



**Brimbank**  
City Council

# Submission to ESC's Draft report – Rate Capping "a Blue Print for Change"



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## **Brimbank City Council – Draft response**

Brimbank City Council welcomes the opportunity to make a submission to ESC's Draft report Rate Capping “a Blue Print for Change”.

As reflected in our previous submission as a core principle, we believe that as a legitimate tier of government and a major provider of direct services, unique programs, quality infrastructure and local employment, Local Government should retain its autonomy to set rates and municipal charges.

Notwithstanding and still strongly maintaining this view Council has sought to provide valid and constructive comments to this submission process to ensure minimal service disruption for residents and the broader community.

Brimbank City Council is working hard to improve socio-economic disadvantage and health outcomes through the provision of services, programs, improved infrastructure and economic initiatives. Council also recognises that rates need to be affordable and increases kept to a minimum. With this objective in mind three years ago the Council embarked on developing a fully transparent Rating Strategy & 10 year Long Term Financial Plan (LTFP) which formed the basis for the Annual Budget. At the time of developing the LTFP, Council commissioned an independent “Capacity to Pay” report which confirmed that Council's proposed rating increases were affordable, nonetheless, in developing each Budget since adopting the initial Long Term Financial Plan Council has worked diligently to reduce its residential rate increases.

Year	Original LTFP prediction	Actual residential increase
2014-15	6.8%	5.8%
2015-16	6.00%	4.8%

Achieving these savings to date has not been without consequence, particularly as Council enters its 2015/16 Budget year with over \$92 million in planned capital works. In order to deliver a 4.8% residential increase there has been no growth in response to demand across all services with some programs reduced or no longer delivered. Efficiencies as a result of emerging technologies have been identified and implemented.

Council has responsibly borrowed to part fund the superannuation shortfall and the new Brimbank Library, Community & Civic Centre in Sunshine. Finally the consolidation of the staff into one building will occur in mid-2016 resulting in significant savings from no longer needing to rent space across the municipality, undertaking maintenance in ailing facilities and the inherent productivity improvements from staff no longer needing to drive across the municipality to the other sites or replicate administrative support.



Council has acted responsibly and found savings, however is now at the point that the rate cap proposed in the ESC's Draft report Rate Capping " a Blue Print for Change" will have significant impacts on Council's financial position. By way of example, the Impact on Council's cash position based on Councils current LTFP and the rates suggested in the report sees a negative cash impact of \$29M by year 5.

<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>
<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
20,693,345	26,659,460	32,313,056	27,912,683	31,588,681
19,166,943	21,625,771	21,611,281	9,208,699	2,365,037
<b>-1,526,402</b>	<b>-5,033,689</b>	<b>-10,701,776</b>	<b>-18,703,984</b>	<b>-29,223,644</b>

The Commission has recommended a rate cap based on a combination of a Consumer Price Index utilised by the Department of Treasury and Finance and a Wage Price Index. The cap is uniform and will apply to all Councils regardless of size or location (i.e. metro / rural/ growth). The calculation will be challenging to explain to residents particularly as its application in 16/17 is a Revaluation year. Additionally all Councils will be subject to an 'efficiency factor' on top of the cap, which the report implies will be cumulative, beginning at 0.05% and progressing from there.

The implications for the sector of a 'hard' cap of around 3.05%, which would decline year on year, and a cumulative efficiency factor are significant and will require structural and service level changes.



## **Responses A BLUE PRINT FOR CHANGE**

### **Local Government Rates Capping and Variation Framework Review**

#### **THE CAP**

##### **Draft recommendation 1**

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

##### ***Council response***

The recommendation is noted. Recognition and notation has been made by the ESC regarding the diversity and differing complexities in municipalities e.g. rural, growth, etc. This recommendation fails to reflect this diversity.

##### **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
- service rates and charges should not be included in the rate cap, but be monitored and benchmarked.

##### ***Council response***

The recommendation is noted. The recommendation that supplementary rates be excluded from the rate cap in the year they occur is appropriate, although the annualised effect of the supplementary valuations must be included in the calculation of the base (see response to draft recommendation 5).

Council notes that the Local Government Legislation Amendment (Environmental Upgrade Agreements) Bill 2015 is currently being considered by Parliament and proposes to amend the Local Government Act to allow a charge to be raised in respect of Environmental Upgrade Agreements. It is recommended that these charges be excluded from the rate cap.

##### **Draft recommendation 3**

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

##### ***Council response***

The recommendation is noted. However, the 2016/17 year will be impacted by a general revaluation of properties which further increases the complexity when explaining to ratepayers how the rate cap has been applied to their rates.



#### **Draft recommendation 4**

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

Annual Rate Cap = (0.6 x increase in CPI) + (0.4 x increase in WPI) - (efficiency factor)

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

WPI = DTF's forecast published in December each year

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

#### ***Council response***

The recommendation that the annual rate cap be based on the DTF forecast for CPI and WPI is noted. Council questions the allocation of only 40% to wages. Council's 2015/16 budget shows that wages represents 45% of total operating expenditure and when depreciation is excluded, it rises to 56%. Council believes that an allocation of 50-55% to the WPI would be more reasonable and realistic.

The paper proposes an efficiency factor of 0.05% per annum from 2017/18 onwards. If the efficiency factor continues to accumulate each year, then it is possible that the rate cap could eventually become negative.

Based on Council's most recent Strategic Resource Plan (SRP), the impact of the rate cap **proposed against the adopted rate increase in the SRP would be a \$29 million loss in rates over the five years from 2016/17.**

#### **Draft recommendation 5**

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

#### ***Council response***

The recommendation is noted. However, the 2015/16 rates (numerator) needs to be adjusted for the annualised effect of supplementary valuations levied during the year and the number of properties (denominator) needs to be as at the end of the 2015/16 year. The median property value should be used as the starting base for 2016/17.

### **VARIATION**

#### **Draft recommendation 6**

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

#### ***Council response***

The recommendation is noted.



### **Draft recommendation 7**

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

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

#### ***Council response***

There will be additional costs borne by Council in engaging with its community in a meaningful way to support a variation. Council already has a transparent budgeting process in place that explains services and costs. The case for a variation should also recognise a strong business case for necessary expensive infrastructure works such as failing drainage and land rehabilitation that may have limited appeal and support from ratepayers.

### **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.

#### ***Council response***

It is likely that there will be insufficient time for councils to prepare fully developed variations as required by the paper for the 2016/17 year and have them submitted and approved prior to budget preparation. Especially given that submissions are due by March 2016 and the notification of variation decision will not occur until May 2016 when most Councils will already have their proposed budgets on public exhibition.

### **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.

#### ***Council response***

The recommendation is noted.

## **MONITORING**

### **Draft recommendation 10**

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

#### ***Council response***

The recommendation is noted.



### **Draft recommendation 11**

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

#### ***Council response***

The recommendation is noted. However, Council does not support the development of a 'baseline template' which results in an increase in the existing reporting burden. Council believes that the current reporting regime should be sufficient for the Essential Services Commission to monitor outcomes from the rate capping framework.