



CITY OF GREATER
BENDIGO

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28 August 2015

Dr Ron Ben-David
Chairperson
Essential services Commission
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Dear Ron

Local Government Rates Capping & Variation Framework Review Draft Report

Please find attached the Greater Bendigo City Council submission to the Local Government Rates Capping & Variation Framework Review Draft Report.

Thank you again for the opportunity to provide comment on the Draft Report. I look forward to the final report being available in October 2015.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Peter Cox'.

Cr Peter Cox
MAYOR

Encl.

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LOCAL GOVERNMENT RATES CAPPING & VARIATION FRAMEWORK REVIEW

SUBMISSION TO DRAFT REPORT BY GREATER BENDIGO CITY COUNCIL

INTRODUCTION

In her recent *Ministerial Statement on Local Government*, Minister Hutchins offers a single premise for the introduction of a rate capping regime. A regime that those with a deep and experienced understanding of the business of Local Government describe as *the rules for a game that is a race to the bottom*. And while the Essential Services Commission (ESC) has clearly recognised the importance of avoiding the crippling impacts of the New South Wales approach to rate capping, there is no evidence in the ESC's draft *Local Government Rates Capping & Variation Framework* that the current proposed system in Victoria will be any less devastating for our communities.

In her paper, Minister Hutchins suggests that the *Essential Services Commission will oversee a rate assessment process that is both fair and balanced*. And then, firmly states that *applications for (increases above the cap) will only be accepted in exceptional circumstances*. Asking councils to engage with their communities to agree on what works and services are needed and then making it virtually impossible to deliver on these cannot be considered fair or balanced, much less logical or efficient.

The Minister also offers to make good on a commitment given to Local Government many years ago by the State whereby *all Government policy and legislative proposals will take account of the impact on councils and local communities*. While this is welcome news for the future, it is disappointing that in considering the single premise for a rate capping system (ie. that the average increase in Local Government rates over the past 15 years is 6 percent), the State has not been prepared to contemplate its own significant role in causing Victoria's rate rise history through:

- Endless direct and indirect cost and responsibility shifting from the State to Local Government,
- Rising administrative and reporting burdens on Local Government imposed by the State,
- Ongoing and significant increases to standards for community and workplace safety and environmental protection (which as principles we support but comes at a cost), and
- An unquestionable failure to ensure that statutory fees for activities performed by Local Government on behalf of (or required by) the State have kept pace with the actual costs of those services.

Accordingly, while Greater Bendigo City Council supports the principle of minimising rate increases through thorough consideration of both need and affordability in the local community, the arbitrary approach of applying a nominal capping system is strongly opposed. The ESC is urged to encourage the State Government to reconsider its proposal to impose a rate capping regime onto Local Government.

In relation to the recommendations included in the ESC's draft report, the following comments are offered:

THE CAP

Draft recommendation 1

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

Response

It is understood that the primary logic for this is to simplify the approach to rate capping. Unfortunately, this approach ignores the vast range of community needs from Local Government Authorities (LGA's) across the State. With in excess of 100 services offered through LGA's and the significant difference in level of need, expectation and cost for these services between inner city and isolated rural communities, the adoption of a single cap to (presumably) represent *what's fair* is unrealistic. It is suggested that a more logical approach would be to establish what

percentage increase represents a reasonable point to trigger a review by the ESC in a metropolitan, regional city and rural circumstance.

Draft recommendation 2

The Commission recommends that service rates and charges should not be included in the rate cap, but be monitored and benchmarked.

Response

While the exclusion of service rates and charges from the proposed cap is supported, the concept of monitoring and benchmarking these requires careful consideration. As indicated in the previous response, the need, expectation and cost associated with different services varies widely across Victoria. It is suggested that several ranges may be needed to allow for these differences if such a process is pursued.

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.

Response

It is understood that the objective of this recommendation is to attempt to best reflect the experience of the average ratepayer. However, due to the (necessary) existence of differential rates, this approach is unlikely to align with the experience of any ratepayers in reality.

While it is acknowledged that a cap system must, by its nature, have a base on which to be calculated, it is suggested that the proposed methodology will do little to help residents to better understand the basis for their rates bill.

Irrespective of the methodology chosen, the exclusion of supplementary rates from this calculation appears sensible.

Draft recommendation 4

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

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

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 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.

Response

It is understood that the use of household CPI has been chosen for its relative stability and because it is one of the few figures that attracts a 'forward looking' analysis by the Department of Treasury & Finance.

Given that the basis of household CPI has little to do with the cost of service provision in Local Government and the Minister has clearly stated that *applications for (increases above the cap) will only be accepted in exceptional circumstances*, adopting such an arbitrary figure would not only be inappropriate, it would be irresponsible. Effectively this means that Councils must attempt to align

their business costs to a set of household items (most significantly food, alcohol and tobacco, housing accommodation, recreation & culture and transport) that have little to do with the input costs of Local Government works and services.

That existing Local Government cost indicators are not seen to have sufficient rigour or are not forward looking enough to be used for the purpose of establishing a cap does not justify the use of a measure that has little or no relevance. If the State is serious about applying 'downward pressure' on rates while still being *reflective of services that the community needs and demands....at a level that ensures the sustainability of councils* then the concept of CPI should be discarded completely and investment made into establishing Local Government cost indicators that have the necessary relevance, rigour and future view.

Similarly, the application of the proposed Wage Price Index to the Local Government environment ignores completely the existing industrial relations arrangements. In most Victorian councils, Enterprise Agreements will remain in force for at least the next two years with no interim opportunity to revisit the annual increases that were committed to. In Bendigo this is 3.4% per year until October 2017 and this figure is below that committed to by many other LGA's. So too, the provision for staff to annually 'progress within each band' in the relevant Industry Awards means that further unavoidable wage cost rises must occur. Given the service-based nature of Local Government, specific recognition of wage prices is agreed to be sensible, however again the arbitrary use of an index that does not represent the industrial environment at play is both inappropriate and irresponsible.

The variation process as drafted includes requirements to *demonstrate that (the) variation represents good value for money and is an efficient response to budgetary needs*. The inclusion of an efficiency factor in the cap appears to also be for this purpose. The ongoing (increasing) application of the efficiency factor also ignores the previous and ongoing activity of LGA's through continuous improvement processes and the *reinvestment of savings* approach to service delivery that is commonplace in Local Government.

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.

Response

The proposed basis for calculating the nominal 'cap' is not appropriate. Until this has been adequately addressed, such an approach should not be applied to the budget process for LGA's.

As noted in the response to recommendation 4, the factors influencing wage cost rises are substantially unchangeable for the next two years across the Local Government sector. Equally, as has been recognised in part by the ESC in its consideration of when to apply the efficiency factor, many service costs in LGA's cannot be readily changed due to the existence of long term external supply contracts. Funding agreements with both the State and Federal Government also mean that the standard of service offered in many areas cannot be simply reduced. Consequently, applying the capping process in 2016-17 in the way that is currently proposed will leave little option for councils but to cut capital works investment, including renewals.

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.

Response

Any framework adopted should reinforce the role and obligation of Councillors to demonstrate informed leadership in their decision making about what their community needs and what it can afford. The focus should not be on a nominal ‘cap and variation’ but rather a demonstration that the right balance has been struck having considered the whole community and the strategic objectives and directions of the Council.

In this sense, the nominal ‘cap’ should be considered as a ‘trigger for review’ if the Council’s assessment of the ‘right balance’ causes a proposed rate increase above a level that might normally be expected for Local Government.

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.

Response

While it is appreciated that the ESC has attempted to allow councils the opportunity to determine what ‘events would qualify for a variation’ it is suggested that the previously mentioned approach would result in a better outcome. In this regard the items listed in draft recommendation 7 (other than the first) do seem reasonable questions requiring a response.

However, what remains very unclear from the ESC’s papers is how large the *burden of proof* might be. And, with the ESC’s further recommendation to offer no right of appeal, this lack of clarity on what may or may not be deemed acceptable puts councils in a very uncertain position.

Again, given the current lack of a meaningful ‘trigger for review’, a preferred approach for 2016-17 is to use the budget development process as a mechanism for educating LGA’s on the ESC’s expectations for this burden of proof.

Should the ESC’s current proposed approach be pursued, there are numerous operational questions associated with this process that would require urgent clarification if LGA’s are to be permitted a genuine opportunity to make a successful submission.

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.

First year of variation

2016-17

2017-18

2018-19

2019-20 and beyond

Length of permissible variation

One year (i.e. 2016-17 only)

Up to two years (i.e. 2017-18 only or 2017-18 and 2018-19)

Up to three years (i.e. up to 30 June 2021)

Up to four years (i.e. up to 30 June 2023)

Response

Given the extent of unknowns in the current proposed process it is difficult to determine what the benefits and dis-benefits of a multi-year approach are. Greater information is required about the burden of proof to enable a response to this recommendation.

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.

Response

The proposal to limit the ESC's decision making to only *accept or reject* submissions is understood to be on the premise that it should not inadvertently become a pseudo decision maker for councils. Given that there is no clear stated basis on which the ESC will make its determination this creates considerable uncertainty for LGA's.

Under the current proposal, councils have no ability to foresee whether they have completed the necessary work to substantiate a higher rate rise, no apparent opportunity to respond to concerns held by the ESC about a proposed rise, no ability to make adjustments should the ESC identify a valid concern and no ability to appeal against the ESC's decision if it is rejected.

It is understood that a prime objective of the State's *Fair Go Rates* system is greater transparency in decision making. If adopted as currently proposed, it is difficult to imagine how this process will meet that objective.

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.

Draft recommendation 11

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

Response to recommendations 10 and 11

To the greatest extent possible, existing data provided to the State Government should be utilised so that further duplication of processes and reporting is avoided. The recently introduced Local Government Performance Reporting Framework should be central to this and in developing reports the opportunity to further rationalise existing reporting requirements should be thoroughly explored.