

# A BLUEPRINT FOR CHANGE

## Local Government Rates Capping and Variation Framework Review

### SUBMISSION TO DRAFT REPORT - WANGARATTA RURAL CITY COUNCIL

#### Introduction

Wangaratta Council welcomes the opportunity to comment on the Blueprint for Change. Our comments relate to the recommended framework in general, its objectives, followed by commentary on individual recommendations.

#### General comments

We believe that the proposed framework places an unnecessary layer of bureaucracy over Local Government decision making. It distances the relationship between councils and their community by placing an independent arbiter between democratically elected representatives and their citizens.

The requirement to make application for variations, is untimely, onerous and resource intensive, impacting smaller less well-resourced councils in particular.

Further, the contention behind the framework is that local government, as a sector is incapable of managing its own sustainability in consultation with its communities. We believe that councils are the best placed to consult and make decisions in accordance with their communities, without further independent scrutiny.

#### Objectives of the rates capping framework

*'...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.'*

#### **Submission**

Council contends that rates are a small proportion of the basket of goods that consumers purchase annually. The weekly impact for an average property of a drop from 5% to 3.05% is **56c**. Annually this amounts to **\$29**. Therefore, the rate cap will not contain the cost of living.

It will make a small impact on the cost of living for individuals, but a large cumulative impact on Councils. Wangaratta Council will lose **\$9,000** weekly that will accumulate to **\$29M** over ten years - a significant impact on our capacity to provide services.

*‘...to promote rates and charges that are efficient, stable and reflective of services that the community needs and demands, and set at a level that ensures the sustainability of the councils’ financial capacity and council infrastructure, thereby promoting the best outcomes for all Victorians.’*

### **Submission**

Council submits that the two objectives above are in conflict; that stable and reflective community needs and demands cannot be met whilst containing the cost of living under a rate capping regime. There is a risk that asset management plans and renewal expenditure will be curtailed in order to meet the cap and essential infrastructure will be allowed to decline. Additionally, training and development will be sacrificed to cut costs.

## THE CAP

### Draft recommendation 1

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

### Submission

Whilst a single cap provides simplicity, it is submitted that a supplement to the cap should be made for councils impacted by demographic or circumstantial factors:

- Remoteness
- Size
- Population
- Population density
- Socio-economic status impacts
- Emergency events
- Significant unplanned budget impacts outside direct control i.e. unforeseen legal and governance costs.

This recommendation is made for the following reasons.

- The consideration of these factors will place every council on a level playing field.
- These factors are easily obtainable and provide a robust, independent point of differentiation that could be applied to the base cap to obtain a refined cap specific to each council.
- This could obviate the need for some councils to make a Variation request.
- Data used by the Victorian Grants Commission for its cost and revenue adjusters would be appropriate for calculating this supplement.
- Whilst the Financial Assistance Grants take account of these cost adjusters, rate revenue is a far greater proportion of total council revenue and therefore, the impact of these adjustments will be far more relevant to each council.

### Alternate recommendation

That a base cap be applied that is then adjusted to accommodate individual councils' demographic circumstances and cost adjusters as applied by the Victorian Grants Commission. A premium or a discount may be the result of this adjustment. Consideration must also be given to providing for the known backlog of asset renewal.

## **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.

## **Submission**

Council supports this recommendation, but questions third item of monitoring and benchmarking service rates and charges. Service rates and charges may be based on a cost recovery basis or consider a community benefit. Some may relate to specific business undertakings that may operate on a standalone financial basis. Further to this, National Competition Policy Principles must apply to pricing.

### **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.

### **Submission**

The wording of this recommendation should be altered to '*...the cap should be applied to the rates plus municipal charge paid by the average ratepayer.*' This will then be aligned with recommendation 2, that service charges are exempt from the cap.

Care must be taken to specify the exact formula to be used to calculate the average rates upon which to apply the cap. The application of annualised supplementaries can impact positively or negatively on the overall rate revenue raised depending on the relationship between the number of supplementary properties and their relative impact on rate revenue.

Additionally, the application of differential rates must be carefully explained in any rate cap calculation methodology.

#### **Draft recommendation 4**

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

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

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% each year from 2017-18. The Commission will undertake a detailed productivity analysis of the sector to assess the appropriate long-term for the efficiency factor.

#### **Submission**

Wangaratta Council rejects the proposed formula for calculating the cap for the following reasons.

- The application of the efficiency factor belies the efficiencies that councils will already be implementing to meet the cap. This factor should be removed.
- The cap should be calculated using an independent assessment of the Victorian Local Government Cost Index, such as that commissioned by the Municipal Association of Victoria.
- Local government makes a significant contribution to the social fabric and standard of living in Victoria. Recognition of this contribution should be built into any rate cap imposed.
- There are a significant proportion of wage costs included in capital expenditure. This has not been taken into the apportionment of CPI and WPI in the proposed cap.

### **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.

#### **Submission**

The base year should be the 2016-17 financial year, with application for the 2017-18 rating year.

By delaying the implementation of the rate capping process, a more orderly transition will result, enabling:

- better planning and preparation for the variation process by both councils and the ESC
- avoidance of property valuation impacts in 2016/17
- newly elected councils to be in place prior to the commencement of the regime
- appropriate community consultation to be undertaken.

Councils will be commencing work on their 2016/17 budgets no later than December 2015. Some certainty around potential rate rises is required during the budget process.

It will be very difficult to squeeze the rate variation process into the budget process. Consideration should be given to triggering a process based on year two of the Strategic Resource Plan i.e. two years ahead, to enable certainty for the preparation of the budget in the target year.

Under the proposed variation process, the budget consultation will be undertaken without certainty of the success of an application for a Variation. This will create havoc for councils and budget submitters; with the need to provide information on the budget impacts should an application be refused. The outcomes of variation applications should be brought forward to the end of March to avoid this uncertainty.

Educational and explanatory material should be developed and provided by the State for distribution, so that local government is not left to explain.

## 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.

### Submission

Council submits that some circumstances should be exempt from the variation process, and a variation should be automatic. These circumstances would include natural disasters and defined benefits superannuation call. The preparation of a Variation application in these situations would be a waste of the ESC's and council resources. Universal or specific variations to the cap should be applied in these circumstances.

The statement by the Minister that '*Such applications will only be supported in exceptional circumstances.*' is concerning and indicates that there is a political directive at play.

### 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

### Submission

Council questions the capacity of the ESC to make an assessment of 'value-for-money and an efficient response to the budgeting need.' Municipalities will have their own unique mix of councillors, communities and plans that may be in complete alignment. It is not for the ESC to be the final arbiter on what is good value for that community's rates dollar.

The development of a template to assist in preparation for a variation will expedite the preparation and assessment process.

### **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.

<b>First Year of variation</b>	<b>Length of permissible variation</b>
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)

### **Submission**

Council contends that up to four year submissions should be available from the commencement of the regime. This will enable a first year application to determine certainty in its Strategic Resource Planning for the life of the SRP.

The framework should also be able to accommodate revision of multi-year variations. The circumstances requiring an approved variation may resolve or accelerate. Also new variables may arise. A review of approved multi-year variations should be available to councils.

### **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.

### **Submission**

This recommendation is unnecessarily rigid and may result in the refusal of worthy applications, merely due to disagreement regarding the quantum. There should be a mechanism to vary an application up or down by the ESC or by negotiation and consultation between the council and the ESC.

## **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.

### **Submission**

This isn't necessary, a council will be held accountable by its own mandated disclosures to its community.

### **Draft recommendation 11**

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

### **Submission**

Should such annual monitoring occur, it must be rigorous and comprehensive, undertaking a thorough review of social, environmental and financial impacts on communities.

## **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.

Refer to comments on recommendation 11.

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

Refer to comments on recommendation 2.

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

Council supports this recommendation.