Labour
- Goods and services

Baseline operational expenditure growth cap (Efficiency Dividend)

= Net Rate Increase Factor

In considering relevant rate capping/ escalation factors, the framework should be informed by economic forecasts from authoritative institutions.

Table 2 details the Consumer Price Index and Wage Price Index used by the State Government in building the 2015/16 Victorian State Budget. In each of the four years, the forecast wage price increase for Victorian State Government employees outstrips the consumer price index. This provides further support to the notion that CPI alone is not a relevant cap for all expenditure categories.

Table 2: Victorian economic forecasts – 2015/16 State Government Budget

	2015/16 forecast	2016/17 forecast	2017/18 projection	2018/19 projection
Consumer Price Index	2.75%	2.75%	2.50%	2.50%
Wage Price Index	3.25%	3.50%	3.50%	3.50%

Table 3 details a range of forecast escalation factors for Council's key expenditure categories. Escalation factors include those used in preparing Manningham's draft 2015/16 Budget (MCC), the State Government 2015/16 economic forecasts and the Municipal Association of Victoria Local Government Cost Index.

Table 3: 2015/16 Escalation factors

<table>
<tr><th></th><th colspan="4">2015/16 forecast</th></tr>
<tr><td>Capital/construction</td><td>MCC
3.3%</td><td colspan="3">Building Price Index (2013/14)</td></tr>
<tr><td>Contracted services - general</td><td>3.0%</td><td colspan="3" rowspan="2">Cost recovery of actual contract price increases</td></tr>
<tr><td>Contracted waste services
(including EPA Levy)</td><td>6.7%</td></tr>
<tr><td>Labour</td><td>3.1%</td><td>State Gov
3.25%</td><td>State Gov CPI
2.75%</td><td>Local Gov Cost Index
(estimate)</td></tr>
<tr><td>Goods and services</td><td>2.6%</td><td>2.75%</td><td>2.75%</td><td>3.4%</td></tr>
</table>

In summary, Council strongly suggests that any rates capping framework should:

a) Be determined by applying a range of indicators for Council's cost categories, and not rely solely on CPI
b) Allow for increased service demand and complexity arising from demographic changes
c) Provide for consistency in funding, and therefore confidence in service delivery, over a number of years
d) Incorporate adjustment factors to reflect the impact of cost shifts from other levels of government, and circumstances outside the control of Council (e.g. changes to legislative obligations and potential superannuation calls)
e) Recognise the negative impact that rate capping may have on asset management and the ability of local government to invest in asset renewal
f) Compensate Councils for the increased administration and compliance costs associated with the implementation of such as scheme
g) Recognise that rate capping may have differing impacts on councils depending on whether a service is delivered by in-house staff or it is contracted out eg. Council's kerb side waste service.
h) Not apply a single rate cap to all Councils – this recognises the diverse nature of communities and the varying priorities placed on Council by community.

The Base to Which the Cap Applies

Any rate capping framework should only apply to rates and not other revenue sources. Service charges (such as waste charges declared under S162 of the Local Government Act) are generally set so that Council can recover the cost of that particular service delivery or project. For example, customers of Manningham's waste service may choose the level of service that suits their needs (both in terms of bin size and number of bins) and vary their charge accordingly. Council's waste charge is set at a rate to recover the full cost incurred by Council in providing the service. By its nature, residents are exercising choice in taking up this optional service, and therefore such charges should not be subject to rate capping.

It should also be noted that a number of Council's fees and charges are set by legislation, and many of these fees have failed to keep pace with the cost of delivering services. One such example is planning permit application fees, which have not been increased for over six years. This shifts the cost of delivering Council's planning services from applicants to ratepayers, placing greater pressure on rates as a source of revenue. The cost to Council of not indexing statutory fees should form part of an automatic variation process.

The effect of supplementary valuations in any year should be excluded from any rate cap. Supplementary rates generally reflect development and therefore increased demand on service delivery and infrastructure requirements. Any valuation adjustments arising from supplementary valuations should form part of the valuation base for the following financial year and should be excluded from the calculation for rate capping purposes for that subsequent year.

Introducing rate capping in a revaluation year is also likely to lead to confusion amongst ratepayers, leading to a higher level of valuation objections and additional costs to Councils.

The Variation Process

Any variation process must not create an unnecessary administrative burden on Councils and also work within budget and planning cycles. In particular the variation process should:

- not be a complex and time consuming process
- not cause unnecessary delay on the finalisation of annual budgets and rate setting
- allow for automatic variations for certain items, for example where statutory charges are not indexed annually by the State Government
- clearly articulate the process and extent of community engagement required to justify a rate capping variation request
- incorporate an independent appeal or review process for cases where a Council believes that its application for a rate cap variation had not been appropriately considered.

Community Engagement

Manningham City Council undertook an extensive community consultation and engagement program in developing its Generation 2030 Community Plan which was adopted by Council in 2012. The 2030 Plan has guided Council in the nature of services provided to the community and in developing its medium term Strategic Resource Plan. Council also engages with its community in the development of service delivery and infrastructure strategies, as part of key project proposals, and in the development of the Annual Budget and the Strategic Resource Plan incorporating Council's Annual Initiatives.

Provided that Council can demonstrate that it has undertaken responsive community engagement in its strategic resource planning, an additional, onerous consultation regime ought not to be required beyond that already legislatively required in the preparation of Council's annual budget.

Conclusion

Manningham Council is concerned about potential unintended consequences of a rate capping regime which constricts Council's ability to best make its own judgements, in conjunction with its community, to deliver the services and infrastructure both required and expected by the community. In an environment of cost shifting from Federal and State governments to local government, it is inevitable that Councils will reconsider their ability to deliver unfunded (or under-funded) services on behalf of State and Federal governments e.g. home and community care, school crossing supervision, immunisation, maternal and child health services and libraries.

Council is of the view that local governments ought to be autonomous in making key local decisions including the setting of rates that are in the long-term interests of the community in accordance with the requirements of the Local Government Act 1989.

Manningham City Council looks forward to receiving the ESC's draft report in July 2015, and to further contributing thereafter.