

Sunbury Residents Association



Essential Services Commission,
Level 37, 2 Lonsdale Street,
Melbourne. VIC 3000

Re: Local Government Rates Capping and Variation Framework Review.

Sunbury Residents Association has long been a supporter of Rate Capping. We have considered the approach taken in NSW but believe there are better systems.

Reasons there should be a Rate Cap.

The VAGO report 2012-13 on LG states Councils need to : - *“improve their rating strategies by incorporating elements of better practice identified in this report—including links to council plans, the rationale for rate changes, rating options adopted, and the assumptions and factors considered in rate setting”*

Source:- <http://www.audit.vic.gov.au/publications/20131211-Local-Government/20131211-Local-Government.pdf>

The VAGO report on LG, 2012, states:- *“Performance reporting by councils remains inadequate. It is focused on inputs and operating activities, and offers little insight into the impact of services and the achievement of objectives. While some improvements were evident at councils since 2008, the progress to date has not been sufficient to satisfy the information needs of residents and ratepayers, to drive continuous improvement, or to deliver timely performance reporting. These shortcomings continue to impair accountability for performance and represent major obstacles to effectively addressing recurring performance deficiencies at councils.”*

Source:- <http://www.audit.vic.gov.au/publications/20120418-LG-Reporting/20120418-LG-Reporting.pdf>

Rate capping should force LG to focus on the return on investment aspect for services offered.

When Should the Rate Cap Start?

SRA believe that most Councils would love the opportunity to raise rates by HUGE amounts before the Rate Capping is enacted. For this reason we strongly encourage the introduction of Rate Capping in time to allow Councils to budget for it in 2016

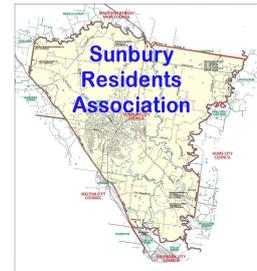
Consumer Price Index.

We are sure that many Councils and the MAV will argue that the CPI is not a relevant measure for indexation of their costs. This is clearly a misleading consideration because the purpose of rate capping is to control the rates Councils charge, and has little to do with their costs. The real purpose of rate capping is to protect residents from increases in rates that are higher than increases in their

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incomes. We have seen the Federal Government express concern that the number of Pensioners is growing rapidly and they will become an increasing proportion of those paying rates. Pensioner incomes do not increase beyond CPI.

CSS adjusts your pension for CPI on the first payday of January and July each year. CPI is determined by the Australian Bureau of Statistics (ABS) which considers the price of food, clothing, housing, health, transportation and other factors

Source: <http://css.gov.au/your-future/css-pensioner/cpi/>

Another consideration is that the majority of Councils cost are related to CPI. In Hume City Council for example a very significant component of their involuntary costs are wages which again are frequently tied to CPI.

We should consider the 2010 VAGO Report which notes that: *“The councils examined are not effectively managing the full costs of the services they provide “ and “they are not basing their fees and charges on any clear understanding of these costs”*

Source: <http://www.audit.vic.gov.au/publications/2009-10/LG-Fees-and-Charges-full-report.pdf>

We have not seen any significant move by LG to gain a clear understanding of their costs, or to control them. SRA believe that using CPI will force Councils to pay closer attention to their costs and efficiencies.

The MAV and LG's argue that CPI is not the appropriate measure for LG costs. They suggest using the LGCI. The Local Government Cost Index Report 2014 has some very interesting statements. This is the purpose of the index:- *“ the index does not attempt to measure the actual movements in councils' costs. It is however an analytic tool to better asses and understand the sector's expenditure patterns over time”*

LG argues LGCI is a measure of actual costs, yet clearly from the statement above this is wrong. As a measure of LG expenditure we should be using the LGCI as a measure of the improvements in efficiencies obtained due to the Rate Capping to the CPI.

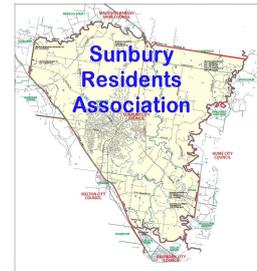
The LGCI is based on false assumptions: *“Several factors can influence a councils' need to increase costs at a level greater than the LGCI:*

- *Service growth, typically through increasing population*
- *Increased scope of services, such as new services provided to the community*
- *Increased quality of services delivered to the community”*

These assumptions above are clearly inaccurate.

- Population growth in a LG area brings in extra rates in proportion to the costs of the population growth.
- Improved quality should actually mean reduced waste and lower cost.

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- Increased scope of services should not be indexed as this is purely an option for LG, not a requirement.

It is clear that the LGCI is not an appropriate index for the costs of LG and there is no valid argument made by either MAV or any LG to explain why CPI is not a valid index.

Source:- <http://www.mav.asn.au/about-local-government/local-government-finance/Pages/cost-index.aspx>

Efficiency

Ratepayers Victoria Inc. state:- *“that at present approx 60% of council revenue is used for administration purposes”*

Source:- http://www.ratepayersvictoria.com.au/?page_id=1461

This appears to be total out of proportion to either business of comparable size or to any other level of Government within Australia. This is particularly so when you consider the basics a LG should focus on, which in general is a number of hands on outdoor tasks, such a road repairs, garbage collection and park maintenance.

SRA strongly recommends that the salaries of senior LG officers should NOT be tied to rates or income of the LG, as they appear to be currently, as least in some cases. State Government mandated KPI's should be used which include effective implementation of efficiencies in administration functions. Examples of these are media departments and issuing planning permits. The SRA are sure there are many other areas for huge improvement in the overall administration of LG's

Quality and Level of Service.

The Minisiter for LG, Hon Natalie Hutchins has stated Councils need to:- *“get back to basics “*

Source:- <https://4a5b508b5f92124e39ff-ccd8d0b92a93a9c1ab1bc91ad6c9bfdb.ssl.cf4.rackcdn.com/2015/04/150412-Minister-Warns-Councils-To-Get-Back-To-Basics.pdf>

It appears that many LG's and very specifically Hume City Council have lost sight of the primary functions required of a LG and instead pursue other functions, which includes “empire building”.

Enforcement of the Spirit of the Rate Cap

Application of the Rate Cap should be across ALL areas of rates, such as service charges, municiple charges. Etc to avoid the possibility of relocation of additional costs which would still impact the ratepayer beyond the CPI level. This should also include the situation where re-valuation of property value is higher than CPI, the applied rate should still not exceed CPI

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Transparency of LG Operations

The SRA see transparency of LG as a key component of a successful transition to rate capping. There will undoubtedly be circumstances where a LG needs to apply for an exemption to the rate cap and this must be supported by the ratepayers. Support will only come if ratepayers have a full and clear view of the LG circumstances. This DOES NOT occur now, at least in Hume City Council. Within HCC residents feel very much left in the dark, and when residents make requests for information about HCC operations it is often very difficult to obtain a satisfactory answer from HCC.

Currently HCC publish a draft budget each year for comment from the Rate Payers. HCC receive comments, including a very consistent request to lower the rates by reducing expenditure on “optional” services and infrastructure however these comments inevitably fall on deaf ears and are never actually considered.

Why would residents trust or support a LG who consistently attempts to hide their operations?

We have many examples and will provide these as required.

LG must be able to demonstrate a clear level of support from the rate payers for any application to increase rates beyond CPI. Exactly how this is achieved could be left to each Council but SRA believe it would be better is a methodology supplied by LGV is used. One possible method would be telephone random sampling carried out by an INDEPENDENT survey business.

Budgeting for LG.

Councils like to be able to predict the future. They like to have indicative budgets for up to 3 years beyond the current budget in preparation. Whilst no one has a crystal ball SRA believe that the CPI is at least as predictable as any other possible indexing method, and hence this should not be used as an argument for an alternative indexing method.

FOOTNOTE:

All VAGO reports can be found here: -

http://www.audit.vic.gov.au/reports_and_publications/reports_by_year-2012-13.aspx