



Borough of Queenscliffe

Queenscliff & Point Lonsdale, Victoria, Australia

Our Ref: QG227-01-01/2

15 May 2015

Mr Andrew Chow
Director
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

localgovernment@esc.vic.gov.au

Dear Andrew

SUBMISSION TO LOCAL GOVERNMENT RATES CAPPING & VARIATION FRAMEWORK REVIEW

In response to your invitation for submissions to the Consultation Paper for the above review, the Borough of Queenscliffe wish to lodge the attached submission as signed by the Chief Executive Officer (*see Attachment.*)

Please do not hesitate to contact me should you require further information or assistance.

Yours sincerely

Lynne Stevenson
General Manager Corporate & Community Services

Enc. Attachment - Submission to Local Government Rates Capping & Variation Framework Review



Submission to the Consultation Paper for the Local Government Rates Capping and Variation Framework Review – April 2015

The rate capping framework should not restrict Council's ability to achieve its strategic objectives. The Borough of Queenscliffe Council is fundamentally concerned about the impact that rate capping will have on local democracy and decision making. Council is best placed to understand the impact of those decisions and develop appropriate strategies for their community. It is for this reason that Council does not support rate capping.

THE FORM OF THE CAP

1. While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?

CPI is not an appropriate cap. A recent presentation by ESC emphasised that the rate cap has not yet been defined. CPI is a weighted basket of household goods and services, whereas the cost of delivering Council services largely relates to provision of infrastructure, social and community services. For example, local government must provide and maintain significant assets. The cost of maintaining (operating) and upgrading (capital cost) assets is linked to the cost of construction and contract labour and is typically higher than CPI.

Consideration should be given to the impact of rate capping on small rural councils with limited resources. The adverse impact of rate capping on councils' ability to meet ESC requirements and maintain existing services will be significantly greater on small rural councils than on large and metro councils where economies of scale, alternative funding sources and financial capacity can all offset the potential impact of a limit on rate revenue.

2. What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?

A significant proportion of Council's costs relate to construction, asset maintenance, waste management, contracts, wages, fleet/plant expenses and utilities costs. These costs are more closely aligned to the Local Government Cost Index published by the Municipal Association of Victoria. Other significant costs are mandated, such as election costs, property valuations, insurance premiums, regional library contributions and landfill levies.

3. Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative caps for the next two to three years to assist councils to adopt a longer term view in their budgeting and planning, particularly when maintaining and investing in infrastructure often takes a longer term perspective? How should such a multi-year cap work in practice?

Council does not support rate capping because it is likely to threaten Council's ability to effectively implement sound financial and asset management planning. A longer term view is essential. This provides councils with some flexibility to consider local community needs in the medium term and establish a plan to manage rate increases within the 4 year Strategic Resource Plan (SRP) timeframe. It also recognises that the rate cap is unlikely to be known for the 4 year planning period. It is acknowledged that councils should have a clear plan to bring rating increases back in line with appropriate rate capping levels within a reasonable timeframe. It should also be recognised that councils have different pressures requiring different strategies to achieve rate capping objectives over the medium to long term. This will impact on the timeframe. Implementation of appropriate strategies to meet community needs and also meet rate capping objectives of the 4 year SRP should ultimately be a matter for individual councils to determine.

Finally, due consideration should be given to including a 'sunset clause' in the application of rate capping so that the reinstatement of local democracy and local decision making is restored.

4. Should the cap be based on historical movements or forecasts of CPI?

No. Sustainable financial management principles necessitate councils to develop an SRP based on assumptions that rely on the best information available about forecast trends in expenditure and revenue. These trends predict cost indexation forecasts over the short, medium and long term. Historical CPI movements are irrelevant, and if lower than forecast, will further under-estimate real cost pressures.

5. Should a single cap apply equally to all councils?

A universal rate cap damages local democracy and decision making. Smaller councils, such as the Borough of Queenscliffe, with fewer resources are at a greater disadvantage. Smaller councils that may be more reliant on rate revenue to fund services are more price sensitive than larger councils and do not have the economies of scale to absorb the additional cost pressures. 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 statewide cap.

THE BASE TO WHICH THE CAP APPLIES

6. What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?

Broad-based capping will reduce Council's ability to implement appropriate strategies to fund services that support the specific needs of their community.

Excluding the municipal charge will burden councils to a greater extent where councils, such as the Borough of Queenscliffe, do not apply a municipal charge.

Garbage and other fees and charges should be market tested / based and not included within the cap. Councils rely to varying degrees on their rate revenue as a percentage of total revenue to fund services, including but not limited to waste management. Councils such as the Borough, which are reliant to a greater extent on general rate revenue to fund services, will be heavily disadvantaged. The Borough funds most services from rate revenue and does not have a 'separate' garbage charge or service fees for waste management.

Rate capping that is inclusive of garbage charges incorrectly assumes that all councils that provide waste management services apply full cost recovery in determining a garbage charge and service user fees. This approach places pressure on both, a) parts of the community, who may not be able to afford it, to further subsidise the service due to councils moving closer to a full user pay service; and b) councils to increase fees and charges to fund services. It removes Council's discretion to implement appropriate strategies for their community.

7. Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?

No. As discussed some critical services provided by councils should be excluded from the cap as they are subject to external market movements (e.g. service rates/charges and special rates/charges linked to contracted services or capital projects; or rates and charges funding waste disposal landfill levies which have increased by some 550% over the last 5 years).

8. How should we treat supplementary rates? How do they vary from council to council?

Supplementary rates should not be included within the rate cap. Supplementary rate revenue is directly linked to the level of property development and growth within each council. Supplementary rates bring with it the cost of growth in services. Future rate rises should also be able to factor in planned growth in rate revenue from development to fund growth in services and new or expanded infrastructure.

9. What are the challenges arising from the re-valuation of properties every 2 years?

Introduction of rate capping during a general revaluation year (ie. 2016/17) will generate confusion as ratepayers also bear the impact of valuation movements on rates.

10. What should the base year be?

2017/18. Community engagement strategies will need to address the impact of revaluations every two years, however it is preferred that the first year of the rate cap does not involve a revaluation year.

THE VARIATION PROCESS

11. How should the variation process work?

Councils that set rate increases below the determined level should not have to submit their draft budget to ESC for endorsement. There remains an underlying risk that councils may establish an unsustainable financial plan to achieve short term rate capping objectives at the expense of long term sustainable financial planning objectives eg. A consequential increase in the asset renewal gap, or reduced services.

Councils that set 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 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.

12. Under what circumstances should councils be able to seek a variation?

External influences beyond Council's control, which have a direct financial impact, should be considered. The Council is subject to extraordinary financial drivers that are outside of their control, which may include such factors as:

- a. Implications of State or Federal Government policy changes;
- b. Recovery from emergency or other disaster;
- c. Legacy asset management concerns;
- d. Shifts in global money markets affecting superannuation calls or other linked investments

The combined effect of rate capping and diminishing government funding will place unreasonable pressure on councils to find alternative sources of revenue. Further funding opportunities are becoming more competitive, placing smaller councils with fewer resources at a greater disadvantage in preparing competitive funding applications.

In addition, factors such as changing demography and community expectations regarding services should be considered. The Borough has an ageing community which may increase the demand for services and in turn could have implications for higher levels of funding from rate revenue.

Councils that are able to demonstrate community support for an increase in service level or a new service (e.g. introduction of a green waste service), should be able to have the cost of the new or increased service level excluded from any cap.

13. Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, changes in funding levels from the Commonwealth Government, changes in State Government taxes and levies, increased responsibilities, and unexpected incidents such as natural disasters), are there any other circumstances that would justify a case for above cap increases?

Rate capping should not prevent Council from achieving its asset management objectives.

Councils may have from time to time increased demands on their capital budgets to provide new, renewed or upgraded infrastructure. As a result and particularly for smaller councils, this need for fit for purpose assets may result in significant variability in annual capital budgets. It is difficult to manage assets to an appropriate safe level if reliant on a fixed annual capital expenditure budget as assets have variable useful lives.

14. What should councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation? A possible set of requirements could include:

- the council has effectively engaged with its community**
- there is a legitimate case for additional funds by the council**
- the proposed increase in rates and charges is reasonable to meet the need**
- the proposed increase in rates and charges fits into its longer term plan for funding and services**
- the council has made continuous efforts to keep costs down.**

Submissions should consider whether:

- a. Council has a robust 4 year Strategic Resourcing Plan in place, rather than a one year budget. The Borough does not have a 10 year Financial Plan and it would be a significant burden to require small rural councils to demonstrate application of a 10 year Financial Plan.
- b. Council can demonstrate clear and transparent communication and consultation with their community in the development of their annual budget and/or 4 year SRP. This approach is consistent with the intent of the *Local Government Act 1989* and best practice.
- c. Councils have asset management plans for different asset classes linked back to its SRP.

Consideration should be given to an exemption that is based on a 4 year SRP not an annual budget process to enable council's to have discretion to stage the rate capping to achieve the same average outcome over 4 years.

Submissions should consider if rate increases are in direct relationship to increased service provision (e.g. the introduction of a new Green Waste Service) and whether the Council can demonstrate community consultation and preparedness to pay. An increased service could be a new or expanded service or growth in the level of service. There may, however, be a risk that this approach will establish a false underlying assumption that the way services are currently delivered will not change.

Finally, as stated earlier, due consideration should be given to including a 'sunset clause' in the application of rate capping so that the reinstatement of local democracy and local decision making is restored.

COMMUNITY ENGAGEMENT

15. What does best practice in community engagement, process and information look like? Are there examples that we can draw from?

Best practice should provide guidance and not be prescriptive. Community engagement approaches should be relevant and suitable to the needs of the local community.

INCENTIVES

16. How should the framework be designed to provide councils with incentives to pursue ongoing efficiencies and respond to community needs? How could any unintended consequences be minimised?

Emphasis should continue to be placed on medium to long term strategic planning, including robust strategic resource plans and asset management plans for all asset classes (in terms of reducing the asset renewal gap).

The tender requirements of the Local Government Act ensure councils get the best value for money contracts, however contracts subject to public tendering requirements will be market based and not reflective of CPI.

TIMING AND PROCESS

- 17. A rates capping and variation process should ensure there is enough time for councils to consult with their ratepayers and for ratepayers to provide feedback, and for us to review councils' applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with councils' budget processes. We are interested in stakeholders' views on how this can be achieved.**

Consideration should be given to deferring implementation to 2016/17 given the complexities associated with 2015/16 being both a revaluation year, an election year, and the end of Council's 4 year planning cycle. This allows time for councils to develop a considered strategic plan. Introduction of rate capping in a general revaluation year will generate confusion as ratepayers also bear the impact of valuation movements on rates.

Further, incorporating a review by the ESC will add further timeline pressures on councils to develop their annual budgets. The statutory requirements associated with the budget process to prepare the draft budget, exhibit, consult and consider submissions, adopt the budget and submit it to the Minister is lengthy and currently takes some 6 months. The additional requirement of ESC to review budgets could force the budget cycle to commence only a few months into a new financial year when information required to form the next budget is limited. Alternatively, it may reduce the time available to engage with the community on the proposed budget.

TRANSITIONAL ARRANGEMENTS

- 18. What transitional arrangements are necessary to move to the new rates capping and variation framework? Is there merit in phasing in implementation over a two year period to allow for a smooth transition?**

This is difficult to respond to without a full understanding of the proposed processes involved in:

1. setting of the cap,
2. application of cap, (i.e. will it be applied equally to all councils or will there be variation between regional and metropolitan councils?), and
3. the variation process and level of effort required to prepare the necessary documentation.

ROLES

19. What are stakeholders' views on the respective roles of the key participants?

Should the Commission's assessment of rates variations be advisory or determinative?

The ESC's role should be an advisory one. Councils are tasked with making the most appropriate strategic decisions for their communities and to understand the impact of those decisions. A universal rate cap will damage local democracy, threaten financial sustainability and weaken asset management .

OTHER MATTERS

20. Is there a need for the framework to be reviewed to assess its effectiveness within three years time?

Yes. Due consideration should also be given to including a 'sunset clause' in the application of rate capping so that the reinstatement of local democracy and local decision making is restored.

21. How should the costs of administrating an ongoing framework be recovered?

In principle, the cost of implementation and ongoing compliance should be borne by the State not by Councils. The cost will be difficult and complex to quantify eg. additional cost of services and financial planning. Experience in the water industry, where strategic resource plans and budgets must be submitted for review to ESC, demonstrates the cost of preparing the justification documentation and evidence to support their positions is high and will be a significant burden for small rural councils.

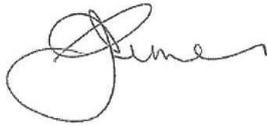
OTHER MATTERS RAISED IN EARLIER CHAPTERS

22. We are interested in hearing from stakeholders on:

- whether we have developed appropriate principles for this review**
- whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important**
- supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.**

Council does not support rate capping, which generally does not strengthen local democracy and decision making and is likely to threaten Council's ability to ensure sound financial and asset management planning.

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 statewide cap.

A handwritten signature in black ink, appearing to read 'Lenner Jenner', with a large, stylized initial 'L'.

Lenner Jenner
Chief Executive Officer

15 May 2015