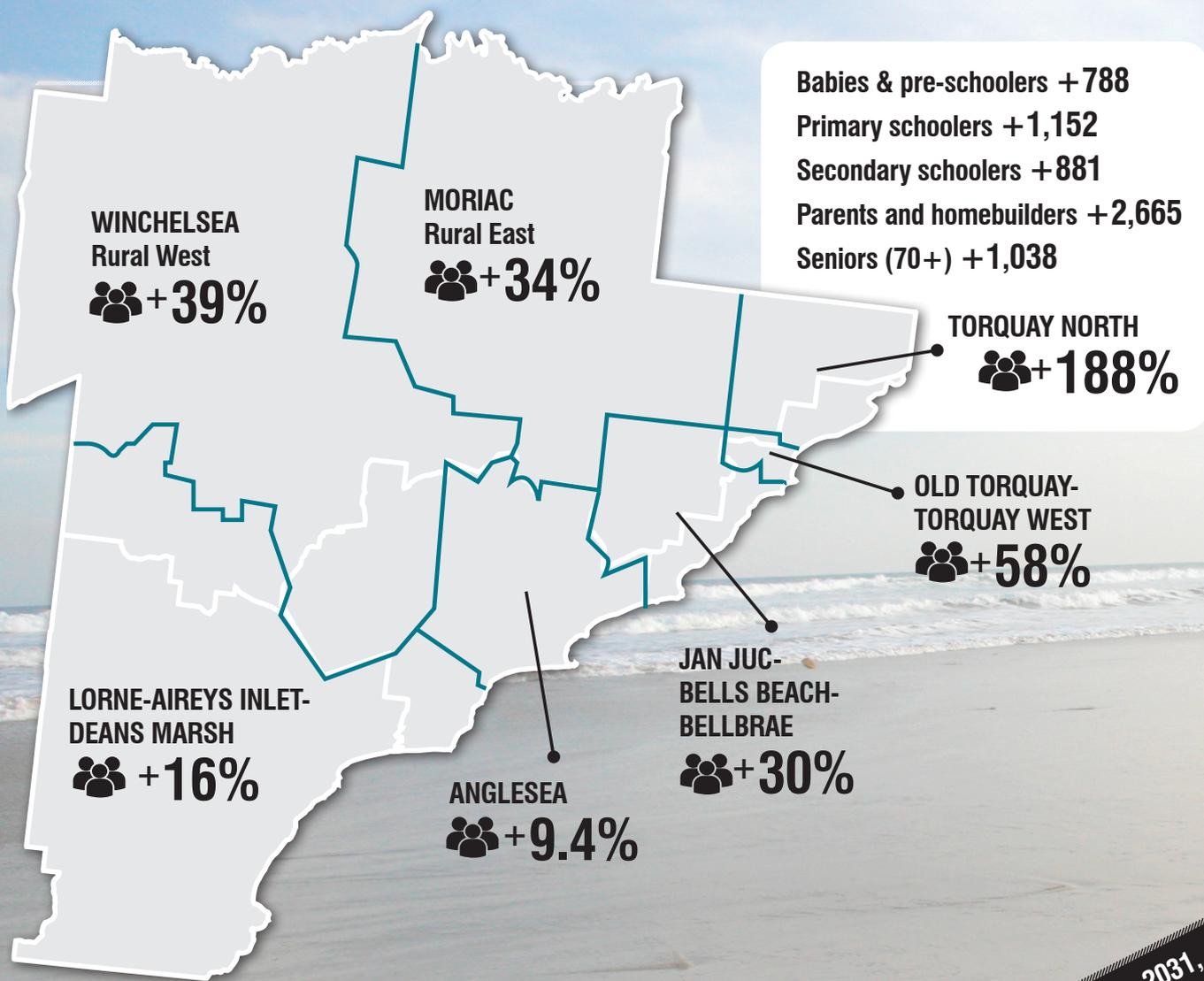


Surf Coast Shire Council Submission

SURF COAST SHIRE - FORECAST GROWTH 2011 - 2031



Babies & pre-schoolers +788
Primary schoolers +1,152
Secondary schoolers +881
Parents and homebuilders +2,665
Seniors (70+) +1,038

SURF COAST SHIRE OVERALL GROWTH 2011 - 2031



Average population growth rate of 3.1% per annum from 2006 - 2014

- Babies & pre-schoolers +6.5%
- Primary schoolers +9.5%
- Secondary schoolers +7.5%
- Parents and homebuilders +22.2%
- Seniors (70+) 9.7%



Residential vacancy rates from 2006
2%



Forecast births
9,500



Residential development
+48.3%



Tourism (visitors)
1.8m
2013-2014

PEAK OVERNIGHT POP. DEC 13-JAN14
85,409

Forecast growth to 2031, fifth highest in Regional VIC

Surf Coast Shire Council acknowledges the Victorian Government's commitment to implementing its rate capping policy. Council seeks to work constructively with the government and the Essential Services Commission to establish a workable process and implementation approach that supports the current and future sustainability of Council and our communities.

Council believes the Victorian local government sector has made significant progress in long term planning and that rate capping must complement this approach. Each Council's circumstances are different and must be accounted for in the development of its respective rating strategy. Surf Coast Shire has a unique natural environment, is amongst the fastest growing Council's in the state, and is a premier tourist destination attracting over 1.8 million visitors a year. The shire population almost quadruples during the peak summer period. The success of the government's policy on rate capping needs to be considered on the basis of the value it provides to its current and future communities.

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?

- CPI is not reflective of local government cost mix.
- CPI fluctuates over time and therefore is difficult to use for long term financial planning.
- CPI is an accepted measure of cost of living, reflecting residents' capacity to pay. However, maximising the standard of living of all residents is an important objective of all levels of government. The standard of living includes:
 - The cost of living as reflected in the CPI, but also
 - The range and quality of services, and
 - The range and condition of infrastructure and community facilities.
- Some local government cost drivers are locked in for specific periods, such as council's enterprise agreement.
- Cost shifting from other levels of government can impose financial implications on councils above their existing scope of operations.
- Some Council costs, e.g, waste management have increased more significantly due to much higher than CPI increases in State Government landfill levies.
- Additional costs as a result of call on Defined Benefit Superannuation Scheme.

2. What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?

- Use of the local government cost index.
- Distinct indices for rural, regional and metropolitan councils and councils experiencing either growth or decline in their communities.
- Allowing a specified portion of the rate increase to be for asset renewal.
- A formula determined through the evaluation of the specific circumstances of each council i.e. growth, current position of unfunded asset renewal, demand and availability of services required to support communities etc..

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?

How should such a multi-year cap work in practice?

- Long term financial planning and certainty is important. Councils currently have to prepare a Council Plan that covers a four year period. There is merit in adopting an accompanying long term financial plan for the same period. This is similar to the Water Plan in the water industry. Each year the council would review and confirm the plan and seek a modification from the ESC if required.

4. Should the cap be based on historical movements or forecasts of CPI?

- Should be based on the best possible forecast with a mechanism to adjust for any material variations through the life of the plan.

5. Should a single cap apply equally to all councils?

- No.
- CPI will not reflect local variations in costs, for example across rural and regional councils.
- Does not take into account any legacy issues, such as asset renewal status.
- CPI is only reflective of a change in the cost of servicing existing volumes, whereas a growing municipality is experiencing increased demand for infrastructure and service.
 - » Between 2012 and 2013 Surf Coast Shire was the fourth fastest growing municipality in regional Victoria increasing by 2.9% and Torquay/Jan Juc and surrounds grew by 4.9% to around 17,000 people.
 - » The Surf Coast Shire population is forecast to increase from 26,513 in 2011 to 44,787 in 2031, an overall increase of 69%. Strong growth is expected in Torquay North with projections estimated at 188% during this period across all service age groups. Conversely the Anglesea area population is expected to increase by only 2% overall with decreases expected in the age group 0 to 59 and increases expected in the service age group 60 years and above.
- Steady increases do not account for step changes in the size of the community above which investment is required.

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?

- Critical that supplementary rates are not included within any cap. If this were to occur, it would remove the contribution of new ratepayers towards supporting growth which would place pressure on existing services and infrastructure.
- Ensure garbage charge increases are outside the cap as they are not rates; they need to be reflective of a service cost.
- Special rates/charges are raised for a specific purpose and therefore should not be included; they are reflected of a special benefit and not applicable to the community benefit funded through general rates.
- Municipal charges are a form of rates and should be included.

7. Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?

- As stated above, this should be based on total rates revenue raised (excluding supplementary rates, garbage charges and special rates/charges).

8. How should we treat supplementary rates? How do they vary from council to council?

- Supplementary rates are reflective of individual council circumstances relating to growth, accordingly they are not comparable across councils.
- Supplementary rates from the previous year that are then factored into the following year budget need to be annualised. This annualisation should be excluded from the rates cap; this is important otherwise the benefit of growth would be approximately halved.

9. What are the challenges arising from the re-valuation of properties every 2 years?

- Individual rates payable per property reflect the impact of not only the overall increase in rate revenue but significant changes in the relative property valuation. Accordingly, ratepayers may be confused as to why their rates notice shows an increase different to the cap. This would require explanation and is an existing issue when ratepayers compare to a published rate increase in a revaluation year.

10. What should the base year be?

- All movements should be considered relative to the year preceding the planning period.

THE VARIATION PROCESS

11. How should the variation process work?

- If Councils propose a long term financial plan that includes a rate increase lower than the cap, then the ESC need not be involved.
- If the long term financial plan includes a rate increase higher than the cap, the process would include assessment of the variation request for the term of the plan.
- A mechanism will be required for an annual review that enables adjustment for unforeseen circumstances as detailed in question 12.
- If approval is provided for a long term financial plan, then the timing imperative for any individual budget preparation process is reduced. The first year for the plan and any annual variation would need to be approved by 30 November so that the annual budget can be prepared. Presumably a similar process is required for the preparation and authorisation of the Water Plan in the water industry

12. Under what circumstances should councils be able to seek a variation?

- Development of identified new infrastructure within the long term financial plan.
- Unforeseen circumstances that were not allowed for in the long term financial plan, such as: natural disasters, cost index spikes, unexpected defined benefits scheme calls.
- Some variations could be determined across all councils, rather than requiring a council by council variation application process, e.g, state government levies or reduced contributions.

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?

- Impact of growth in adjoining municipalities that would impact on the utilisation of councils infrastructure and services without the contribution of rate income.
- High tourism visitation that results in Council's infrastructure needing to cater for peak tourist demand rather than the general needs of its ratepayers alone.

To give context to the impact of tourism the estimated residential population of Surf Coast Shire was 28,282 in 2013, the peak overnight population of Surf Coast Shire between December 2013 to January 2014 was estimated at 85,409 (Economic Indicators Bulletin Geelong 2013).

- Potential for changes in the proportion of properties occupied permanently, resulting in changes in service demand and delivery costs.

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 council to raise additional funds.
- 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 a concerted effort to keep costs down.

We would like stakeholders' views on whether the above requirements are adequate.

The following views are provided:

- Evidence of community support for proposed initiative.
- Evidence of sound long term financial planning.
- Analysis indicating community benefits from the initiative.
- Adequate contribution from non-rate revenue sources.

COMMUNITY ENGAGEMENT

15. What does best practice in community engagement, process and information look like? Are there examples that we can draw from?

- Discussion on the need for new infrastructure has to include prioritisation of Council's discretionary expenditure.
- Needs to represent the entire community, rather than only those responding via submissions.
- Needs to include mechanisms to capture the input of non-permanent ratepayers.
- Multiple mechanisms through which people can provide their views.
- Review of the need for existing services and infrastructure as a holistic view rather than sections within the community
- Present information at both the macro level and detailed level, depending on the needs of the audience.
- Acknowledge that some sectors of the community are harder to reach and design a consultation process accordingly.
- Need to provide transparency of decision making in order to close the loop with those providing input.

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?

- Higher rates will be supported if presented within the context of sound long term financial, service and asset planning, and where clear community support can be demonstrated.
- LGV should establish a complementary funding program to support councils in seeking efficiency gains through collaboration and industry reform.
- It is possible for councils to utilise increased debt rather than seek rate cap variations. This could lead to poor long term outcomes such as unmanageable debt levels. The financial planning process should include consideration of the utilisation of debt.

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.

- Use of multi-year long term financial plans with corresponding exemptions as agreed. Annual variations would need to be completed by 30 November to take effect for the following financial year.

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?

- Roll out the program for metropolitan councils first, then regional cities then others.
- Establish dedicated and sufficient resources within ESC during the transition period.
- Establish an Implementation Reference Group, including local government representation.

ROLES

19. What are stakeholders' views on the respective roles of the key participants? Should the Commission's assessment of rates variations be advisory or determinative?

- Councils need as much certainty as possible in determining financial plans and budgets; once assessed the process should be determinative.

OTHER MATTERS

20. Is there a need for the framework to be reviewed to assess its effectiveness within three years' time?

- All process should be reviewed on a periodic basis, in particular when implemented for the first time.

21. How should the costs of administrating an ongoing framework be recovered?

- State Government should cover all costs of this process.

OTHER MATTERS RAISED IN EARLIER CHAPTERS

22. We are interested in hearing from stakeholders on:

- whether we have developed appropriate principles for this review
- whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important
- supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.

The following views are provided:

- ESC should identify the cost impact on local government of any new taxes, levies or responsibilities before they are approved.
- It is important that all aspects of Council's financial management are considered, including statutory and other fees, and government grants and contributions. For example, a framework should be established for annual review of fees which are set by the State Government for services provided by local government.
- An important measure of success for this policy should be community satisfaction with rating and service outcomes.

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