

Enquiries: Hayden Moore
Telephone: (03) 9209 6466
Ref: 34/14/06



CITY OF
PORT PHILLIP

15 May 2015

Dr Ron Ben-David
Chairman
Essential Services Commission
Level 37 / 2 Lonsdale Street
Melbourne VIC 3000

Dear Dr Ben-David

Local Government Rates Capping and Variation Framework Review

Thank you for the opportunity to provide a submission to the Local Government Rates Capping and Variation Framework Review, following the release of the Essential Services Commission's consultation paper.

A rates capping framework that does not adequately recognise the significant challenges faced by the City of Port Phillip poses a significant risk to its financial and service delivery sustainability. These challenges include:

- maintaining an ageing asset base, including the repair of assets of State significance and benefit such as the iconic Palais Theatre in St Kilda
- the significant growth expected in the municipality, including the development of the St Kilda Triangle precinct and Fishermans Bend Urban Renewal Area, which again are expected to have State wide benefits
- the impact of climate change, particularly on the City's significant foreshore and marine assets
- managing the impact of reduced funding and cost shifting from other levels of Government.

The City of Port Phillip is proud of its leadership in delivering valued and affordable services to its community and is committed to continuous improvement. To demonstrate this commitment, the City of Port Phillip continues to:

- identify efficiency savings (most recently in preparing its Budget 2015/16) while improving services to the community
- increase the level of community engagement involved in its planning and budgeting.

Cnr Carlisle St & Brighton Rd,
St Kilda Victoria 3182

Private Bag No 3,
PO St Kilda Victoria 3182,
DX 35706 Balaclava

Phone (03) 9209 6431

Facsimile (03) 9536 2711
mayor@portphillip.vic.gov.au

The City of Port Phillip welcomes the opportunity to inform the development of a rates capping framework that best supports its own objective of providing valued services to the community. In this submission, the City of Port Phillip outlines its in-principle views on the key issues raised within the consultation paper.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Amanda Stevens', with a long horizontal flourish extending to the right.

CR AMANDA STEVENS
Mayor

**SUBMISSION BY THE CITY OF PORT PHILLIP TO THE
ESSENTIAL SERVICE COMMISSION
LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK REVIEW**

ABOUT THE CITY OF PORT PHILLIP

The City of Port Phillip (“CoPP”) is located south of the Melbourne city centre, on the northern shore of Port Phillip Bay. The City’s official population was 104,846 in 2014, with an annual increase of 2.4% from 2013 – the 13th fastest growth in the State.

CoPP is a culturally diverse municipality, with 31% of residents born overseas. The age structure of the population shows that, relative to the Victorian population, there is a smaller proportion of people in the younger age groups and in the older age groups. Today, 40.8% of CoPP residents report that they own or are purchasing their own home and 50.1% of residents report renting. The city attracts approximately four million visitors each year.

The municipality also has significant pockets of residents who are disadvantaged. CoPP has a long history of supporting vulnerable people especially the homeless, a commitment to social justice and equality, arts and culture, libraries, childcare and to sustainability.

With regard to CoPP’s current revenue base, rates revenue (including supplementary rates) is forecast to make up approximately 58% of CoPP’s total revenue in 2015/16. Parking revenue is the second largest source of revenue at approximately 15% of total revenue (more details can be found in CoPP’s publicly available Draft Budget 2015/16).

CoPP faces a number of significant financial challenges that are specific to this municipality, including the expectation of high growth, the management of projects that have State wide significance and the maintenance of highly valued foreshore assets.

It is in this context that CoPP offers its views on the development of the Local Government Rates Capping and Variation Framework, following the release of the Essential Services Commission’s (“ESC”) consultation paper.

SUMMARY

A poorly implemented rates capping framework will compromise service delivery to the community and/or the financial sustainability of councils. Should future rates increases simply be capped at the consumer price index (CPI), financial modelling indicates that this would have a significant cumulative impact on CoPP’s financial capacity. This will result in CoPP being forced to reduce the scope and/or level of services valued by the community, or to assume an inappropriate level of financial risk.

This submission provides CoPP’s in-principle views on the key issues raised within the ESC’s consultation paper. The objective of this submission is to inform the development of a rates capping framework that allows CoPP the:

- autonomy to meet its community needs
- ability to manage the significant financial challenges unique to this council.

In order to achieve these objectives, it is CoPP's view that the rates capping framework should:

- minimise the regulatory burden wherever possible, with an emphasis on reducing or improving council's existing regulatory obligations (particularly where they may overlap with the framework)
- provide councils as much autonomy as possible to represent their communities, to which they are ultimately accountable
- not advantage/disadvantage councils based on each council's current service provision, cost base or rating practices
- be implemented in a flexible manner that respects the diversity of the sector
- be reviewed periodically to ensure that the costs the framework imposes on the sector do not outweigh the benefits it provides the community (that is, it should be held to the same standard that it requires councils to meet).

Where possible, the level of regulatory oversight should be proportional to the demonstrated capability of each council in community engagement, planning, financial management and asset management. For example, if a council has demonstrated high capability in one or more of these areas (which could be based on an initial audit of the sector), this should be reflected in less burdensome requirements under the rates capping framework. This will incentivise councils to improve their capability in those areas and will result in more efficient regulation of the local government sector.

ACCOMODATING SPECIFIC COUNCIL COSTS

It is CoPP's view that the rates capping framework (including both the form of the cap and/or the variation process) must adequately cater for the specific costs councils incur. This includes underlying cost increases to maintain service levels as well as irregular one-off costs. For example, should wage growth increase at a greater rate than CPI across the sector, then a rates cap based on CPI could result in a significant revenue shortfall across the sector.

In addition, councils often incur significant irregular costs, some of which are planned and some of which are unforeseen. It is CoPP's view that the rates capping framework will have to cater for these costs. Examples include, but are not limited to, the:

- significant and urgent repairs of assets that are essential for service delivery or of high significance to the community (for example, CoPP is contributing \$7.5 million to the significant and urgent repair of the iconic Palais Theatre in St Kilda, owned by the State Government)
- funding for services that have demonstrable State wide benefits (such as the St Kilda Festival, which requires an annual CoPP investment of \$1.4 million)
- planning for, and investing in, urban development that has demonstrable State wide benefits (such as the development of the St Kilda Triangle precinct or the Fishermans Bend Urban Renewal Area)
- share of the Local Authorities Superannuation Fund Defined Benefit Plan shortfall (which was \$10.9 million in 2011/12)
- undertaking of council elections which are planned on a four year cycle (approximately \$500,000).

As is well-documented, cost shifting from other levels of Government to councils is also a major issue that must also be considered in the rates capping framework. Two specific impacts of cost shifting on CoPP include the:

- direct removal of funding, such as the freeze in indexation of grants commission funding and the cessation of \$250,000 funding for community playgrounds
- indirect impact of Government policies that formally or informally transfer service responsibility to councils, for example CoPP allocates resources to supporting the homeless and for social housing (approximately \$500,000), a public policy area that in many respects should be responsibility of State and Commonwealth Governments.

CoPP supports building appropriate safeguards in the rates capping framework to minimise the risk of under-investment in infrastructure. CoPP continues to improve its asset management capability to ensure sustainable investment in renewals. With regards to rate capping framework design, it is CoPP's view that it should:

- have reference to the demonstrated capability of each council to manage its assets (that is, be less onerous on councils who demonstrate sound asset management)
- be flexible enough to cater for exceptional asset management issues that could not have reasonably been foreseen
- have consideration for the impacts of climate change, particularly on foreshore and marine assets.

THE BASE TO WHICH THE CAP APPLIES

As identified by the ESC in the consultation paper, a major issue that will need to be resolved is what 'base' the rate cap will apply to. This will be particularly difficult given the diversity of the council rate and revenue practices across the sector. Examples of differences in rating and revenue practices that relate specifically to CoPP include:

- substantially funding its garbage collection service through rates (with the exception of an additional garbage bin surcharge), whereas many neighbouring councils fund this service substantially from a user charge
- having a supplementary pensioner rebate based on CoPP's policy objectives, which is a rebate only applied by a small number of other councils.

It is CoPP's view that the 'base' that the rates capping framework applies to must ensure that councils are not advantaged or disadvantaged based on what is currently funded through the rate base.

The base should apply to 2015/16 rates revenue as a starting point, with incremental changes made, if necessary, from that point forward. This will mitigate the risk of sudden service level changes for which the community will not be prepared.

In its consultation paper, the ESC raises the possibility of the rates cap applying to 'rates revenue, service rates/charges, municipal charges and special rates/charges'. The ESC also asks whether the cap should apply to total revenue or on average rates and charges per assessment.

CoPP supports the rates cap applying to council *total general rates revenue only* (including municipal charges but excluding special rates, penalty interest and other service charges). A cap that applies to total general rates revenue only will provide councils the flexibility, based on community consultation, to:

- make decisions regarding the equitable distribution of its total general rates burden on the community
- develop other fees and charges to best achieve council pricing and policy objectives.

Further, it is CoPP's view that the rates capping framework should sufficiently consider the full range of pricing and rating principles that councils use to achieve their policy objectives. For example, councils:

- set parking fees with (partial) reference to increasing the municipality's competitiveness by increasing visitation and trade
- set special rates based on direct consultation with the members of the community that pay them
- are limited by statute in the setting of some charges, such as planning fees (which therefore creates a funding shortfall for those services)
- apply subsidies to user fees and charges for some services where sound policy rationale exists, such as protecting the vulnerable, as opposed to recovering the full costs of those services.

IMPROVING EFFICIENCY

The existing level of efficiency across councils in the sector is difficult to determine, but can naturally be expected to vary widely given the diversity of the sector. CoPP is committed to continuously improving its efficiency, most recently making significant efficiency improvements in preparation for its Budget 2015/16, as well as commencing a series of detailed service reviews to assess the effectiveness of its services.

CoPP supports a strong focus on the efficiency of council service delivery, however it is CoPP's view that the rates capping framework must ensure that councils are not advantaged or disadvantaged based on its current level of efficiency (including recent efficiency improvements made).

Further, CoPP cautions against the application of arbitrary and/or universal efficiency improvement targets. Such targets may have unintended consequences, particularly if targets are implemented before councils' individual level of efficiency can be properly determined.

CoPP's view is that all councils should to continue to improve the clarity and definition of their service levels, policy context and cost base (including efficiency improvements and constraints). This must be properly considered before arbitrary efficiency targets are implemented.

COMMUNITY ENGAGEMENT

It is important to recognise that there are a number of existing legislative obligations for councils to consult with their respective communities, including on the topic of service outcomes and rates increase in the statutory consultation periods associated with the Council Plan and Budget.

CoPP would like to note that it undertakes extensive community consultation in addition to its legislative requirements. For example, the additional consultation undertaken prior to the development of CoPP's Council Plan and Budget included the following methods for engaging with the community on relevant topics:

- a 'Have your say' online forum
- a community engagement survey
- ten mobile meeting events in public places.

It is CoPP's view that there are a number of opportunities to improve community engagement in the local government sector without overly burdensome regulatory oversight, including but not limited to:

- using the Local Government Performance Reporting Framework to properly define, communicate and demonstrate accountability for council service levels
- improving the standard of information provided to the community, especially in the sector's annual reports and planning documents.

Notwithstanding the above, it is also CoPP's view that the rates capping framework must also recognise the:

- complex policy environment that councils operate within
- resources required for councils to obtain truly representative community input.

It can sometimes be difficult to engage meaningfully on matters of public benefit, where the positive impacts of council decisions are difficult to value or may not be adequately considered by individuals participating in council consultation. An example of this may be council measures to protect the vulnerable in the community. The complexity and diversity of public policy decision-making should be a driver for councils to continuously improve community engagement. However, it is important that the rates capping framework should be flexible enough to cater for these complexities.

While councils should retain accountability for rating decisions under the rates capping framework, the ESC will in effect be the arbiter of the 'burden of proof' for community consultation. Meaningful community consultation can be a resource intensive effort. In order to ensure efficient implementation of community engagement, where the ESC has an expectation as to the quality and quantity of community engagement, this should be clearly communicated to the sector.

TIMEFRAME FOR RATES CAP

It is the view of CoPP that there are significant potential advantages of a multi-year cap aligned with the council planning cycle, including:

- supporting council planning and decision-making over a defined time period

- providing certainty and stability of rates for the community over a longer time period
- allowing council's flexibility to best deliver planned service outcomes during the period (within the cap)
- being potentially a less onerous process than annual cap setting.

The advantages of a multi-year cap will only be realised provided:

- there is sufficient ability to vary the cap for unforeseen or exceptional circumstances
- the multi-year cap corresponds with a reduction in other annual council planning and budgeting obligations.

TIMING AND PROCESS OF CAP VARIATIONS

CoPP notes the ESC principles for developing the rates capping variation and process outlined in the consultation paper. CoPP's view is that the variation process should be:

- simple, transparent and easily understood by ratepayers
- implemented in a way that the benefits outweigh the costs to councils
- flexible and adaptable enough to cater for the diversity of councils in the sector (particularly the unique cost pressures to each council)
- integrated soundly with existing legislative requirements and where possible, existing requirements should be reduced, improved or otherwise amended.

There is a risk that the variation process, for which the ESC will be the arbiter for the 'burden of proof', will be resource intensive. In order to ensure efficient implementation of the variation process, where the ESC has expectations as to the requirements of the 'burden of proof', these should be clearly communicated to the sector.

TRANSITIONAL ARRANGEMENTS

CoPP supports the ESC using pragmatic transitional arrangements for at least the first financial year following the implementation of the rates capping framework, including clear guidance on the requirements of councils.

FRAMEWORK REVIEW

The rates capping framework should be reviewed after its full implementation and periodically thereafter. These reviews should have reference to the costs it imposes on the sector and the benefits it provides the community (that is, it should be held to the same standard that it requires councils to meet).