Rates Capping & Variation Framework

Submission from Warrnambool City Council

Warrnambool City Council (WCC) is in receipt of the Terms of Reference and the Consultation Paper from the Essential Services Commission regarding the development of a Rates Capping & Variation Framework for Victorian Local Government.

Council lodges this submission to highlight the issues and concerns that it has in relation to the proposed introduction of rate capping for the local government sector in Victoria.

Indexation Measure

The use of CPI as the basis for the cap, whilst simple and easy to convey, is not an accurate reflection of the cost of doing business in local government.

CPI is a measure of the price increases in a range of household expenditure items.

The major cost driver for Council's budget is labour (currently averaging just over 4% per annum on a baseline annual cost of $28m) and other items such as concrete supplies, building materials, road making materials, waste disposal costs, chemicals, traffic management, plumbing & electrical services and supplies, etc. The cost of these items is generally, increasing at a rate well in excess of CPI.

Given that rates subsidise the wide range of services that council's provide to the community it would seem reasonable for the income to move in accordance with the major cost drivers of the business.

The Municipal Association of Victoria has previously produced a cost index for local government and our view is that this type of index is a much more appropriate index to use as the basis for the cap as it more accurately reflects the cost drivers in local government. Perhaps the index could be constructed by an independent organisation.

Cost shifting and real reductions in government grants also contribute to local government footing the bill for a greater share of a wide range of partially funded services or expenditure programs.

Examples :

Municipal Waste disposal

Year	***Cost per Tonne***	***% increase***	***Annual cost***
2015/2016	*$145.63*	*12.4%*	*$ 830,091*
2014/2015	*$129.56*	*9.5%*	*$ 738,492*
2013/2014	*$118.36*	*10.0%*	*$ 674,652*
2012/2013	*$108.72*	*37.8%*	*$ 619,704*
2011/2012	*$78.91*	*16.7%*	*$ 449,787*
2010/2011	*$67.59*		*$ 385,263*

School Crossing Supervision

		2000		***2015***
Government Grant	*52%*	*$173,000*	*36%*	*$115,000*
WCC contribution	*48%*	*$160,000*	*64%*	*$218,000*

Indexing government grants to the same rate capping index to be applied in local government would alleviate some of these ongoing budgetary pressures.

What should be included as base revenue

It is contended that only general rate revenue should be used as the basis for the applying the cap.

Like most councils we have a separate charge for waste collection which takes account of the specific costs of waste collection and disposal. Given the specific nature of this charge and the significant increases in costs to councils of waste collection and disposal it is asserted that it would be reasonable to exclude this revenue from the cap. It is our understanding that this would be consistent with treatment in New South Wales. This is essentially a cost recovery mechanism.

Waste management cost increases have been significant including the state government waste levy increases (refer to previous Indexation Measure item) together with requirements regarding tip reinstatements and monitoring. This supports excluding these charges from the rate cap.

Similarly special charge schemes are specific and project based and act as a form of cost recovery. For this reason they should also be excluded from the rate cap.

The Fire Services levy is also contained on council's rate notice. This is clearly revenue being collected by councils on behalf of the State Revenue Office and should not be included in the rate capping framework.

The base revenue upon which the Cap applied

Our council is experiencing modest growth of around 1% per annum.

This growth results in supplementary valuations and associated rate revenue. It also adds to the quantum of services to be delivered and assets to be maintained by council, adding additional cost to council.

For this reason we believe that supplementary rates should be excluded from the Cap, as is the case in New South Wales, and that a new rate revenue base is established each year including the full year impact of the prior years supplementary rates income.

Variation Process & Timing

Council's are required to adopt a Strategic Resource Plan that sets out Councils budgetary direction for the next four years including rating levels. It is suggested that Council's seeking a variation to the cap do so for a four year period to align with the Strategic Resource Plan and avoid an annual variation approval process.

It is acknowledged that Council's are best placed to determine the service needs of their communities and balancing these needs with financial sustainability. As such if a council can demonstrate that it requires a variation to respond to clearly identified community needs than it is suggested that this case be lodged to support a variation.

Council has a budget timetable that ensures statutory compliance and it is recommended that the variation approval process aligns with existing budget timelines.

It is also suggested that the cap indexation be set for the forward estimates period (four years) to give council's certainty when developing their strategic resource plans.

This will also necessitate the indexation figure being projected for the forward estimates period.

Infrastructure Renewal

Local government is facing a major financial challenge as it looks to close the gap on renewing the massive infrastructure base that it is responsible for.

Our council has identified the shortfall in funding that it is applying to asset renewal and has a funding strategy that requires additional rate increases over time to address the gap. Most councils will be in a similar position.

The introduction of rate capping has the potential to negatively impact on the sectors efforts to adequately fund the renewal of its ageing infrastructure. Road conditions throughout the state continue to deteriorate whilst buildings also represent a major challenge.

Accordingly it is suggested that the treatment of rate increases for asset renewal be accepted as a legitimate variation to the cap subject to councils providing satisfactory evidence of their asset renewal gap and funding strategy.

Revaluations Impact

Councils are required to conduct a revaluation of all rateable properties every two years. The capital improved value (CIV) for rateable properties is the basis for applying rates and charges. In a revaluation year rateable properties that experience a CIV higher or lower than the average CIV movement will experience a proportionate rate increase or decrease from the average rate increase.

This assumes that the rate cap applies to total rate revenue and not to individual property rates.

This will be confusing for some individual ratepayers and will need to be explained as part of the rate capping process.

Transition

Council would support a transition over two financial years. Council's have existing SRP's in place and a two year transition would assist in making any adjustments necessary to comply with the cap or seek variations for existing service delivery requirements or planned projects.