11May 2015

Dr Ron Ben-David
Chairman
The Essential Services Commission

Dear Sir

LOCAL GOVERNMENT
RATE CAPPING AND VARIATION FRAMEWORK

Further to the Consultation Paper, April 2015, I submit my comments as follows:

Whilst the concept in theory has much merit, I consider that at this date the proposal has much downside, specifically because all councils are not faced with identical problems/responsibilities relating to infrastructure and the following factors.

I find there is more than a touch of irony in this proposal at this date as the Municipal Association of Victoria (MAV) in a media release, 5 July 2014, only 10 months ago, stated that 'This year Council budgets will include an average increase of 4.2 per cent, or $70, which is the lowest overall rise in recent years.' It then goes on to make the following comments. 'Like households, councils continue to face cost pressures. 'Federal cuts to financial assistance grants have had a massive impact on council budgets, with the government announcing a freeze on indexation of the grants, commencing 1 July. This has create a $91million three-year black hole across the State ..' It would appear this cost shifting is not new and has contributed to councils increasing rates and charges above what would have otherwise been charged.

As further evidence of the cost shifting, I advise that in an answer to a question from me to the Mornington Peninsula Shire Council, 13 April 2015, I was advised by the then Director of Sustainable Organisation that there had been cost shifting by both state and federal governments this financial year through to council. My question further queried the areas and financial costs of such action. His minuted response to my question is as follows:

> Yes, there has been cost shifting from the state and federal government through to council. In terms of the specifics and the financial cost, that is a matter he will take on notice. Certainly, in our Sustainable Communities area, there are a number of programs where the State or the Federal Government originally started funding, they then became very popular, they serve the needs of our community, then over time the State and Federal funding disappears and the ratepayer is left carrying the burden of those programs. There are a number of those items and we will be making the

answer to this question available, not just to Mr Robinson, but the public more generally.

I have not yet received an answer to the specific areas or costs, which have to be met by Council.

In addition, I foresee the administration and oversight of a rate-capping proposal as extremely time consuming and costly for councils to make applications for variations to their rating structures with potential adverse outcomes on annual budgets. Unfortunately this will also lead to additional administrative costs to councils through staff time and, in all probability, the use of external consultants at additional cost. The irony of the problem is that it would appear, as set out in your paper, both the state and federal governments have. particularly over recent years, transferred the cost of some services, whicr a g '3bly c;roc ld be provided by them, to local governments.

A major area of considerable disparity between councils is the application of differential rates. Some councils apply a differential rate of up to 200 per cent of the general rate on industrial and commercial properties, whereas the Mornington Peninsula Council (MPS) charges only the general rate. In addition MPS rating in relation to farms charges the general rate on the farm house and curtilage and only 35 per cent on the farm acreage. This is in stark contrast to many other councils which charge 80 per cent of the general rate on farm properties. The general rate only is charged on business and industrial properties, making the rates to residential properties more inequitable. To further muddy the waters, some councils apply a municipal charge, which varies considerably between councils, and can creates an erroneous impression of the rate of increase for the year if not included along with any increase in the general rate.

These anomalies create, in my opinion, gross misleading comparisons between councils when comparing average rates apart from the substantial variation that exists in the value of properties on which the rating structure is based.

A further negative of linking cost increases to only CPI is that many costs that have to be met in the councils' operations are well above CPI. As an example in the proposed draft annual budget just released by MPS shows that the cost of Shire employees is budgeted to increase by 3.3 per cent in accordance with the proposed Enterprise Bargaining Agreement. It should be noted that employee costs are up to 80 per cent of the total cost of some divisions of the Shire's operational cost.

Of further concern is that should it be decided to introduce a penalty to those councils which exceed the nominated percentage annual increase, whatever may be decided by the Commission, will it be by financial fines and/or a reduction in State Government funding? Either of which would further exacerbate the problem.

CONCLUSION

I reiterate that, whilst I agree in principle with the proposal to keep annual rate increases to less than had occurred over recent years, I don't believe that such action should be taken until:

- A review is undertaken of all facilities and responsibilities of all levels of federal government, state governmPnt Prl l• """ {1nvernment and the necessary framework is put m plac.e lu o :::;ure t11at each level of government adheres to its moral and fmanc1a1 obligations

- Evidence that State and federal governments are facing up to and complying with their financial obligations

I think adverse publicity will ensure that councils keep future increases in percentage terms to around whatever is declared by the Commission as a result of this enquiry.

Yours faithfully

Barry Robinson