CITY OF **MONASH**

DW:JC: LIAS33 (447)

13 May 2015

Dr Ron Ben-David
Chairperson
Local Government Rates Capping and Variation Framework Review
Essential Services Commission
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Dear Dr Ben-David

LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK REVIEW

Thank you for your invitation to comment on the *Local Government Rates Capping and Variation Framework Review*. Please find attached a submission on behalf of the City of Monash (Monash), for your consideration.

Our submission highlights a number of suggestions, particularly with respect to the variation/submission process and the make-up of the rate capping mechanism. To assist with your review, we have prepared responses to the 22 questions you raised in your consultation paper.

In summary, Monash Council recommends in this submission that the ESC consider a range of factors when making its report to the Minister, including provision for a variation/submission process that incorporates:

- a "Local Government Index" (rather than CPI) to determine the "rate cap" level, recognising the impacts of:
    - Local Government Enterprise Agreements;
    - Cost shifting from other levels of Government;
    - Costs relevant to local government (e.g. levies, waste transport costs, subsidy of community activities and facilities, etc); and
    - CPI data affecting local governments (e.g. using underlying inflation indicators rather than headline CPI data);
- annual consultation and input from councils as to the make-up of the index;

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- a rate cap that is set by no later than October annually - to allow councils to complete draft Budgets and Strategic Resource Plans (SRP) in a timely manner;
- a submission process that allows councils to apply for reasonable increases above the cap;
- a submission process that is facilitated several months prior to councils advertising draft budgets (submission decisions by end of January each year);
- recognition of councils' reliance on rate growth income (from supplementary and new rates) and the need to incorporate that growth within the rates base as the starting point to applying any proposed rate cap mechanism; and
- recognition of councils' requirements to maintain infrastructure renewal expenditure at a rate higher than the rate cap (the "renewal gap"). Monash Council has an SRP that has a significant increase to base capital expenditure from 2017/18 to accommodate the need for increased renewal expenditure.

In summary, we hope that the rate cap setting mechanism and the variation/submission process will ensure that councils continue to have the ability to manage their finances, deliver a wide range of quality services and still have the ability to introduce new and exciting initiatives for local communities.

I trust that this submission is well received and look forward to the opportunity to discuss any of the comments contained therein, should you wish to do so.

Yours sincerely

a. Dd.

DR ANDI DIAMOND
Chief Executive Officer

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MONASH CITY COUNCIL

LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK REVIEW

Background

Monash City Council (Monash) raises some 66% of its revenue from property rates. Rate capping will effectively leave Monash with discretionary decision making powers over only some fees & charges (leaving only discretionary rate setting of some 15-25% of its own-source revenue).

Monash, like other Victorian councils, is concerned about the impact rate capping will have on our ability to maintain community assets to the standard required. We believe it should be up to individual councils, in partnership with their communities, to decide the appropriate level of rates to levy.

Monash has consistently kept rates as low as possible and has the lowest rates of all 79 Victorian councils. We will continue to keep our rates low but we need the flexibility to be able to increase our rates above inflation if required, and justifiable.

There are strong demands for funding to ensure our ageing infrastructure – footpaths, roads, community buildings are kept up to a standard acceptable to our community. In developing our long term financial plan, we have justified why a 6% increase is needed in the short term to maintain local infrastructure and provide community services.

Monash Council has been particularly cognisant of the impact of rate increases on ratepayers and has proudly maintained the lowest rating status for several years. To maintain that position we have been striving to reduce costs and limit growth without reducing services. As a consequence we already run a very lean organisation, so it will be really difficult if we are squeezed even further.

Rate Capping New South Wales – Model for Victoria?

Consideration of the NSW model for rate pegging is relevant as NSW councils have faced a rate capping regime since 1977 administered by the ESC equivalent, the Independent Pricing and Regulatory Tribunal (IPART). The rate peg is mainly based on the NSW Local Government Cost Index (LGCI), which measures price movements over the past year for goods, materials and labour used by an average council. The rate also includes a productivity factor deduction. IPART also conduct the LGCI survey process.

However, NSW councils operate in significantly different ways to Victorian councils. Site Value (SV) rating is used in NSW, whereas Capital Improved Value (CIV) or Net Annual Value (NAV) is used across Victoria. This is a critical point of difference, as the NSW model does not require much consideration of the growth factors related to supplementary and new rates. Although this is particularly important for Victorian “growth” councils it is also a significant factor in most council Strategic Resource Plan funding models.

At Monash, we rely on approximately 1% supplementary growth in the rate base year-on-year. A rate cap that is imposed on councils on a “Budget to Budget” basis will restrict our Council of some $1M in rate revenue in 2016/17 (over and above the raw cut that an imposed rate cap will deliver).

Another important distinction between NSW and Victoria is that that the delivery of community services is largely administered by Victorian councils which means we are more exposed to the real impacts of cost shifting. According to the Municipal Association of Victoria (MAV), Victorian councils contribute over $100 million annually in ‘value-add’ to the HACC program. An index mechanism that is modelled on the IPART model may underestimate these impacts.

In NSW the rate cap includes all charges over land (rates and special charges). It would be expected that a cap in Victoria would be set over all council property rates and charges, including councils that adopt a General rate or differential rates, municipal charges, waste service and other service charges applied across the State under the provisions of the *Local Government Act* 1989 (LGA).

Timing of Variation/Submission Process

The Minister for Local Government Victoria has advised that from 2016/17councils will be required to submit their budgets to the ESC for permission to raise rates above inflation. Current legislation requires councils to advertise a draft budget, with known increases, by the end of April or early May to have a budget adopted by 30 June. A process to consider applications for increases above the cap would, therefore, likely need to be completed by January or February each year. As a consequence, councils will need to consider a process for application of rate variation/submission long before the decision making process to adopt a draft budget is completed.

Impacts of Rate Capping- Monash

The immediate impact of rate capping for Monash is that the current Strategic Resource Plan (SRP) is unsustainable in its 2014/15 form.

Monash has only recently adopted budgets that have an “underlying surplus”: that is a surplus position net of capital grants and contributions. Monash has also had the ability to introduce new initiatives each year within a cash-balanced budget. In 2014/15, Council added some $2M of capital and operating initiatives to its budget while at the same time applied gains from efficiency savings to its Base Capital program (some $13M over the next four years). In addition, with the proceeds from the sale of its Residential Aged Care facilities (RACF), Monash plans to repay its $15M debt (previously an “interest only” strategy) by 30 June 2015.

The risks facing Monash with the imposition of rate capping include:

- Reduced cash surpluses and likely underlying operating deficits (reducing cash);
- Reduced working capital ratios if Monash spends more than it generates in revenue. A working capital ratio above 1.5:1 is desirable (the adopted SRP with 6% rate increases p/a maintains and improves on that position);
- Limited ability to adopt new initiatives. Monash introduced $2m of capital and operating initiatives in 2014/15. The current SRP with $3M of new initiatives is not sustainable in the short or long-term (although this new growth only represents some 2% of the total budget);
- Infrastructure renewal gap increasing with reduced or deferred base capital spends. Monash is committed to additional base capital funding from 2014/15 that will add $13M to the base capital works program in the SRP (funded from efficiency savings). Additional funds to address Monash's STEP renewal gap were also added to the SRP, from 2017/18. The risk is Monash may decide to use those funds for other urgent needs or initiatives rather than infrastructure renewal;
- Reduced funds may cause less spend on new infrastructure or a higher reliance on borrowing and asset sales;
- Limited ability to fund future LASB Defined Benefits calls from own source revenue;
- Compromised short to medium term decision making, while the rate capping methodology and ESC exemption process is developed. This impacts on Monash's ability to complete strategic resource plans from 2015/16;
- Growth councils and councils reliant on rate growth (Monash gains 1% each year via supplementary rate growth) may be denied the growth component if the cap applies Budget to Budget; and
- Councils will likely review non-core council services and consider ceasing involvement in these non-core activities.

The impact on Monash's ten-year financial plan is significant with potential loss of revenue of some $256M. The immediate threat is to maintain Monash's service levels and provide funding to address the infrastructure renewal gap. The renewal gap for infrastructure expenditure is estimated to require an additional $139M over the next ten years.

Rate Capping Impacts

Rate Capping Impact	2016/17	Four Year SRP 2015/16 to 2019/20	Ten-Year Impact 2015/16 to 2025/26
Estimated Reduced Rate Revenue	$4.65M	$50.4M	$256M
Reduced Rate Revenue + Growth Factor (1%)	$3.78M	$41.4M	$204.6
Renewal Gap Commitment (estimated additional spends)	$0	$11.8M	$139M

Monash's Best Value Program

Commencing in 2013/14, Monash reviewed key service areas to look for opportunities to provide more efficient services to our community. A number of opportunities were identified and recommendations have been implemented resulting in service improvements and significant cost savings. Currently we are examining the remaining recommendations to determine priority actions. Once implemented these actions are expected to deliver further benefits and potentially cost savings.

However, the introduction of rate capping will likely mean the Best Value work, already completed, will not be considered or recognised. The new rate capping mechanism will likely include an efficiency component forcing councils, particularly ones that have already implemented efficiency gains, to consider cutting services or reducing vital capital renewal expenditure.

CONCLUSION

Council recommends in this submission that the ESC consider of a range of factors when making its report to the Minister, including provision for:

- a "Local Government Index" to determine the "rate cap" level recognising the impacts of:
    - Local Government Enterprise Agreements;
    - Cost shifting from other levels of Government;
    - Costs relevant to local government (e.g. levies, waste transport costs, subsidy of community activities and facilities, etc); and
    - CPI data affecting local governments (e.g. using underlying inflation indicators rather than headline CPI);
- annual consultation and input from councils as to the make-up of the index;
- a rate cap that is set by no later than October annually (to allow councils to complete draft Budgets and Strategic Resource Plans (SRP) in a timely manner;
- a submission process that allows councils to apply for reasonable increases above the cap;
- the submission process to be facilitated several months prior to councils advertising draft budgets (submission decisions by end of January each year);
- recognition of councils' reliance on rate growth income (from supplementary and new rates) and the need to incorporate that growth within the rates base as the starting point to apply the proposed rate cap mechanism;
- recognition of councils' requirements to maintain infrastructure renewal expenditure at a rate higher than the rate cap. Monash has an SRP that has a significant increase to base capital expenditure from 2017/18 to accommodate the need for increased renewal expenditure;
- recognition that councils should be permitted to set their 2015/16 rate in line with the current SRP.

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Attachment 1

No.	Question	City of Monash Response
	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?	The rate cap should not be based on CPI or have CPI as the major influence in the calculation of the proposed cap (see Response 2). Cost increases will vary for local councils from region to region. Costs for materials in remote areas or communities that have significant cost-adds such as transport will not be reflected in CPI movements. CPI is only relevant to contracts that contain rise & fall clauses linked to CPI. For Monash, this is around $37M of $153M (24%).
2	What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?	The cap should be based on a Victorian Local Government Cost Index (VLGCI), which measures price movements over the past year for goods, materials and labour used by an average council. This index should evolve following consultation with local government through the peak industry bodies and professional associations e.g. MAV, LGPRO, FINPRO, and APESMA. We recommend the ESC work closely with the MAV and look closely at their LGCI model and consider it as a base for the ESC model. The proposed index should take into account: • Remoteness, e.g. rural, regional, inner metro, outer metro, growth fringe metro; and • Enterprise Agreements (EA). The labour indexes often quoted when discussing costs do not generally reflect local government cost impacts. The ESC could collect EA data from across the state to provide the VLGCI with relevant labour costs e.g. by category e.g. rural, regional, inner metro, outer metro, growth fringe metro.

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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?	Subject to providing a fair mechanism for individual councils to make submissions it would be reasonable that the cap be set on a single year basis. Using an acceptable VLGCI will likely provide a different cost figure index each year; therefore the cap should be set annually.
	How should such a multi-year cap work in practice?	We recommend that if a multi-year cap methodology is considered then it should reflect the Strategic Resource Plan (SRP); a 4-year timeframe.
4	Should the cap be based on historical movements or forecasts of CPI?	See responses to 1,2,3
5	Should a single cap apply equally to all councils?	No. A capping mechanism should reflect the different cost bases for councils related to Remoteness, e.g. rural, regional, inner metro, outer metro, growth fringe metro.
	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?	A "rate cap" should only apply to rates and charges as described in the ***Local Government Act*** **1989 Part 8**, including**:**
		• Rates and charges on each occupancy S158A:
		    • Uniform S160;
		    • Differential rates S161; or
		    • Limited differential rates S161A;
		• Municipal Charge; and
		• Service rate or charge S162 e.g. waste, rubbish or recycling charges.
		However, the cap should not apply to S163 Special Rates and Charges. These rates and charges are generally specified to recover funds for a specific purpose and set at

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		specified amounts.

7	Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?	A cap should be based on average rates and charges per property and should be inclusive of the various rates and charges as described in the ***Local Government Act* 1989 Part 8**, including:
		• Rates and charges on each occupancy S158A:
		    • Uniform S160;
		    • Differential rates S161; or
		    • Limited differential rates S161A;
		• Municipal Charge; and
		• Service rate or charge S162 e.g. waste, rubbish or recycling charges.
		Further, the rate cap increase should apply to the total estimated rate base at the end of the previous budget year (as at 30 June of the previous budget year) not the budgeted or declared rate base in the previous budget document. This will ensure that rate growth from supplementary or new rates (for growth Councils) is included in the starting base from which the cap will apply.
		Refer to Attachment 2 - Rate Calculation table. The two tables reflect the difference between a cap on Budget-to-Budget rate revenue and a Budget (+growth)-to-Budget rate cap. These examples show that a cap applied to the Budget + growth rate figure will deliver a rate per assessment figure in-line (or lower) lower than the rate cap set for that budget year.

8	How should we treat supplementary rates? How do they vary from council to council?	Supplementary rates represent the rate growth throughout a rating year. The cap should not apply to supplementary growth throughout the year; however the supplementary growth should be included in the total rates collected before the following years cap is applied.

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		The cap should be applied to the previous year budgeted rates plus the sum of rates raised throughout the year i.e. Rates applied plus supplementary growth. Please refer to the response at Q7 and Attachment 2 comparing the rate cap application to council's rate revenue.
9	What are the challenges arising from the re-valuation of properties every 2 years?	Councils set rates by determining the level of rate revenue required to fund existing services, required capital works each year and provision for new or expand services and works. The valuation of each property and subsequent two-yearly revaluation process determine how the rate burden is distributed, not the level of rate revenue required. The rate cap should be applied in a consistent manner year-on-year. So to minimise confusion, with biennial revaluations and rate setting with variable rates in the dollar, the cap should apply to total rate revenues (including items detailed in Question 7 i.e. rates, municipal charges, service rates & charges). This of course will mean that in revaluation years all ratepayers will experience different levels of rate increase (or decrease) compared to the previous year, as individual property valuation movements are applied. This will no doubt cause confusion amongst ratepayers, who will be expecting a CPI rate increase each year. This will be particularly problematic in the first year of the proposed rate cap 2016/17 which happens to be a revaluation year.
10	What should the base year be?	A base year concept is not necessary as a cap should apply to total rate revenue.
	THE VARIATION PROCESS	
11	How should the variation process work?	Monash Council is seeking a variation/submission process that is administered by the

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		ESC that provides for: • an equitable consideration of bids from all councils, regardless of the size of council, recognising that smaller councils may have limited resources to prepare and submit bids; • reasonable increases above the cap where a demonstrated need is identified; • a process to be facilitated several months prior to councils advertising draft budgets (variation/submission decisions by end of January each year); • recognition of councils' requirements to maintain infrastructure renewal expenditure at a rate higher than the rate cap. Monash Council has an SRP that has a significant increase to base capital expenditure from 2017/18 to accommodate the need for increased renewal expenditure; • recognition of councils' desires to expand/increase service delivery with new initiatives; • a variation/submission process that does not incorporate onerous or cost prohibitive deterrents to each council submitting a bid.
12	Under what circumstances should councils be able to seek a variation?	Councils should be able to submit a bid when seeking additional funding for: • Increased renewal gap funding in line with STEP program identified requirements; • major new infrastructure; or the ability to service loan funding for such infrastructure; • increased/expanded services e.g. new initiatives; • servicing the cost shifting associated with managing other levels of government services; • maintaining financial sustainability according to VAGO indicators, particularly working capital ratio (greater than 150%); or

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		• implementing Council adopted strategic plans e.g. Asset Management Plans.
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?	See response to Q12. Also, if the local community supported a proposal from their Council to invest in community infrastructure or some other initiative, this should be grounds for an additional rate increase beyond the cap.
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. We would like stakeholders' views on whether the above requirements are adequate.	All of the items listed are relevant and adequate requirements for councils to demonstrate as part of the submission process: • The council has effectively engaged with its community. **Agreed** (please refer to Response 15 on Community Engagement); • there is a legitimate case for additional funds by the council – **Agreed**; • the proposed increase in rates and charges is reasonable to meet the need – **Agreed**; • the proposed increase in rates and charges fits into its longer term plan for funding and services – **Agreed**; • the council has made continuous efforts to keep costs down – **Agreed** (Please also refer to the response at Q16 on the Best Value Framework).
	COMMUNITY ENGAGEMENT	
15	What does best practice in community engagement, process and information look like? Are there examples that we can draw from?	Recent examples of participatory budgeting processes at Melbourne and a citizen jury at Darebin are best practice in expenditure decisions and budget development involving the community. There are also examples of Council Plan engagement

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		exercises that have been awarded by sector peak bodies, i.e. LG Pro Corporate and Community Planning Award winners. These have been very useful and informative practices that have returned positive outcomes. The results of these activities have been limited to use in longer term planning and/or for a set limited expenditure amounts dedicated to citizen decision making and not the whole budget or larger scale projects. The processes have been worthwhile and one of the key learning's has been that an effective engagement process takes many months of planning. This is critical to ensure valid and statistically reliable community representation. The development of an appropriate rate capping engagement process needs to consider similar timeframes and approaches to these processes. It also requires a change to the current legislated budget and Council Plan cycle to include these engagement timeframes and techniques.
	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?	**Monash Council and the Best value Framework** Commencing in 2013/14, Council reviewed key service areas to look for opportunities to provide more efficient services to our community. A number of opportunities were identified and recommendations have been implemented resulting in service improvements and significant cost savings. Currently we are examining the remaining recommendations to determine priority actions. Once implemented these actions are expected to deliver further benefits and potentially cost savings. However, an unintended consequence with the introduction of rate capping will likely mean the Best Value work, already completed, will not be considered or recognised. We assume the new rate capping mechanism will likely include an efficiency component forcing councils, particularly ones that have already implemented efficiency gains, to consider cutting services or reducing vital capital renewal expenditure. We request that the ESC take into consideration Monash's recent effort in reducing

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		costs and acknowledge that councils, that have not already implemented efficiencies, via a Best Value Framework may have advantage or scope to reduce costs at a higher rate than councils that have demonstrated implementing efficiencies long before the rate capping announcements. At Monash the best value efficiencies and savings have been channelled mostly into the capital works program with a view to addressing the renewal gap in infrastructure expenditure. We recommend the ESC also make provision in the variation/submission process for councils that have already found efficiencies. This may be achieved by reviewing various financial indicators that benchmark like councils e.g. labour cost per capita, labour cost per assessment, capital spends (per capita and per assessment) and also consider non-financial indicators regarding service delivery and satisfaction measures (NB: this list is only a sample of indicators that could be used to measure efficiencies). The Local Government Performance Reporting Framework (LGPRF) may assist in this regard.
	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.	Monash will commence its 2016/17 budget process in early October 2015, with preparatory planning for: • new capital works & update of the 4yr Capital program; • fees and charges benchmarking and analysis; • best value savings/proposals; • new initiatives; and • SRP and long-term financial plan (LTFP) updates. This preparation is targeted at this time so that Councillors can be presented the most up to date data for preliminary discussion in December 2015. Those discussions will focus on: • 2016/17 Budget impacts/influences; • Rating and Borrowing strategy discussion; and

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		• Councillor initiatives. Councillors and Officers also discuss the development of the LTFP which includes discussion on the proposed rate (December 2015). Once officers receive indications from Councillors on the direction of the new budget the detailed work to prepare the draft (including the 8-10 budget deliberation meetings) will take place between December 2015 and March/April 2016. We recommend that the consultation process that councils undertake on a proposed variation/submission would need to take place in October each year with the expectation that a council would: • undertake community consultation in October; • submit a variation/submission to ESC in November; • receive advice (ESC) on the success or failure of the bid in December; and proceed with the completion of the budget process.
	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?	The ESC is not required to report back to the Minister until October 2015. Based on our suggested time-table for 2016/17 (Q17) we do not believe there is sufficient time allowed to implement a process that gives councils reasonable time to consult on and prepare a variation/ submission for 2016/17. We recommend a transition year that allows councils to prepare the 2016/17 draft budgets in-line with their pre-rate capping announced SRPs. If they require a variation then the ESC will need to give some concession regarding the consultative process that might be expected in future (post 2016/17) variation/submissions. Please also see the response at Q17.
	ROLES	
19	What are stakeholders' views on the respective roles of the key participants? Should the Commission's assessment of rates variations be	We believe that the ESC's assessments should be advisory and that the rate level ultimately set by Council should be determined by the local community, as it is now. If,

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	advisory or determinative?	after undertaking the processes described at Q14, the community agrees to a rate increase above the cap, this should be the level of rate increase that is applied for the relevant budget year.
	OTHER MATTERS	
20	Is there a need for the framework to be reviewed to assess its effectiveness within three years' time?	We recommend the framework is reviewed annually until it is workable and considered equitable for councils.
21	How should the costs of administrating an ongoing framework be recovered?	We suggest the ESC negotiate with the Office of Local Government to seek ongoing funding for management of the variation/framework. Once the framework has been agreed councils will need to determine adequate resources to submit a bid.
	OTHER MATTERS RAISED IN EARLIER CHAPTERS	

22	We are interested in hearing from stakeholders on **whether we have developed appropriate principles for this review**:
	• PRINCIPLE 1 - Local communities differ in their needs, priorities and resources;
	• PRINCIPLE 2 - Local communities and ratepayers are entitled to hold their councils to the highest standards of accountability and transparency when setting rates;
	• PRINCIPLE 3 - The framework should support the autonomy of councils to make decisions in the long term interests of their community and ratepayers;
	• PRINCIPLE 4 - Councils will need to satisfy the burden of proof outlined in the framework when seeking a variation above the cap;
	• PRINCIPLE 5 - Rate increases should be considered only after all other viable options have been explored;
		Monash Council strongly believes a well designed framework should deliver positive outcomes for councils and ratepayers. Please note our responses to the framework principles;
		• PRINCIPLE 1 - Local communities differ in their needs, priorities and resources;
		    • The framework should support individual council diversity and support their ability to deliver different types and levels of services, with limited resources, in response to their community's preferences. The framework should take into account distinguishing features such as population growth, any particular service or infrastructure needs, and the sources of income available to councils. ***Agree.***
		    • Councils should be able to show that they have engaged with and considered their community's and ratepayers' views on different rate levels and service priorities. ***Agree.***
		    • The framework should be flexible to respond effectively to any major changes affecting councils and their communities. ***Agree.***

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	• PRINCIPLE 6 - The framework should support best practice planning, management systems and information sharing to uphold council decision making;
	• PRINCIPLE 7 - The framework should be flexible and adaptable; and
	• PRINCIPLE 8 - There should be few surprises for ratepayers and councils in the implementation of the framework.
		• PRINCIPLE 2 - Local communities and ratepayers are entitled to hold their councils to the highest standards of accountability and transparency when setting rates;
		    • The rates capping regime (together with the variation process) recognises that ratepayers' expectations should be central to councils' considerations of any proposed rate increases. ***Agree.***
		    • Because individual ratepayers often have little "bargaining power" in councils' rate-setting processes, the framework should provide ratepayers with confidence that proposed variations above the cap are being independently assessed by the Commission. ***Agree.***
		    • We will consider how we can rely on DELWP's LGPRF so that communities and ratepayers can clearly observe the link between rates and service levels and critical infrastructure investment. ***Agree.***
		• PRINCIPLE 3 - The framework should support the autonomy of councils to make decisions in the long term interests of their community and ratepayers;
		    • The autonomy exercised by councils should align with the effective and efficient use of ratepayer funds. ***Agree.***
		    • A cap arrangement recognises that communities and their councils have limited resources and that councils must be disciplined in how they prioritise their activities and pursue efficiently delivered services. ***Agree.***
		    • Councils, in consultation with their communities, remain best placed to make decisions regarding the mix of services they provide and the service standards they deliver. ***Agree.***
		    • We are not seeking to interfere with councils' consultations with their communities on decision-making regarding priorities, resource allocation and service delivery. ***Agree.***
		• PRINCIPLE 4 - Councils will need to satisfy the burden of proof outlined in the framework when seeking a variation above the cap;

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		- When a fully demonstrated case is made by a council and the Commission is satisfied that it meets the framework's requirements, the council should be allowed to increase rates higher than the cap. ***Agree.*** - We will, through this review, develop working definitions and criteria to be applied for the exceptional circumstances specified by the Government in our terms of reference. ***Agree.*** - We will also publish guidelines and fact sheets on the key requirements of the regime to assist councils in the process. ***Agree.*** - Any requirements under the new framework should be proportionate to the expected benefits from its implementation. In designing the rules, we will aim to minimise the burden on councils necessary to comply with the new regime and consider whether any new requirements should be phased in. ***Agree.*** - The case for any above cap increases should be justified on the grounds of: - more or improved services that the community wants and for which it is willing to pay; and/or - the closing of any critical infrastructure gap. ***Agree.*** • PRINCIPLE 5 - Rate increases should be considered only after all other viable options have been explored; - The framework should promote the right incentives (and minimise any perverse incentives) for investment in service delivery, maintenance of infrastructure and the pursuit of ongoing efficiencies. The framework should discourage expedient decisions contrary to communities' and ratepayers' long term interests. ***Agree.*** - The framework should require councils to demonstrate that they have assessed (and where relevant, consulted on) options other than rate increases. Depending on the circumstances, these other options may include (but are not limited to): cost savings in existing functions; alternative models of service delivery; reprioritisation of expenditures; or

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		alternative funding measures (including fee for service). Any relevant council policies on these matters should be transparent and tested with local communities. ***Agree.***
		• PRINCIPLE 6 - The framework should support best practice planning, management systems and information sharing to uphold council decision making;
		  • Relevant information should be provided to ratepayers by councils in an accessible and timely manner to allow discussions and engagement with ratepayers on rate increases, services impacts and financial sustainability. ***Agree.***
		  • The engagement with the community by councils should be an integral part of the councils' annual and long term planning, budgetary and rates setting process. Evidence of effective engagement should form part of the case for seeking rate variations. ***Agree.***
		  • We will provide clear guidance to councils on best practice processes and information for councils to engage meaningfully with their community by drawing on the work and progress already made in these areas by the sector's peak industry bodies (MAV, Victorian Local Government Association (VGLA), Local Government Professionals (LGPro), FinPro (Local Government Finance Professionals), councils and VAGO. ***Agree.***
		• PRINCIPLE 7 - The framework should be flexible and adaptable
		  • We expect the framework will need amendment from time-to-time as councils, communities and the Commission identify opportunities for improvement. ***Agree.***
		  • In light of the available timeframes, it may be necessary to consider a 12-month transition period over which the framework is implemented. ***Agree.***
		  • As councils, communities and the Commission become more familiar with the framework, we expect councils may seek multi-year rate variations (say, for 3-5 years). ***Agree.***
		  • We expect to review the effectiveness and design of the framework within

No.	Question	City of Monash Response

		3 years of its commencement. ***Disagree - Monash recommends annual reviews until such time as councils are generally in agreement with the Minister on the design framework effectiveness.***
		• PRINCIPLE 8 - There should be few surprises for ratepayers and councils in the implementation of the framework;
		  • Roles, responsibilities, information requirements and expectations of councils should be clearly spelled out. ***Agree.***
		  • Councils will need to consult with ratepayers and show the likely impacts on individual rates arising from proposed rate increases. ***Agree. (subject to a transition period for 2016/17)***.

	• whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important	Refer previous comments

	• supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.	The Monash 2015/16 budget and rate strategy accommodates unavoidable external influences on Council's budget. Several Federal and State Government levies/taxes are collected through local government rates and charges, and are passed on in full to fund other levels of Government agencies and programs.
		The estimated cost included in the budget for major external levies/taxes in 2015/16 includes:
		• EPA levies over waste disposal \$2.5M (1.5% of rate revenue):
		  • The levy in 2015/16 is estimated to be \$64.35 on each tonne of waste sent to landfill (38,000 tonnes) totalling approximately \$2.5M (In 2009/10 the levy was \$9 per tonne); and
		  • Closure of the Clayton Landfill site is expected to occur in December 2015, which has increased Council's transportation costs, coupled with new green waste contracts increasing waste budgets by \$1.1M. Renewal of the green waste contract from March 2016 has also seen an increase in green waste disposal costs for disposal at the Waste

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		Transfer Station; and Fire Services Levies $0.3M (0.3% of rate revenue).

Attachment 2

Table 1 - Rate Cap Applied to Rate Base + Growth

	Year 1 (2015/16)	Year 2 (2016/17)	Notes
Rateable Properties	75,000	75,850	Includes 850 new assessments from supplementary rating
Rates (Uniform or Differential)	$ 100,000,000	$103,875,500	Includes a 3% increase on the previous years rates plus the estimated supplementary rate growth in 2015/16
Waste Charges @ $150	$ 11,250,000	$ 11,718,825	Waste Charges @3% increase to $154.50 plus additional properties
Municipal Charge @ $200 per	$ 15,000,000	$ 15,625,100	Municipal Charge 2016/17 $206 plus new properties
Supps Growth full-year (850	$ 850,000	$ 875,500	Supps Growth @3%
Rate Cap	N/A	**3%**	Rate Cap @ 3%
Total Rates Raised 2015/16 (Est.)	**$ 127,100,000**		
Total Rates Proposed Budget 2016/17		**$132,094,925**	Total Rate Revenue increase 3.9%. Total rate revenue increase before 2016/17 Supps = 3.24%
Rates Per Assessment	$ 1,695	$ 1,742	Total Rates divided by total assessments
Rates Per Assessment % Increase		2.8%	% Change in Total Rates divided by total assessments

Table 2 - Rate Cap Applied to Rate Base only

	Year 1 (2015/16)	Year 2 (2016/17)	Notes
Rateable Properties	75,000	75,850	Includes 850 new assessments from supplementary rating
Rates (Uniform or Differential)	$ 100,000,000	$103,000,000	Includes a 3% increase on the previous years rates only (**does not include** the estimated supplementary rate growth in 2015/16)
Waste Charges @ $150	$ 11,250,000	$ 11,718,825	Waste Charges @3% increase to $154.50 plus additional properties
Municipal Charge @ $200 per	$ 15,000,000	$ 15,625,100	Municipal Charge 2016/17 $206 plus new properties
Supps Growth full-year (850	$ 850,000	$ 875,500	Supps Growth @3%
Rate Cap	N/A	**3%**	Rate Cap @ 3% (on Base rates only)
Total Rates Raised 2015/16 (Est.)	**$ 127,100,000**		
Total Rates Proposed Budget 2016/17		**$131,219,425**	Total Rate Revenue increase 3.9%. Total rate revenue increase before 2016/17 Supps = 3.24%
Rates Per Assessment	$ 1,695	$ 1,730	Total Rates divided by total assessments
Rates Per Assessment % Increase		2.1%	% Change in Total Rates divided by total assessments
Opportunity cost of Budget to Budget Rate Cap		$ 875,500	