Murrindindi Shire Council Response to the ESC's Draft Recommendations Detailed in the Local Government Rates Capping & Framework Review – August 2015

Draft recommendation 1

The Commission recommends that there should be one rate cap that applies equally to all councils in Victoria.

MSC response

Recommendation not supported.

Comments

Although this recommendation deals with the principle of equality, the Council does not consider this proposal to be equitable, particularly for small rural councils like Murrindindi.

Relative to other municipality types small rural municipalities are typically characterised by having smaller dispersed populations, smaller rate bases, larger geographical areas to manage, significant infrastructure provision and renewal challenges, and limited alternative council revenue streams with very high dependence on rates and financial assistance grants.

Consideration also needs to be given to the percentage of a small rural council's revenue that is controlled by other levels of government that has not historically, and is not currently being increased to match CPI levels. Examples of this include the Commonwealth Financial Assistance Grants program, as well as numerous statutory fees and charges set by State Government that relate to community services, health, aged care, planning and building charges, FOI charges, etc.

Given these constraints it is proposed that a higher cap be introduced for smaller rural councils to provide greater flexibility to be able to plan effectively to achieve longer term financial sustainability needs.

Further this would lower the additional administrative burden and cost faced by small rural councils in having to prepare rate capping variation applications that will otherwise inevitably be required under the proposed 'one cap fits all' model.

Draft recommendation 2

The Commission recommends that:

- ☐ revenue from general rates and municipal charges should be subject to the rate cap
- ☐ revenue from special rates and charges, 'revenue in lieu of rates' and the fire services levy should not be included in the rate cap and
- ☐ service rates and charges should not be included in the rate cap, but be monitored and benchmarked.

MSC response

Recommendation supported.

Draft recommendation 3

The Commission recommends that the cap should be applied to the rates and charges paid by the average ratepayer. This is calculated by dividing a council's total revenue required from rates in a given year by the number of rateable properties in that council area at the start of the rate year.

MSC response

Some concerns with recommendation.

<u>Comments</u>
The Council is concerned that the construct 'rates paid by the average ratepayer' may not be easily understood by the community and may raise unnecessary concerns by ratepayers that require additional administrative effort to resolve.

The calculations required to formulate rate increases under the current 'no cap' system are already difficult for many people to easily understand. The additional calculations needed to demonstrate the impact of the rate cap (using 'rates paid by average ratepayer') in the Council's view unnecessarily increases the complexity of the total rating calculation for the community.

Actual rate rises per assessment are in part influenced by property valuations and any differential rating that may apply to the property class. There is concern that when considering their rate notices individual ratepayers whose rates have increased higher than 'the average' as a consequence of the above factors may have a higher propensity to question or challenge their rates notice, thus creating an additional burden on councils to resolve.

Basing the rate cap on total rates raised, as opposed to average rate paid, would in the Council's view, be easier to explain to the community and more consistent with the form of information typically provided to the community to explain rate rises.

Draft recommendation 4

The Commission recommends that the annual rate cap should be calculated as:

Annual Rate Cap = (0.6 x increase in CPI)
+ (0.4 x increase in WPI)
- (efficiency factor)

With: CPI = DTF's forecast published in December each year
WPI = DTF's forecast published in December each year

The efficiency factor will initially be set at zero in 2016-17 but increasing by 0.05 percentage points each year from 2017-18. The Commission will undertake a detailed productivity analysis of the sector to assess the appropriate long-term rate for the efficiency factor.

MSC response

Some concerns with recommendation.

Comments

The Council remains concerned that the use of CPI and WPI does not fully reflect the true nature of annual cost increases faced by the Local Government Sector. The Council would prefer the cap include the impact of cost increases associated with the construction industry, most notably road and bridge maintenance and construction. To this end consideration should be given to referencing the 'Output of the Construction Industries Price Indexes' prepared by the Australian Bureau of Statistics.

Based on preliminary modelling estimates the cap proposed by the ESC will result in a $19.729 million reduction in Council revenue over the life of Council's current 10-year Long Term Financial Plan. Without a higher cap threshold for small rural councils, or an extended variation to the cap agreed by the ESC, such a reduction in revenue will require Council to severely reduce its service delivery standard and asset management provision which will substantially impact the community of Murrindindi Shire.

Council is also concerned with the inclusion of an Efficiency Factor into the rate cap as it creates further inequity in the rate capping framework across councils. As indicated above and in the comments to Recommendation 1, the imposition of a "one cap fits all" approach will in itself set a significant efficiency requirement for smaller rural councils to achieve when such councils are already constrained by smaller rate bases, higher relative (per capita) infrastructure costs and limited alternative income raising sources. To further tighten the cap through the introduction of an Efficiency Factor would significantly (and unnecessarily) increase the detrimental financial impacts of rate capping on smaller rural councils.

In addition the Efficiency Factor, when first applied in the framework, does not take into account the steps a Council may have taken in recent times to improve its efficiency. For example the Murrindindi Shire Council underwent a significant review of its services in 2012-2013 as a consequence of the need to reduce costs to address the financial impacts of the 2009 bushfires. This review involved a reduction in staffing numbers, the sale of Council assets and the re-organisation of service delivery in several areas to improve efficiency and place the council on a firm financial basis into the future. It would be very difficult without loss of services to the community to pursue further efficiency measures that would be required to address the 'rate cap plus efficiency factor' model.

Draft recommendation 5

The Commission recommends that the 2015-16 rates (general rates and municipal charges) levied on an average property should be adopted as the starting base for 2016-17.

MSC response

Some concerns with recommendation

Comments

The timing for commencement of the cap from 2016/17 will create considerable challenges for councils to finalise their 2016/17 budgets within the statutory timeframe. Councils will need to commence their budget processes prior to knowing the final form of the cap and variation framework, and, if seeking a variation, will need to prepare two budgets as the outcome of any variation requested will unlikely be known until May 2016. This will be too late to prepare a new budget within the required statutory timelines if an application for variation is not supported. The need to prepare two budgets will place additional administrative and cost burden particularly on small rural councils like Murrindindi, which would be difficult to sustain under current resourcing levels.

Introducing the rate cap in a revaluation year may further confuse community members and ratepayers in understanding the impact of the proposed rate cap on their individual rates notice. The Council would prefer the cap to be introduced in the following year 2017/18 to coincide with the council election cycle and the requirements to prepare a Council Plan and Strategic Resource Plan.

Draft recommendation 6

The Commission recommends that the framework should not specify individual events that would qualify for a variation. The discretion to apply for a variation should remain with councils.

MSC response

Recommendation Supported

Comments

Provisions need to be available to support councils in the event of an emergency/ natural disaster that may substantially reduce the resources available to a council to adequately prepare a variation application.

Draft recommendation 7

The Commission recommends that the following five matters be addressed in each application for a variation:

- ☐ The reason a variation from the cap is required
- ☐ The application takes account of ratepayers' and communities' views
- ☐ The variation represents good value-for-money and is an efficient response to the budgeting need
- ☐ Service priorities and funding options have been considered
- ☐ The proposal is integrated into the council's long-term strategy.

MSC response

Some Concerns with Recommendation

Comments

Council agrees with the above principles, but has concerns about their application, as detailed below.

The current proposed framework does not make it clear how the need to take into account ratepayers' and communities' views on the variation request relates to the current statutory obligations on councils to exhibit a draft budget and invite community input. There is a risk that if the ESC has already made a determination on a variation request and therefore effectively 'locked-in' the Council's rate rise that the role of the community in providing meaningful input during the statutory budget exhibition process would be significantly diminished.

Further, for small rural councils the requirements to undertake community consultation in the process of preparing a variation submission should not be onerous nor require additional resources over and above that normally applied to prepare annual budgets.

It is recommended therefore that the timing of the statutory requirement to exhibit a draft budget be altered to apply earlier in the budget preparation cycle, prior to the consideration of the variation request by the ESC. This would minimise the impact of the application of the new framework on the resources of smaller councils and ensure that community input can be meaningfully considered.

The assessment of a variation request also needs to take into account the work that has been undertaken by councils in the preparation of their Long Term Financial Plan (LTFP) and Strategic Resource Plan (SRP). For example the Murrindindi Shire Council undertook extensive consultation in 2012/13 in conducting a major services review, and in 2014/15 in reviewing its financial strategies, to address the ongoing financial impacts of the 2009 bushfires and to ensure the Council's longer term financial viability. This work and consultation has enabled the Council to shape and refine its financial strategies including its projected borrowing strategy and rate rises over the longer term. It is anticipated that this work would be taken into account by the ESC when assessing a variation request and that it would not be necessary to 'start from scratch' and repeat this exercise for the purpose of satisfying the new variation requirements.

The Council is also concerned about the level of detail that may need to be contained within a variation application and the consequent resource requirements in preparing the application. It is the Council's preference that the required application documentation consists of an Executive Summary style presentation with supporting appendices containing existing documentation that supports the application, rather than the need to prepare a detailed submission. The Council also seeks the opportunity for a verbal presentation / discussion of the variation application to those in the ESC charged with undertaking its assessment. The discussion should form part of the assessment as this would enable the full context of an application to be considered and understood and the ability for issues that may arise from the ESC's interpretation of the submission document to be clarified.

Draft recommendation 8

The Commission recommends that in 2016-17, variations for only one year be permitted. Thereafter, councils should be permitted to submit and the Commission approve, variations of the length set out below.

MSC response

Some Concerns with Recommendation

<u>Comments</u>
The Council is very supportive of the principle that applications for rate cap variations can cover multiple years, however it does not support the staggered implementation of variation lengths as outlined in the paper. It is noted that the ESC has indicated it is reviewing this element of the framework also.

Given the increased demand on the resources of small rural councils to prepare a variation application and in consideration of the requirement for councils to prepare Long Term Financial Plans and Strategic Resource Plans for a minimum of 4 years, variations of at least four years should be permissible immediately upon the introduction of the framework, providing the variation application criteria (as per recommendation 7) are met. This would provide certainty around a council's revenue raising ability, support its financial planning objectives and remove unnecessary administrative burden associated with repetitive variation applications.

In addition there would be value in having the ESC effectively endorse the council's long term financial planning as it would help strengthen the relationship between council and its community and reinforce public trust in council decision making.

Draft recommendation 9

The Commission recommends that it should be the decision-maker under the framework, but only be empowered to accept or reject (and not to vary) an application for variation.

MSC response

Some Concerns with Recommendation

In providing a decision to accept or reject a variation request, the ESC should provide information that clearly and thoroughly explains the basis and reasoning for its decision. This would assist the Council in its communication/feedback to the community and ensure the decision making process of the ESC is appropriately open and transparent.

Further, whilst supporting the role of the ESC as a decision maker, the Council seeks an appeals mechanism within the framework. This would ensure the Council had an avenue to pursue should it have concerns about the rationale used by the ESC in its decision making.

Whilst recognising the resourcing impact on the ESC if it were to extend its role to recommending an alternate rate increase, there is a risk that a Council could be unduly penalised financially if its variation request was rejected solely on the basis of a failure to include appropriate detail in its application, when otherwise it would qualify. An appeals mechanism should provide for an alternate rate increase to ensure a Council is not financially disadvantaged by a failure of process, rather than substance.

Draft recommendation 10

The Commission recommends that it monitor and publish an annual rates report on councils' adherence to the cap and any approved variation conditions.

MSC response

Recommendation Not Supported

<u>Comments</u>
The Council does not support the recommendation as it does not see this as a role for the ESC and is concerned that there would be an unnecessary duplication of resources with the introduction of the Local Government Performance Reporting Framework (LGPRF) and the Know Your Council website, which is intended to address the public reporting of Council's performance. The LGPRF could be extended to include reporting on compliance with the cap or approved variation. The Council considers that a reporting role for the ESC would require increased resources for both Councils and the ESC which is not justified given the reporting mechanisms already in place for the local government sector.

Draft recommendation 11

The Commission recommends that it monitor and publish an annual monitoring report on the overall outcomes for ratepayers and communities.

MSC response

Recommendation Not Supported

Comments as per Recommendation 10.

Further Comments

The Council does not support any mechanism to recover costs for the ESC's role from individual Councils. Since the rate capping framework is an initiative of the State Government, the cost to implement the framework should be borne by the State and not shifted to Councils.

The Council does support the ESC's request to the State Government to consider providing assistance to smaller rural councils to meet the compliance costs associated with the introduction of the rate capping framework.