

Submission in response to the Local Government Rates Capping & Variation Framework Review (August 2015)

Introduction

Interface Councils reiterate our support of initiatives that enhance transparency, accountability and efficiency of local government, and our commitment to working collaboratively with State Government to see a successful implementation of their Rates Capping Framework.

At a high level we feel the Framework proposed has reflected reasonably well the feedback from the sector and has delivered against the principles initially set to guide its design. It has been pleasing to see the recognition that CPI alone is an inappropriate measure of local government efficiency, and that the model has retained flexibility to enable consideration of Councils' unique circumstances.

That being said, we do remain concerned with a number of points within the framework, particularly the concept of an efficiency factor, and provide further discussion and context on those below.

Issues

For ease of reference, we have collated our feedback against the 3 key elements of the framework, namely the rate cap, the variation process and the monitoring and reporting requirements.

1. Rate Cap

- We acknowledge that a framework that has only one rate cap that applies equally to all Councils in Victoria is simple to administer and that diversity **could** be managed through a variation process. Unfortunately for this to work effectively, it requires a mature level of dialogue and trust between a Council, its community and the local media.

The framework as currently proposed, attaches a political stigma to those who apply for a variation, particularly given the comment on page 24 of the paper which indicates that the Commission does not expect a large number of applications each year. Yes, variations are possible, and in real terms probable, but it is our assessment that Councils will be reticent to apply for a variation, particularly in the early years of the Framework's implementation - despite their level of need. Some up front acknowledgement of need through the setting of the cap

would ease the political stigma, and reduce the risk of councils making short term and reactive decisions that could have detrimental long term impacts.

The Interface Councils' "Fairer Funding" Report (6 August 2014) highlights the unique circumstances that apply to our communities and the flow on implications this has and continues to have on our planning and resourcing. For this reason we strongly contend that a single cap will lead to inequitable outcomes for both councils and their communities.

At the very least, some recognition of the capacity of a Council to secure alternative streams of revenue through self-sourced funding (fees, fines etc.) would level the playing field, particularly for growth, regional and rural councils when compared with their inner metropolitan counterparts.

- We support the ESC's recommendation that the rate cap applies to general rates and municipal charges only, and that imposed levies such as the fire services levy and the landfill levy are excluded. We do however note that there is no clear recommendation within the draft framework to ensure that the same rigour in cost capping applies to those levies that are set by the State for State benefit. The Fire Services Levy, by way of example, will increase between 7 and 12% in 2015. We feel the same standard of transparency and price constraint should apply to the State, particularly for those levies where Local Government is the collection agency.
- We welcome the acknowledgement that CPI alone is not an appropriate cap and the introduction of the wage price index goes some way towards that. It is our view however that there are other cost indexes that may be more appropriate to consider in the local government cost environment such as the ABS Roads and Bridges Construction index which more accurately reflects cost pressures that are outside of a Council's control.
- We believe the concept of applying an efficiency factor on top of the proposed rate cap is fundamentally flawed and based on assumptions that are not relevant in the Local Government context. Importantly, the introduction of such a measure also appears to be outside of the terms of reference for the review established by the Minister for Local Government and Treasurer. Local Government services are not the same as services provided by (for example) a water board or utilities company and, as such, productivity cannot be measured in solely economic terms. There is a need to also consider and measure the social value or contribution to community made by Local Government and the wider economic benefit that local government expenditure brings to a region.

True transformation of local government service delivery and genuine long term productivity gain will rely on the sector becoming more innovative and investing more in technology, partnerships and collaborations. All of this requires investment in the short to medium term together with new ways of thinking and working. With this in mind, a more helpful option may be to consider introducing an innovation incentive rather than an efficiency factor as currently proposed. An innovation incentive could reward those Councils who are prepared to invest in transformation for long term financial sustainability.

- We note the ESC's commitment to work with the sector to determine the information that will need to be collected from Councils to support the proposed rates capping framework and look forward to being involved in those discussions.

Recommendations

1. That the framework is amended to provide for 2 caps as a minimum – one for Councils with high access to self-source revenue, and one for those without the same access.
2. That a recommendation is included to ensure that the same cost containment rigor is applied by the State when setting fees that are collected by Local Government for the State's benefit (such as Fire Services Levy).
3. That the concept of an efficiency factor is abandoned and replaced with an innovation incentive to encourage and incentivise genuine transformation of the sector.

2. Variation Process

- We challenge the report's assertion that the increase permitted by a single rate cap represents the annual additional revenue requirement typically expected for councils on a state wide basis, and draw your attention to commentary provided in our May 2015 Submission as follows.

During the last 10 years, Interface Councils have accommodated more than 50 per cent of Victoria's growth. This creates enormous financial strain on council resources. Multiple, concurrent growth fronts and lack of existing infrastructure make it difficult to achieve unit cost efficiencies, meaning that growth in Interface councils costs more than growth in the inner suburbs. Despite this, previous state governments have not allocated a fair share of the allocated capital budget to accommodate and service the growth.

A 2013 report by Essential Economics assessed that significant infrastructure and resources, totalling the equivalent of \$9.8 billion by 2026 (expressed in 2011 constant prices), will be required to ensure Interface Council areas are adequately provided with facilities and services to assist in closing the gap with Melbourne's inner and middle suburbs, and to ensure improved economic, social and liveability outcomes are achieved.

Growth comes at a cost and these costs need to be funded – if not through rates, through some other means. It should be noted that currently, developer contributions provide only a part contribution to the infrastructure costs incurred for new residents. An unintended consequence of the foreshadowed changes to the Development Contributions legislation will be a further reduction of the share of infrastructure costs paid for by Development Contributions with a greater share to be funded by ratepayers in general.

Interface Councils have distinct needs and challenges due to its size, financial position, population growth and green wedge stewardship. Therefore, the Interface Councils advocate that any rate capping framework to provide a higher cap for the Interface Councils in recognition of the needs and challenges unique to the group.

Given these points, we believe there is merit in re-considering the establishment of multiple caps, or at the very least, two caps – which reflect a recognition of the capacity of a Council to secure alternative streams of revenue through self-sourced funding (fees, fines etc.). This will assist in minimising the number of Councils that need to seek a variation from the cap.

- We are concerned that the framework as proposed sends mixed messages in relation to simplicity of application, management of diversity through variations, and the number of variations expected. If every ‘unique circumstance’ is channeled through the variation process, then it goes to reason that the number of applications for variation will be significant. It is not possible to have it both ways – either the initial cap needs to accommodate up-front those issues which have multi-council resonance (such as growth or own source revenue), or there should be an acceptance that the number of variations applied for will be many. To suggest that it could be otherwise is painting an inaccurate picture and creating a difficult dynamic between a council with genuine disadvantage factors and its community. We are concerned that if the process is designed to necessitate a large number of variations it will undermine the credibility of the Government’s Rate Capping policy.
- Interface Councils recommend that the Essential Services Commission should have the ability, through the framework, to apply an adjustment to the cap where extraordinary matters outside of Council’s control, either individually or as a sector, occur. An example of this might include a sector wide superannuation call, or an emergency such as a fire or flood event. In such circumstances the burden of applying for an exemption should not apply. While the report acknowledges that a level of flexibility will need to be applied in cases of sudden and genuine budget emergencies, we feel that the variation process is not the most effective means for response.
- Interface Councils are concerned that the report recommends that the ESC is not given powers to negotiate with any Council on an alternative rate increase if it determines that an application does not satisfactorily justify the rate increase that is being sought. We are concerned that this “all or nothing” approach will result in Councils needing to prepare two budgets in parallel (one with the variation and one without) as a risk mitigation strategy if the necessary consultation and approval timeframes are to be met. This will place significant additional administrative burden on Councils who are already resource stretched.
- The matter of debt and debt management is discussed in a number of areas within the paper. Interface Councils support the proposition that debt should be effectively managed and is a legitimate form of funding for new or upgraded assets which will reap intergenerational benefit. We would be concerned however if the Essential Services Commission is suggesting that debt should be utilised to fund operating expenses or capital works maintenance. This should be clarified in the paper to avoid confusion.

Recommendations

5. **That the framework is amended to provide for 2 caps as a minimum – one for Councils with high access to self-source revenue, and one for those without the same access.**
6. **That the Essential Services Commission recognises that having a simple, one size fits all cap and channeling all unique circumstances through the variation process is not effective and will result in a larger than necessary number of applications for variation, undermining the credibility of the Government’s rate capping policy.**
7. **That the ESC retains the ability to apply an adjustment to the cap outside of the variation process in cases of sudden and genuine budget emergency outside of a Council’s control.**
8. **That the ESC is given powers to negotiate an alternative rate increase in extraordinary circumstances if an application does not satisfactorily justify the rate increase that is being sought.**
9. **That the ESC provides greater clarity around appropriate use of debt as a financial lever.**

10. That Councils have a right to make an appeal to the Minister for Local Government if their application is rejected by the ESC.

3. Monitoring and Reporting

- Interface Councils believe that the rate capping framework and variation process should not be onerous and create unnecessary levels of bureaucracy for already financially constrained councils. In our earlier submission we proposed the establishment of a standard template to ensure that the Essential Services Commission (ESC) has the necessary information to inform their review and still feel that this would be relevant in the context of the draft framework as proposed.
- We share the view expressed by the ESC that any monitoring regime should not impose an unnecessary reporting burden on Councils. However the nature of reporting alluded to in the report does represent a shift from the current reporting frameworks already in place, or about to be implemented through the Local Government Performance Reporting Framework. The inference that new or additional measures of performance with respect to services, infrastructure or financial performance (p32) would suggest a higher level of bureaucratic burden associated with performance measurement than is currently in place. We have no concerns with the ESC monitoring compliance with the rate capping framework, but do question their role as a legitimate monitor of wider sector performance.

We reiterate our earlier comment that the policy parameters to support rate capping must be integrated across Victorian Auditor-General's Office, LGV and the ESC to ensure maximum public transparency for councils and for Government. Interface Councils believe that this should also be reflected in the Local Government Performance Reporting Framework.

Recommendations

- 11. That a standard template is established to support those Councils applying for a variation to the rate cap and to minimise administrative burden;**
- 12. That further clarity and justification is provided regarding the cost/benefit of increasing the number and scope of measures of performance;**
- 13. That the role of the ESC is constrained to measuring and monitoring compliance with the Rate Capping and Variation Framework and not measuring or monitoring wider local government performance.**

4. General Comments

- We note that there is currently no recommendation regarding who will fund the cost of administering the framework and the variation process. Interface Councils reiterate our earlier comments on this matter and contend that as a State Government policy position, the framework should be fully funded by State Government. Under no circumstances should the cost of administering the framework be applied to local governments.
- We note that while commentary is provided regarding the importance of State Government maintaining pace with fee setting for those statutory services that they are responsible for

determining such as planning fees, there is no recommendation on this. Fee revenue is an important part of a Council's overall financial position and it is important that those fees reflect the efficient cost of providing those services. We urge you to ensure that the final report includes a strong recommendation to Government on this issue.

Recommendations

- 14. That the cost of the implementation of the framework is fully funded by the State Government.**
- 15. That the final report includes a recommendation to State Government ensuring that fee setting for statutory services maintains pace with the efficient cost of providing those services.**

Conclusion

We hope that this commentary is helpful in determining the final shape of the local government rate capping and variation framework. We are confident that the incorporation of our recommendations would work to strengthen the draft as currently proposed and help to ensure that the final framework endorsed by the Minister and Treasurer is not only workable for the sector, but enhances transparency and accountability to our communities.