

Moreland City Council

Rate Capping Consultation Paper

Table of Questions and Proposed Responses

	Review Questions	Proposed Response
	<i>The form of the Cap</i>	
1.	While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?	<p>CPI is not an appropriate measure for Local Government costs.</p> <p>CPI measures price movements in a standard basket of common household goods and services. A 'basket' of common council services is primarily affected by the growth in construction, material and wage costs, not CPI.</p>
2.	What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?	<p>An index that is specific to local government 'basket' of services and infrastructure costs would be more appropriate.</p> <p>The index must be capable of reasonably sustaining the viability of local government.</p>
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?	<p>A four-year cap aligned with the Council election cycle would make sense. This will allow the commitments from that term to align with the funding available. The multi-year cap needs to allow adjustment for future years accommodating unforeseeable circumstances/changes, which can have a significant impact.</p>
4.	Should the cap be based on historical movements or forecasts of CPI?	<p>An historical approach is less useful than a forward looking approach.</p> <p>The preferred approach is a forecast of local government specific cost indices that takes into consideration the historic movements and challenges for the future years (e.g. the risk of future defined benefit calls, Federal and State grants, State Government levies and fees, and other forms of cost shifting).</p>
5.	Should a single cap apply equally to all councils?	<p>The cap needs to take into consideration of councils' current reliance on rates revenue.</p> <p>Note that CPI is only calculated by the ABS for the 8 capital cities in Australia and is not a good guide for any other town or region as the experience of cost changes can be different. This would apply to any index constructed for local government in Victoria.</p>

	<i>The base to which the Cap applies</i>	
6.	<p>What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?</p>	<p>The Cap should only apply to rates and municipal charge per assessment. These are the only ‘taxation’ components of Council’s revenue that are not directly linked with specific services or infrastructure projects.</p> <p>All other councils revenues (service rates/charges, special rates/charges, other fees and charges) are directly linked to certain services and infrastructure projects. In a rate capping environment, Council may indeed need to explore options of ‘user-pay’ mechanisms to reduce the rates burden without failing to respond to community needs.</p> <p>It is also important that Councils are allowed to continue to pursue third party financing for projects and activities (e.g. third party contribution to capital projects and/or operating activities).</p> <p>The narrower cap (only on rates and municipal charge per assessment) also aligns with the statements and principles contained in the Consultation Paper.</p> <p>Page 1 of the Consultation Paper states that “It is intended that the proposed framework will lead to future rates that are efficient, stable and reflective of community needs and demands, without compromising councils’ autonomy or financial sustainability’. Principle 3 and Principle 5 (section 4 of the Consultation Paper) also support Councils’ autonomy and the need to explore all other viable options before considering rate increases. This can indeed be an opportunity for Councils to develop new business models that reduce the reliance on rates revenue, which requires the freedom provided to Council to explore non-rates revenue.</p>
7.	<p>Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?</p>	<p>The cap should apply to average rates and municipal charge per assessment, not total revenue arising from these categories.</p> <p>One of the major challenges of finding an appropriate capping base is to deal with growing population and services/infrastructure needs that vary from one Council to another. Rates revenue itself does not mean much without also looking at the movement of assessments (rateable properties). A far more reasonable approach is to cap rates and municipal charges per assessment. The benefits of this approach include:</p> <ul style="list-style-type: none"> • It deals with the issue of supplementary rates automatically, as the measurement will be rates and municipal charges per assessment, including pro-rata for the new rateable properties (assessments) that arose during the year. • It provides close to ‘apples with apples’ comparison amongst councils.

		<ul style="list-style-type: none"> • It aligns with current sector-wide language. The rates survey that has been conducted by MAV and being used by the Media to report on Council rates are based on per assessment, rather than total rates revenue. <p>Some may argue that the cap on average rates per assessment will give rise to potential complexities in a general valuation (or re-valuation) year where there is not an absolutely uniform movement in valuations between differential classes. It is worth noting that this complexity exists regardless of whether the cap applies to total rates revenue or average rates per assessment. The application of an index on average rates per assessment achieves all that can be achieved through a cap on total rates revenue, with the additional benefit of automatically addressing the supplementary rates.</p>
8.	<p>How should we treat supplementary rates? How do they vary from council to council?</p>	<p>As stated in Q7, if the cap applies to average rates and municipal charge per assessment, there is no need to treat supplementary rates separately.</p> <p>Supplementary rates for Councils vary significantly depending on whether the council is in a growth area, and how active the development activities are. For different Councils, supplementary revenue could easily vary from under one hundred thousand dollars to multi-millions of dollars a year.</p> <p>Apart from the revenue side, it is important to note that supplementary rates entail increased service and infrastructure demand for Council in future years, therefore the treatment of supplementary rates needs to be built into the capping base.</p> <p>A cap based on rates and municipal charge per assessment will deal with the issue of varying supplementary rates automatically.</p>
9.	<p>What are the challenges arising from the re-valuation of properties every 2 years?</p>	<p>The challenges arising from the re-valuation of properties is primarily due to the inconsistent valuation changes (usually it is an increase) across the municipality. In a re-valuation year, properties that had valuation increases exceeding the municipal average will see rate increases higher than the Council average; on the other hand, properties that had valuation increases lower than the municipal average will experience a lower rate increase than the Council average, or even experience a real rate reduction. This is inevitable, as rates payable is calculated as rate in the dollar x Capital Improved Value (CIV) of a property. With 'rate in the dollar' being the same for the properties in the same category, and the CIV movements inconsistent across the municipality, properties will experience different rate increase (or reduction) from one area to another, even though the rate in the dollar generally reduces in a re-valuation year. (Note that rate in the dollar increases at the same level of Council</p>

		<p>rate increase in a non-revaluation year)</p> <p>Rates is a wealth tax where property owners pay according to the value of properties. Unfortunately usually we only hear from those who experienced high rate increases in a re-valuation year, and generally don't hear any comments from those who had a low rate increase or even rate reduction. (For example, the 2014 re-valuation resulted in around 20,000 (or 30%) of total residential properties in Moreland experiencing a rate reduction in 2014/15 compared to 2013/14)</p> <p>Under a rates capping context, the obvious issue is that in a re-valuation year, ratepayers looking for a movement in rates according to the index will be unable to readily reconcile the indexed cost movement due to inconsistent changes in property values across a municipality.</p> <p>It is unfortunate that the year that the Minister proposes to introduce a cap on rates (2016/17) is also a general valuation (or re-valuation) year. This will require significant communication effort to manage ratepayers' expectations: as re-valuation causes re-distribution of rates burden, it is almost certain that individual households will not see a rate increase that is exactly the same as the published index (Cap), unless its valuation movement happens to be the same as municipal average.</p>
10.	What should the base year be?	If the plan is to commence rate capping from 2016/17, then 2015/16 should be used as the base year.

	<i>The variation process</i>	
11.	How should the variation process work?	It needs to be simple and low cost for Councils to apply for variation.
12.	Under what circumstances should councils be able to seek a variation?	<p>Councils should be able to seek a variation when there is a significant change in the circumstances of their Strategic Resource Plan or where there is a major change imposed by circumstances outside the Council's control (for example, a regulatory change or a reduction in subsidy/funding, demographic growth), or where the community demands a new or increased service.</p> <p>The ESC should consider requiring an initial 2 page outline of the issue and key arguments at the start of the process. This will allow initial feedback before significant work is undertaken by the Council. It may help focus the application for variation before too much effort (and cost) is incurred. It will need to be simple and receive a prompt response from the ESC.</p> <p>Also if effective engagement is used it will be very important to define 'effective' and this will vary from council to council depending on the demographics, etc, of their community.</p>
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 CPI increases?	<ul style="list-style-type: none"> • Where there are changes in funding levels from the State or Federal Governments; • To compensate for inadequate statutory fees that currently requires significant rate subsidies for the service (for example, planning permit fees have not increased for most of the last 14 years); • Where a community requires an increase in service (particularly where there is disadvantage and the new service/ new service level will address that disadvantage).

<p>14.</p>	<p>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:</p> <ul style="list-style-type: none"> - The council has effectively engaged with its community - There is a legitimate case for additional funds by the council - The proposed increase in rates and charges is reasonable to meet the need - The proposed increase in rates and charges fits into its long term plan for funding and services - The council has made continuous efforts to keep costs down <p>We would like stakeholders; views on whether the above requirements are adequate.</p>	<p>The proposed list of requirements seems appropriate and the key to make them work is to have a simple and low-cost variation approval process.</p> <p>It should not be so onerous that the exercise only provides a net gain for multimillion dollar projects.</p> <p>Also the ESC will need to be clear about these requirements and how they can be met. For example, what does ‘effectively’, ‘reasonable’ and ‘legitimate’ mean in this context.</p> <p>It would be good for the ESC to have some guidelines and templates developed for this purpose.</p>
	<p><i>Community Engagement</i></p>	
<p>15.</p>	<p>What does best practice in community engagement, process and information look like? Are there examples that we can draw from?</p>	<p>Moreland Council has undertaken significant community engagement on projects such as the Moreland Community Plan and the 5 Year Financial Plan.</p> <p>Best practice is to ensure that the community has ample opportunity and time to engage with process. This means having a variety of methodologies, such as using social media, face to face meetings, surveys, focus groups, etc. It is also important to go to the community, rather than only providing opportunities for them to come to Council. Depending on the engagement practice, (ie. if it impacts whole of communities or sub sections of the community,) it will also be important to engage with the breadth and depth of the community. Being effective can be time consuming and resource intense, so there will need to be funds available to carry out effective engagement.</p>

	<i>Incentives</i>	
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?	<p>A narrower cap that only includes general rates and municipal rates would best encourage Councils to pursue new business models that lead to long term financial sustainability under a rate capping environment.</p> <p>Incentives can also be provided to Councils by making the variation approval process simpler and easier for small variation requests, with large variation applications requiring more complex analysis and justifications.</p>
	<i>Timing and Progress</i>	
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.	<p>To allow Council time to prepare budgets and long term financial plans that respond to rates capping, it would work better with 2016/17 being treated as a transitional year, rather than hard cap being applied.</p> <p>This is particularly the case if the rates cap is applied through the Strategic Resource Plan as it is required to be in place by December to guide the budget process.</p>
	<i>Transitional arrangements</i>	
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?	Phasing in implementation over a two year period to allow a smooth transition would make sense. Please see response to Q17.
	<i>Roles</i>	
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?	This question goes to the heart of a core problem in the introduction of rates capping. Local Government Councillors are directly and democratically elected, they submit an annual budget for community consultation prior to its adoption; they release an annual report and often monthly reports on the progress against the budget; and they are ultimately accountable through the election process. The ESC should advise not decide, and Council should make the final decision.
	<i>Other matters</i>	

20.	Is there a need for the framework to be reviewed to assess its effectiveness within three years time?	Yes. It is worthwhile to have a review of the process after 3 or 4 years to assess its effectiveness, impacts on council services and infrastructure.
21.	How should the costs of administrating an ongoing framework be recovered?	This should be covered by the State Government. Asking Councils to pay for the administration of the rate capping would add a further challenge for Councils to cope with the rate capping. If this had to be paid by Councils, the cost of this should be automatically added to the capping index in a transparent way.
	<i>Other matters raised in earlier chapters</i>	
22.	We are interested in hearing from stakeholders on: <ul style="list-style-type: none"> - 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 	Please see attached information on Cost Shifting for Moreland.

Preliminary Cost Shifting Information for Moreland City Council

Cost shifting occurs when Commonwealth and State programs transfer responsibilities to local government with insufficient funding or grants which don't keep pace with delivery costs.

Type 1: Cost Shifting for Specific Services

Examples:

1. Home and Community Care (HACC) - \$1.42m from 2011/12 to 2014/15
2. Library Services - \$367k from 2011/12 to 2014/15
3. Maternal and Child Health - \$193k from 2011/12 to 2014/15
4. School Crossing Supervision - \$100k from 2011/12 to 2014/15
5. Administration of Streatrader System – additional annual cost of \$85k since 2013/14 due to the responsibility having been shifted from the State Government to Council.

Type 2: Loss of funding in General

Examples:

6. A freeze on indexation of the federal financial assistance grants

The Commonwealth announced in its 2014-15 Budget that it will pause indexation of the total national pool of financial assistance grants to local government for the next three years (2014-15, 2015-16, 2016-17).

The cumulative impact on Moreland City Council for the three years totals \$1.32m

7. Discontinuance of the Community Support Program (CSP) Fund for Family Day Care program from 1 July 2015 - \$140k per annum

Type 3: Statutory fee that prohibits full cost recovery

Examples:

8. Planning fees (set by the State and have been frozen for most of the past 14 years)
Revenue foregone for the past 4 years is estimated to be \$9.25m if Council were allowed to fully recover the cost of providing planning services.

Type 4: Levies

Examples:

9. State Government landfill levy
The levy has increased from \$9 per tonne in 2008/09 to \$58.50 per tonne in 2014/15. The basis of the calculation has been changed for 2015/16 and we are working through what the increase will mean for Moreland.
Total landfill levy for Moreland City Council is \$1.87m for the 7 years 2008/09 to 2014/15.
10. Animal registration levy - \$190k from 2011/12 to 2014/15
11. Congestion levy (off street car parks in Brunswick) - \$146k per annum from 2015/16

Type 5: Statutory requirements lead to increased costs

Examples:

12. Line clearance (cutting back tree branches around power lines) – approximately \$1m from 11/12 to 14/15
13. New national policy of 15 hours kinder for four-year olds - \$ 5.635m of capital works over the past 4 years.