

Local Government Rates Capping and Variation Framework Review  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

Attention: Dr Ron Ben-David  
Chairperson

Dear Sir,

### **Local Government Rates Capping & Variation Framework Submission to ESC Consultation process**

Thank you for the opportunity to comment on the consultation paper. The following comments are made for your consideration.

- Pyrenees Shire Council is a small rural Council of 3500 square kilometres, 7000 people, and a local road length of around 2000 kilometres, with 156 bridges, 134 major culverts, and an annual budget in the order of \$20M.
- It is well documented that councils with small and dispersed populations, limited capacity to raise revenue under the current funding model, and large asset bases to maintain and renew are financially unsustainable.
- Rates and charges account for approximately 45% of Council's total revenue.
- Council has developed a 10 year financial plan which identifies the need for rates to remain at levels between 4.75% – 5.25% to enable core services to be delivered and essential renewal of infrastructure to be undertaken.
- Council's infrastructure gap (difference between renewal demand and Council's financial capacity to renew its assets) is in the order of \$2.5M per annum
- This gap is contributed to by the decision of the state government not to continue the Country Roads and Bridges Program of \$1M per annum.
- The freezing of the Federal Assistance Grants has also significantly impacted on Council's revenue base
- Capping rates at cpi will inevitably result in a reduction of services to communities, and depletion of the assets (particularly roads and bridges).
- Increasing demands for services and imposts by other tiers of government continue to impact on councils.
- The combination of the above presents a somewhat challenging climate for Pyrenees Shire Council, and indeed most small rural councils.
- Nevertheless, Pyrenees plans to be debt free in 2017, and continues to spend in the order of 80% of its capital works budget on renewal of assets.
- The simplicity of a cap based on CPI does not keep pace with the rate of cost increases for services delivered. The very nature of many of the services is such that they require people to deliver them. Employee costs at Pyrenees represent around 50% of total expenditure (excluding depreciation). Employee costs have risen significantly higher than cpi in the last 15 years. While base salary increases in the last three years have been in the order of 3.5%, the wage structure and award provisions see salaries increasing in real terms in the order of 4-5% per annum. This fundamental observation will see a growth in the gap between revenue and expenses if the cap is based simply on CPI.

- Council appreciates that rate capping will be introduced in line with the election commitment by the Andrew's Government, and the opportunity for variations to be considered is necessary to take into account the range of issues raised above.
- A variation process enabling a rate above cpi is necessary because of the variances that exist between councils and the needs and capacities of various communities.
- In order to provide some level of certainty for councils to prepare their long term financial plans, it is suggested that a formula be considered to enable a base line of rates to be able to be determined well in advance of the annual application process proposed. It is suggested that a formula which takes into account range of factors similar to that of the Grants Commission formula (population dispersal, road length etc.) be considered. Variations to cpi based on such a formula could allow a maximum rate above cpi to be adopted for Councils where the formula deems it appropriate without having to make an annual application to the ESC.
- Whether or not a formula approach is used, it would be appropriate for any variance application process to enable a rate to be determined for more than one year, and be flexible to cover say a 4 year term.
- Creation of red tape through the annual variation application process should be avoided.
- In respect of the administrative cost of the Rate Capping process that is inevitably determined, it would be inappropriate for that to be funded by Councils.

Furthermore and in summary, Council does not support rate capping as a means of reducing waste in local government, or achieving better accountability. The process for seeking rate capping variations above cpi needs to be simple, formula based, and designed to apply over a longer term than one year.

While the focus of this project is limited to rate revenue, Council strongly advocates for a fairer funding model, including untied direct grants for small rural councils to be sustainable, and to continue to provide core services to rural communities.

Thank you for the opportunity to provide this submission, and I would be happy to clarify or provide further information in support of the above.

Yours Faithfully,

Jim Nolan  
Chief Executive Officer  
Pyrenees Shire Council