

Our Ref:
DH:MR

27 May 2015

Local Government Rates Capping and
Variation Framework Review
Essential Services Commission
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Dear Dr Ben-David


**SUBMISSION – LOCAL GOVERNMENT RATES CAPPING & VARIATION
FRAMEWORK**

Latrobe City Council welcomes the opportunity to provide comment on the Essential Services Commission's (ESC) consultation paper on the proposed rate capping and variations framework. Latrobe City Council at its Ordinary Council Meeting held on the 25 May 2015 endorsed the attached submission.

The submission directly responds to the 22 questions posed by the ESC.

If you require further information regarding this submission please contact Matthew Rogers, Manager Finance on (03) 5128 5443 or via email matthew.rogers@latrobe.vic.gov.au.

Yours sincerely



CR DALE HARRIMAN
Mayor

Local Government - Rates Capping & Variation Framework

Latrobe City Council Response to Consultation Paper

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?
 - Latrobe City Council agrees with peak bodies that CPI does not represent the basket of goods commonly used by Local Government, and consistently underestimates the actual annual increase in costs associated with Local Government.
 - Depending on which CPI Index is used (e.g. all groups Melbourne) this may not be reflective of the actual CPI impacts within given regions.
 - Latrobe City Council receives revenue from Electricity Generators in accordance with The Order in Council Electricity Industry Act 2000 ORDER UNDER SECTION 94 gazette G34 25 August 2005. It is the preference of this Council that there is consistency between the proposed index basis (CPI etc.) for both calculations. This will require an update to the Order in Council which is currently calculated using March CPI figures.
2. What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?
 - The cap should take into consideration a number of indices including;
Construction Index (e.g. Rawlinson's)
Local Government Wage Index
 - Development of a local government cost index
 - Consideration could also be given to how the Grants Commission identifies allocations in order to implement a fair refinement in the cap.
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?
 - A "minimum annual cap" should be set for each year of the Strategic Resource Plan (SRP). This will enable some certainty around the SRP and longer term planning
4. Should the cap be based on historical movements or forecasts of CPI?
 - It is Latrobe City Council's view that the cap should be based on future estimated index levels, which align with the period of budgeting

- Timing is also an issue in relation to the setting of the cap. Historical CPI figures for March would be too late to include in the budget process given that they are not available until the end of April, therefore any historical movements could only be based on the December index.
5. Should a single cap apply equally to all councils?
- No, the cap should take into consideration Regional cost pressures and should therefore be set on a Regional basis.
 - The cap should take into consideration the ability of Councils to raise alternative income. Regional councils are traditionally constrained in their ability to raise additional income through user fees and charges.

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?
- The cap should be limited to rates revenue and municipal charge.
 - Fee for service charges such as waste should not be included in the cap (e.g. should EPA or contractor costs increase by greater than CPI then these should be able to be passed on without seeking ESC approval)
7. Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?
- The cap should be based on total revenue (rates + municipal charge) adjusted to include annualised growth.
8. How should we treat supplementary rates? How do they vary from council to council?
- Growth (supplementary rates) should be excluded from the base.
9. What are the challenges arising from the re-valuation of properties every 2 years?
- Potentially there will still be ratepayers that see increases in excess of the cap while others will be less. This is no different to the current circumstances and can't be avoided.
10. What should the base year be?
- 2015/2016

THE VARIATION PROCESS

11. How should the variation process work?
- It is Latrobe City Council's view that the process should involve a written submission followed by an interview process whereby the Council can present a case before the ESC.

- The process should include the ability to lodge claims through the period March to December of each year with submissions finalised by the end of February for the next financial year.

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

- Latrobe City Council agrees that the cap should take into account factors that may impact on Council's short and long term financial outlook such as;
 - o Key infrastructure assets and services associated with projected growth
 - o Defined Benefits Superannuation calls
 - o COAG imposed agreements – Preschool Teacher Ratios,
 - o Cuts or adjustments to Government grants (e.g. freezing of FAGs)
 - o Government cost shifting at all levels
 - o Increased statutory responsibilities (including Superannuation Guarantee increases)
- Variations should be able to be sought for;
 - o Asset renewal through the support of asset management plans and long term sustainability models, including asset renewal backlogs.
 - o Community supported new and upgrade projects (e.g. Pools, Performing Arts Centres)

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?

- In addition to the items identified in question 12
 - o Loss of rate base associated with the discontinuance of major industry (e.g. Closure of electricity generators, which currently contribute 13% of Latrobe City Council's rates & municipal revenue.)

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 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 longer term plan for funding and services
- ☐ the council has made continuous efforts to keep costs down.

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

- Yes the requirements are adequate, however we would like to have clear guidelines as to what qualifies as effective engagement with the community.

COMMUNITY ENGAGEMENT

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

- Latrobe City Council considers International Association of Public Participation (IAP2) to be best practice in community engagement.

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?

- The rate cap on its own provides an incentive for Councils to pursue ongoing efficiencies.
- There is a risk that in over engineering the framework, that flexibility of Councils to respond to this challenge will be curtailed.
- International experience, particularly in the UK, has shown that unintended consequences occur where considerable controls are put in place. Latrobe City Council's position is there should be as few controls as possible so as to enable Councils to continue to make decisions to maximise the benefit to ratepayers. (i.e. finite resources should not be dedicated to improving performance against measures at the expense of resources being dedicated to delivering efficient outcomes and ratepayer priorities.)
- There should be no cost inhibitors, such as panel fees, involved in making a submission as this will be both an additional cost to ratepayers, and the impact of any fees will be greater upon regional councils who have a limited ability to pay.

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.

- In accordance with question 3, Latrobe City Councils view is that a minimum cap should be set for at least 4 years to coincide with the SRP requirements.
- In terms of timing, the 4 year estimates should be provided by 31 October with a final figure for the first year by the 31 January.
- Any ESC applications are to be finalized by 28 February with applications receivable up to 31 December

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?

- Latrobe City Council would support a phased implementation over two years.

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?

- Latrobe City Council's view is that the Commission should play an advisory role, with the ultimate decision remaining with Council.

OTHER MATTERS

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

- It is Latrobe City Council's view that an annual review should be conducted each year for the first 3 years.

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

- It is Latrobe City Council's view that the cost to administer the framework should be borne by the State Government of Victoria.
- With an increased focus on efficiency within Local Government it is important that this process is not seen as an additional burden to ratepayers
- Information from the Water Industry indicates that there is a significant cost impact on organizations (Councils in this instance) in gathering and preparing information for the submission process. This should not be exacerbated through the introduction of an additional requirement to recover fees from local government.

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.
- There are no further comments