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28 August 2015

Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

Dear Dr Ben-David

Submission Re: A Blueprint for Change - Local Government Rates Capping and Variation Framework Review - Draft Report - July 2015

Thank you for the opportunity to make a submission in relation to the above Draft Report. Firstly, I would like to note Hepburn Shire Council's appreciation of the approach the Essential Services Commission (ESC) has taken to consulting with stakeholders in this review. We appreciate being able to respond to the draft proposals.

As you are aware, the local government sector is complex and varied. Developing a Rates Capping and Variation Framework that can be applied to the whole sector is no easy task. As a council of 14,970 residents with an annual turnover of approximately \$30 million, Hepburn Shire Council is at the smaller end of the 79 councils in the state. This submission seeks to respond to the draft report from this perspective. Hepburn Shire Council's submission focuses on four key areas.

1. **40% Contribution of Wage Price Index (WPI) is less than actual impact**
Hepburn Shire Council's annual costs from a cash flow perspective include 32% of direct employee costs, 31% of other non-capital expenses and 37% of capital expenses. Assuming a conservative proportion of non-capital expenses (40%) and capital expenses (30%) are wage related, the total wage related costs for Hepburn Shire Council equals 56% of total costs. Therefore, the 40%

contribution of WPI to the cap formula is understating the wage costs impact on Councils.

Hepburn Shire Council requests that the proposed contribution from WPI to the proposed rate cap formula be increased to at least 55%.

2. Efficiency Factor

Rate capping to the Consumer Price Index (CPI), which is not representative of councils' actual costs (even for 60% of their costs), imposes an efficiency demand on councils. This impacts the ability of councils to balance the provision of services that their ratepayers demand, with what they can afford. Any additional efficiency factor is doubling up the policy outcomes and will likely have a negative impact on services. This issue is further exacerbated by freezing of Federal Government Financial Assistance Grants, which will also force efficiencies to be found or services to reduce.

Hepburn Shire Council requests that the efficiency factor is removed from the rate cap formula as it is unreasonably doubling up on the desired policy outcomes.

3. Onerous requirements in the draft Variation Framework

The proposed variation framework requires extensive additional documentation, scenario modelling, option considerations and consultation with the community. This could cost Hepburn Shire Council \$25,000-40,000 to undertake. If Hepburn Shire Council sought, say a 1% increase above the cap this would deliver an additional \$140,000 in income. In effect, Hepburn Shire Council would need to risk up to \$40,000 to potentially get a net amount of \$100,000 in extra funds to deliver its core services. This is untenable and therefore the framework, as designed, excludes small councils from being realistically able to put in a variation submission. Legislation should not make it unviable for small councils to adequately consider all their options.

Hepburn Shire Council requests that the evidence required to submit a variation application must be significantly reduced from the Draft Report and more closely aligned to existing budget preparation materials, which are already extensive.

In addition, Hepburn Shire Council requests that financial assistance is provided directly to small councils to enable them to undertake the additional requirements under the proposed framework.

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4. Timing of Variation Decisions is too late

Hepburn Shire Council has one Council meeting a month, as do a number of other smaller councils. A decision on a variation application in May is too late to enable it to advertise its proposed budget and seek section 223 submissions prior to adoption in June. Also, adopting a budget after 30 June is not desirable and would be a backwards step for councils if that was to become the norm.

The variation application decision from the ESC must be made by the end of March to enable the proposed budget for council to be presented in April. If this does not occur, Hepburn Shire Council will need to prepare two budgets, propose them both in April (subject to ESC decision), seek section 223 submissions (which would repeat consultation already done to submit a variation request) and then, subject to the ESC's decision, adopt the appropriate budget in June. The additional administrative burden of this is unacceptable.

Hepburn Shire Council requests that the timeframe for the ESC's decision on a variation application must be made by March at the latest.

I look forward to the Essential Services Commission addressing our concerns in the Final Report on the Rates Capping and Variation Framework to the Minister for Local Government and Finance.

Yours sincerely



Aaron van Egmond
Chief Executive Officer