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Date: 20/05/2015

Subject: Local Government Rates Capping and Variation Framework Review: City of Stonnington Submission

Dr Ron Ben-David

Chairperson

Essential Services Commission

Local Government Rates Capping and Variation Framework Review

Submission: Stonnington City Council

Dear Dr Ben-David

Thank you for the opportunity to provide comments on your consultation paper 'Local Government Rates Capping and Variation Framework' April 2015.

Council recognises that the consultation paper is necessarily pitched at a high level at this stage.

Council considers it is a constructive, positive and well considered document that appears to identify all issues relevant to rate capping, without at this time, providing any definite solutions, but with some initial responses from the Commission to the identified key issues.

Council wishes to provide the following comments on the paper at this time.

1. Consumer Price Index is not an appropriate index of council costs. It is pleasing that the Commission has recognised that CPI movements may not accurately reflect cost movement for councils. Council notes that the State Government has recently announced an increase of 7.1% in the Fire Services Levy for 2015/16 and the Commonwealth Government has recently approved an increase of 6% in private health insurance premiums. Clearly both the State and Commonwealth Governments recognise that CPI is not a good measure of the costs of providing services. Council notes that the Municipal Association of Victoria is currently attempting to develop an appropriate index.
2. Service deterioration and infrastructure run down are identified as areas of concern to be monitored when rate capping is introduced. Again it is pleasing to note that the Commission has recognised these issues.

Council supports the position that service deterioration and infrastructure run down are major factors to be considered and monitored in rate capping decisions.

Asset management systems are valuable in identifying and measuring the amount of maintenance and renewal required in particular classes of assets. Rate capping decisions should be responsive to the uneven nature of maintenance and renewal requirements of asset management.

3. Supplementary valuations. The treatment of supplementary valuations is an important consideration in any rate capping decisions.

Supplementary valuations occur as a result of a change (up or down) in the number of rateable assessments. As a generalisation they are a reflection of economic activity (growth or contraction) in a municipality.

In determining the base from which any rate cap is determined, Council submits that supplementary valuations should be excluded from any calculation as the root cause of supplementary valuation change, changing population and changing economic activity leads to a change in demand for municipal services, for example a change in demand for people or property services.

4. Cost Shifting. The effect of cost shifting from other levels of government to local government must be recognised in rate capping decisions including government funding cuts and adding of extra responsibilities on local government by virtue of State or Commonwealth Government decisions.

5. Statutory fees and charges. Many fees and charges levied by local government are set by the State Government and are not reviewed annually. This has the effect of placing additional pressure on rate income to support a service which council is obliged by law to provide.

Any decision on rate capping must include allowance for the effect of the level of statutory fees and charges. Planning application fees are a good example where fee reviews are infrequent and the fees paid bear little resemblance to the cost of assessing applications.

6. Population changes/demographic changes/changing service needs. Rate capping decisions should recognise the changing and generally increasing demand for services which population and demographic changes and service needs place on councils.

The fact that population is growing and ageing puts additional demands on local government in service provision without necessarily removing requirements for services for other portions of the population. An example may be in the area of aged care where with an ageing population demand for these services increase but at the same time demand for childcare or kindergarten services do not change, or indeed increase.

7. Long term financial strategy. Victorian councils are required to have in place a four year financial strategy, called a Strategic Resource Plan.

Councils have until this point based their capital works programs including asset maintenance and renewal, community service programs and facility improvement programs including in Stonnington's case addressing a deficiency of public open space on the Strategic Resource Plan.

Well considered and approved four year Strategic Resource Plans which councils have developed and updated over time and which propose levels of rates, charges and other income to match required service delivery and capital works and maintenance requirements should not be lightly dismissed due to rate capping.

8. Financial sustainability of councils is an important matter to be considered in any rate capping decisions. It is noted that the report of the Victorian Auditor-General titled 'Local Government: Results of the 2013/14 Audits' which was tabled in the Victorian Parliament on 26 February 2015 reports that 21 of Victoria's 79 councils recorded operating deficits in 2013/14.

9. Cap on per assessment basis. The matter of application of a cap on a per assessment basis or revenue basis is referred to in the report. Council is opposed to the application of any cap on a per assessment basis as, depending on how it is applied, could be akin to regressive taxation. The bi-annual revaluation of properties, as required by the Valuer-General, is a significant complication in applying a per assessment cap.

10. Costs of administering ongoing rate capping framework. The matter of how costs of administering the ongoing rate capping framework should be recovered is referred to in the report. Clearly those costs should be met by the State. Rate capping is being imposed on local government by the State Government. To ask local government to pay for this 'service' is cost shifting and is opposed.

11. Review to minimise unnecessary and costly regulatory burden on municipalities. The review should seek to minimise (reduce) the administrative reporting burden on councils not only in the area of rate capping but more generally.

12. Review to be risk based. The review should be risk based in that it recognises the financial risks faced by municipalities and that the risks differ from council to council. Placing a 'one size fits all' cap on rates across all 79 Victorian councils is potentially dangerous. A council by council (case by case) decision will be required. In this regard it is noted again that 21 of Victoria's 79 councils reported operating deficits in 2013/14. Council urges the Commission to consult with the Victorian Auditor-General's office in this matter.

The review should focus on helping to improve Local Government performance without compromising local government independence and democratic accountability.

13. Budget transparency. Council notes that local government budget processes are more transparent than State and Commonwealth budget processes.

Councils are required to place their draft annual budgets on public exhibition for a minimum period of 28 days and to invite public submissions on their budget. Furthermore, councils are required to consider all submissions received and to hear at a meeting open to the public any submitter who wishes to be heard. This is a very transparent process which enable residents and ratepayers, or for that matter any person, to make submissions on draft council budgets including the level of rates and charges. No similar process exists with State and Commonwealth budgets.

Thank you again for the opportunity to offer comment on your consultation paper.

Yours sincerely

Geoff Cockram

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