



**MAV Submission to the ESC's draft
Report: Blueprint for Change:
Local Government Rates Capping and
Variation Review**

August 2015

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The MAV is the statutory peak body for local government in Victoria, representing all 79 municipalities. The

While this paper aims to broadly reflect the views of local government in Victoria, it does not purport to reflect the exact views of individual councils.

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1 Introduction

The Municipal Association of Victoria (MAV) welcomes the opportunity to provide a submission to the Essential Services Commission's (ESC) draft report on the rates capping and variations framework review.

This submission provides the MAV's views on the framework and identifies several major issues that require consideration by the ESC ahead of their final report to government.

The MAV believes that the framework, as described in the draft paper, has the capacity to significantly affect the liveability of Victoria by constraining valuable services and the infrastructure provided by the sector. Councils' expenditure provides tremendous value to the community and iterative reductions over time in services and assets – as a consequence of the framework – will have a lasting and detrimental effect on communities.

2 Fundamental Issues

2.1 Reduced Independence of Local Government

Rates capping hamstrings the independent operation of democratically representative governments. Councils should have the freedom to make autonomous decisions around levels of own-source taxes and charges – this is a key attribute of democratic systems. Rates capping represents increased State control over councils and runs counter to reducing vertical fiscal imbalance.

The proposed Framework has the potential to adversely impact the longer-term sustainability of councils and places a great deal of responsibility about the future of the sector in the hands of the ESC.

2.2 Simplicity of the Capping Process

The ESC has emphasised the importance of a simple approach to rates capping. This is incongruous with the diversity and needs of local councils. The ESC has recommended a uniform capping approach indicating that the individual needs of councils can be addressed through a variation process. The burden of proof required to be met for a variation will be critical given all indications that the general cap will be materially lower than historic rate increases required to deal with funding pressures or indeed, the cost indices applied to the sector.

2.3 Clarity of recommendations

The ESC's proposed variation process – as described to MAV and its members at various events – contains inconsistencies with the content of the draft reports. For example, it has suggested that the level of evidence required for a variation to be approved when assessing an application will be less onerous than the process described in the draft report. This suggests there are risks that the final implementation will not reflect the intent of the ESC unless there is a greater level of precision in the final report. The Government will be required to make its decisions on the final report and it will focus on the written recommendations by ESC.

The MAV believes that the final report as submitted to the Government must be a clear and accurate summation of the proposed model and its operation. We believe this should be more reflective of the model described through meetings with the sector – which reflects greater acknowledgement of the democratic nature of the sector, its requirement to lead the community, as well as complexity and breadth of councils’ services – rather than the model as it is described in the draft report.

3 Technical Issues

3.1 Capping Mechanism

3.1.1 Clarification of the Proposed Base to be Capped

The wording around the indicator to be used as the base for rates capping is confused by the language used by the ESC. The ESC has indicated that rates per assessment are the same as rates paid on the average valuation. Rates per assessment are gross rates revenue divided by the number of assessments and this does not normally reflect rates paid on the average valuation (given municipal charges, waste charges and the application of differential rates). This clouding of definitions feeds into the ESC’s argument in favour of rates per assessment as the base for the cap.

The argument that it is something with which ratepayers are familiar or as the ESC states “*most closely reflects ratepayers’ experience*” is undermined by the fact that there are few ratepayers, if anybody, paying the average rate. Rates per assessment reflects rates across the board – a quotient that arises from the mixing of residential, commercial, industrial, farm and vacant land valuations, their numbers, rate effort and liability for municipal charges – it is therefore highly artificial. In practice it is possible for the rates payable on the same valued property to be materially different. It is arguable that the use of rates per assessment is likely to be more controversial with ratepayers trying to relate things to their own rate bills. The impact of revaluations and the incidence of rates (determined by rating strategies) are important factors muddying the waters.

Clarification was sought from the ESC on how the base and index would work in practice. The ESC confirmed that the base indicator in each year is determined by a recalculation of total revenue divided by the number of assessments in each consecutive year compared with the previous year. It is neither rates per assessment, or rates paid on the average valued property, successively indexed each year from the base year.

3.1.2 Issues with Possible Bases for Capping

Rate revenue per head is superior to both total rate revenue and rate revenue per assessment in terms of reflecting the need for rates and efficiency. The bulk of services delivered by councils are cost-driven by the number of persons rather than properties serviced. Information on population is readily available and reliable, although tends to be subject to revision¹.

Does a base for capping based on assessment numbers adequately address population? If assessment and population growth were both synchronised and

¹ ERPs tend to be subject to greatest revision the further out from a census year

consistent there would be no issue however they may vary considerably and even be moving in opposite directions.

Some simple modelling was undertaken to compare outcomes per head of population arising from general capping based “per assessment”. The analysis indicated that:

- in faster-growing councils the increase per head of population could be a fraction of the general cap²;
- more than half of councils (52%) could face a rate revenue per head increase lower than the cap, in the case of eleven councils the difference being 1% or more and in twenty-four councils a difference of 0.5% or more; and
- councils with relatively high assessment growth compared with population growth could result in increases in rate revenue per head as much as two to three times the general cap.

In discussions the ESC indicated that concerns regarding impacts per head population could be addressed by way of requests for variation and that, the exclusion of supplementary rates from the cap, would at least partly address the population issue.

Remodelling of the data to take account of trend growth in supplementary rates showed the latter to be true to some extent, with only eleven councils showing growth in rate revenue per head less than the general cap once factored. However, given the greater relevance of population (growth) to driving costs it would appear to make more sense to include it, in general terms, within the general capping component rather than through variations. This should not preclude specific demographic factors being raised with respect to variations. On balance there may be less confusion in the community if rates per head were to be used.

The reverse situation, if the base for the cap was rates per head, was also modelled. The analysis showed that slightly less than half of councils could face an increase in rate revenue per assessment lower than the cap.

² in fact based on trend growth rates per head could decline

	Relative Movements in Assessments and Population						Effect of Rate Cap of 3.05% in 2014-15			
	2013-14			3 year Average Annual to 2013-14			Cap per Assessment			Cap per Head
	Change in Assessments	% Change in Popn	Difference	Change in Assessments	% Change in Popn	Difference	Change in Rates per Head	Supp. Rates Required to Neutralise Effect on Rates per Head	Supp. Rates Experience	Change in Rates Per Assessment
Alpine (S)	0.72%	0.07%	0.79%	-0.34%	0.61%	-0.95%	3.86%	0.78%	0.7%	2.25%
Ararat (RC)	0.40%	0.34%	0.74%	-0.67%	0.71%	-1.38%	3.81%	0.73%	0.0%	2.29%
Ballarat (C)	1.66%	1.72%	0.06%	1.71%	1.77%	-0.05%	2.99%	0.06%	0.6%	3.11%
Banyule (C)	0.40%	0.90%	0.50%	0.77%	0.59%	0.18%	2.54%	0.50%	0.3%	3.56%
Bass Coast (S)	0.56%	2.08%	1.52%	1.63%	1.19%	0.44%	1.52%	1.51%	1.4%	4.60%
Baw Baw (S)	0.34%	1.71%	1.36%	1.84%	1.80%	0.04%	1.67%	1.36%	0.2%	4.45%
Bayside (C)	1.50%	1.68%	0.18%	1.51%	1.42%	0.10%	2.87%	0.18%	1.0%	3.23%
Benalla (RC)	0.64%	0.67%	1.31%	-0.49%	0.50%	-0.99%	4.41%	1.30%	0.0%	1.71%
Boroondara (C)	0.74%	1.28%	0.54%	1.23%	0.82%	0.40%	2.50%	0.54%	1.0%	3.60%
Brimbank (C)	0.57%	1.22%	0.65%	1.12%	0.71%	0.41%	2.39%	0.65%	0.8%	3.72%
Buloke (S)	0.59%	2.09%	1.50%	-2.14%	-0.08%	-2.06%	4.62%	1.50%	0.0%	1.51%
Campaspe (S)	0.11%	0.02%	0.14%	-0.12%	0.20%	-0.32%	3.19%	0.14%	0.5%	2.91%
Cardinia (S)	3.03%	3.58%	0.55%	4.17%	4.47%	-0.30%	2.50%	0.54%	2.3%	3.60%
Casey (C)	2.62%	3.09%	0.48%	2.90%	2.45%	0.45%	2.57%	0.47%	1.9%	3.53%
Central Goldfields (S)	0.20%	0.09%	0.28%	0.10%	0.91%	-0.81%	3.34%	0.28%	0.1%	2.76%
Colac Otway (S)	2.43%	0.78%	3.21%	-0.64%	1.14%	-1.79%	6.38%	3.13%	0.2%	-0.18%
Corangamite (S)	0.57%	0.73%	1.29%	-1.20%	0.29%	-1.49%	4.39%	1.28%	0.1%	1.73%
Darebin (C)	1.21%	1.39%	0.18%	1.40%	1.75%	-0.35%	2.87%	0.18%	0.5%	3.23%
East Gippsland (S)	1.25%	0.88%	0.37%	0.71%	0.98%	-0.27%	3.43%	0.36%	0.4%	2.68%
Frankston (C)	3.26%	1.34%	1.93%	1.32%	1.43%	-0.11%	5.01%	1.87%	1.3%	1.13%
Gannawarra (S)	0.87%	1.64%	2.51%	-1.12%	0.00%	-1.12%	5.68%	2.49%	0.1%	0.48%
Glen Eira (C)	0.83%	1.87%	1.04%	1.72%	1.10%	0.61%	2.00%	1.03%	0.7%	4.11%
Glenelg (S)	0.59%	0.73%	0.15%	-1.02%	-0.38%	-0.64%	3.20%	0.14%	0.3%	2.90%
Golden Plains (S)	1.58%	2.03%	0.44%	2.72%	2.58%	0.14%	2.61%	0.43%	0.9%	3.49%

	Relative Movements in Assessments and Population						Effect of Rate Cap of 3.05% in 2014-15			
	2013-14			3 year Average Annual to 2013-14			Cap per Assessment			Cap per Head
	Change in Assessments	% Change in Popn	Difference	Change in Assessments	% Change in Popn	Difference	Change in Rates per Head	Supp. Rates Required to Neutralise Effect on Rates per Head	Supp. Rates Experience	Change in Rates Per Assessment
Greater Bendigo (C)	1.74%	1.64%	0.10%	1.61%	2.22%	-0.61%	3.15%	0.10%	1.5%	2.95%
Greater Dandenong (C)	0.88%	1.98%	1.10%	1.79%	1.12%	0.67%	1.94%	1.09%	1.3%	4.17%
Greater Geelong (C)	1.57%	1.61%	0.05%	1.55%	1.80%	-0.25%	3.00%	0.05%	0.0%	3.10%
Greater Shepparton (C)	0.27%	0.83%	0.55%	0.71%	0.69%	0.02%	2.48%	0.55%	0.0%	3.62%
Hepburn (S)	0.80%	0.54%	0.26%	0.54%	0.88%	-0.34%	3.32%	0.26%	0.9%	2.78%
Hindmarsh (S)	0.34%	0.88%	1.21%	-1.19%	0.05%	-1.24%	4.32%	1.22%	0.0%	1.80%
Hobsons Bay (C)	0.55%	1.95%	1.40%	1.61%	0.94%	0.68%	1.63%	1.39%	0.4%	4.49%
Horsham (RC)	0.76%	0.13%	0.63%	0.15%	0.87%	-0.71%	3.70%	0.63%	0.8%	2.41%
Hume (C)	2.74%	3.12%	0.38%	2.99%	2.85%	0.14%	2.67%	0.37%	1.9%	3.43%
Indigo (S)	0.88%	0.32%	0.56%	0.12%	0.49%	-0.38%	3.63%	0.56%	0.1%	2.47%
Kingston (C)	1.20%	0.99%	0.20%	1.02%	1.26%	-0.24%	3.26%	0.20%	0.9%	2.85%
Knox (C)	0.79%	0.46%	0.33%	0.30%	0.92%	-0.62%	3.39%	0.32%	0.2%	2.72%
Latrobe (C)	0.73%	0.16%	0.89%	-0.24%	0.70%	-0.94%	3.97%	0.89%	0.6%	2.14%
Loddon (S)	0.05%	0.81%	0.86%	-0.94%	0.35%	-1.29%	3.95%	0.87%	0.0%	2.16%
Macedon Ranges (S)	0.48%	1.47%	0.99%	1.37%	1.42%	-0.05%	2.04%	0.99%	1.2%	4.07%
Manningham (C)	0.38%	0.92%	0.54%	0.63%	0.95%	-0.32%	2.50%	0.54%	0.7%	3.61%
Mansfield (S)	0.73%	0.46%	0.26%	1.02%	0.90%	0.12%	3.32%	0.26%	0.5%	2.79%
Maribyrnong (C)	3.08%	3.30%	0.22%	3.20%	2.60%	0.59%	2.83%	0.22%	2.3%	3.27%
Maroondah (C)	1.10%	1.58%	0.48%	1.40%	1.09%	0.31%	2.56%	0.47%	0.6%	3.54%
Melbourne (C)	7.24%	5.02%	2.21%	7.67%	5.55%	2.12%	5.22%	2.06%	0.7%	0.93%
Melton (C)	2.94%	3.96%	1.02%	4.07%	3.60%	0.47%	2.04%	0.99%	2.4%	4.07%
Mildura (RC)	0.57%	0.74%	0.17%	0.80%	0.42%	0.38%	2.88%	0.17%	3.0%	3.22%
Mitchell (S)	2.98%	3.13%	0.16%	3.23%	3.02%	0.21%	2.89%	0.15%	2.5%	3.21%
Moira (S)	2.00%	0.63%	1.37%	0.32%	1.44%	-1.11%	4.46%	1.35%	0.7%	1.66%
Monash (C)	1.07%	1.47%	-	1.41%	1.16%	0.24%	2.64%	0.40%	0.9%	3.46%

	Relative Movements in Assessments and Population						Effect of Rate Cap of 3.05% in 2014-15			
	2013-14			3 year Average Annual to 2013-14			Cap per Assessment			Cap per Head
	Change in Assessments	% Change in Popn	Difference	Change in Assessments	% Change in Popn	Difference	Change in Rates per Head	Supp. Rates Required to Neutralise Effect on Rates per Head	Supp. Rates Experience	Change in Rates Per Assessment
			0.40%							
Moonee Valley (C)	2.46%	2.02%	0.43%	1.67%	2.33%	-0.66%	3.49%	0.42%	0.0%	2.61%
Moorabool (S)	1.16%	1.97%	0.81%	2.65%	2.07%	0.59%	2.23%	0.80%	1.1%	3.88%
Moreland (C)	2.17%	2.24%	0.07%	2.16%	2.40%	-0.24%	2.98%	0.07%	1.8%	3.12%
Mornington Peninsula (S)	0.83%	1.09%	0.26%	0.98%	0.83%	0.15%	2.79%	0.26%	1.0%	3.31%
Mount Alexander (S)	0.86%	0.70%	1.56%	0.57%	1.40%	-0.83%	1.46%	1.57%	0.0%	4.67%
Moyne (S)	0.73%	0.26%	0.47%	0.36%	0.56%	-0.20%	3.54%	0.47%	0.2%	2.56%
Murrindindi (S)	0.12%	0.85%	0.74%	0.64%	0.19%	0.45%	2.30%	0.74%	0.0%	3.81%
Nillumbik (S)	1.60%	0.31%	1.29%	0.10%	1.06%	-0.97%	4.37%	1.27%	0.3%	1.75%
Northern Grampians (S)	0.23%	0.51%	0.74%	-0.95%	0.21%	-1.16%	3.82%	0.74%	0.0%	2.29%
Port Phillip (C)	2.35%	2.37%	0.02%	2.19%	2.85%	-0.66%	3.03%	0.02%	1.1%	3.07%
Pyrenees (S)	0.41%	3.30%	2.89%	1.71%	0.21%	1.50%	0.17%	2.87%	0.0%	6.01%
Queenscliffe (B)	0.69%	0.66%	1.35%	-0.94%	0.44%	-1.39%	4.45%	1.34%	0.1%	1.67%
South Gippsland (S)	0.33%	0.02%	0.31%	0.33%	0.57%	-0.24%	3.37%	0.31%	0.8%	2.73%
Southern Grampians (S)	0.33%	1.39%	1.72%	-1.39%	0.30%	-1.69%	4.85%	1.71%	0.3%	1.28%
Stonnington (C)	2.25%	2.78%	0.53%	2.34%	1.79%	0.55%	2.52%	0.52%	1.2%	3.59%
Strathbogie (S)	0.36%	1.14%	0.78%	0.74%	0.64%	0.10%	2.26%	0.78%	0.1%	3.85%
Surf Coast (S)	0.38%	0.72%	0.34%	1.82%	0.84%	0.97%	2.70%	0.34%	0.6%	3.40%
Swan Hill (RC)	0.04%	1.32%	1.36%	-0.89%	0.38%	-1.27%	4.47%	1.36%	0.1%	1.65%
Towong (S)	0.48%	1.50%	1.98%	-0.96%	0.79%	-1.75%	5.12%	1.97%	0.0%	1.02%
Wangaratta (RC)	1.00%	0.22%	1.21%	-0.19%	0.59%	-0.78%	4.30%	1.20%	0.5%	1.82%
Warrnambool (C)	0.56%	0.77%	0.21%	0.75%	0.94%	-0.19%	2.84%	0.21%	0.0%	3.26%
Wellington (S)	5.69%	0.14%	5.82%	-0.09%	2.98%	-3.06%	9.06%	5.51%	1.3%	-2.63%
West Wimmera (S)	0.40%	2.55%	2.14%	-2.57%	0.42%	-2.99%	5.30%	2.14%	0.0%	0.85%
Whitehorse (C)	0.72%	1.30%	0.58%	1.37%	1.04%	0.33%	2.46%	0.58%	0.7%	3.65%

	Relative Movements in Assessments and Population						Effect of Rate Cap of 3.05% in 2014-15			
	2013-14			3 year Average Annual to 2013-14			Cap per Assessment			Cap per Head
	Change in Assessments	% Change in Popn	Difference	Change in Assessments	% Change in Popn	Difference	Change in Rates per Head	Supp. Rates Required to Neutralise Effect on Rates per Head	Supp. Rates Experience	Change in Rates Per Assessment
Whittlesea (C)	2.79%	4.40%	1.60%	4.90%	3.23%	1.67%	1.47%	1.56%	3.1%	4.66%
Wodonga (C)	1.49%	2.18%	0.69%	2.10%	1.66%	0.45%	2.35%	0.68%	0.7%	3.75%
Wyndham (C)	1.89%	5.61%	3.72%	5.67%	2.41%	3.26%	0.58%	3.65%	1.2%	6.81%
Yarra (C)	3.06%	3.56%	0.50%	3.35%	2.63%	0.72%	2.55%	0.49%	1.4%	3.55%
Yarra Ranges (S)	0.81%	0.44%	0.37%	0.29%	0.73%	-0.44%	3.43%	0.37%	0.0%	2.67%
Yarriambiack (S)	0.40%	1.94%	2.33%	-1.49%	0.50%	-1.99%	5.49%	2.31%	0.1%	0.66%

Notes:

2014-15 trends based on previous year change for assessments and population

Supplementary rates based on experience over 3 years to 2013-14

3.1.3 Possibility of Adverse Impacts on Total Rates Revenue from Reduced Assessments

While it has been argued that council costs are driven less by the number of assessments than population there are a range of council services where the relationship between service costs and both these variables is weak or tenuous. Their use effectively as de facto indicators of “rates need” poses particular issues where services tend to be neutral to changes in their number. Even where services may be argued to be more closely correlated to assessments and/or population it may be difficult to reduce, maintain or constrain costs dictated by capped levels of rates because of fixed costs.

Given that the bound of total rate revenue (increase) is determined by the amount per assessment there will be situations where *total rates* rendered by the cap will increase at a lesser rate than the cap because the number of assessments may have fallen. Assume, for example, that required total council expenses for a service which is largely unaffected by the number of assessments, increases at the same rate as the cap but there is a decline in the number of assessments. It follows that the available *total rates* revenue delivered by the cap for this service will be less than the cap itself.

Some simple modelling shows the potential for “lower-than cap” movements in *total* rate revenues arising from a decline in assessment numbers - noting that the same issue would also arise if rates per head were to be used. Shaded cells in the table below show instances in past years where the change in total rates revenue is less than the cap as proposed by the ESC. It shows several cases in most years where the increase in total rates is less than the capped increase per assessment – even accounting for supplementary rates growth. Surprisingly, it also shows some instances of decline in total rate revenues³.

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	
Cap on Rates per Assessment	3.30%	2.35%	3.00%	3.00%	2.65%	2.45%	
	% Change in Total Rate Revenue (Municipal Charge & General Rates) at Capped Rates per Assessment						Average Annual Change in Supps Rate Revenue
ALPINE(S)	3.72%	3.2%	3.8%	3.43%	3.16%	3.19%	0.67%
ARARAT(RC)	3.98%	2.6%	3.6%	3.59%	3.70%	2.86%	0.02%
BALLARAT(C)	5.12%	4.5%	12.6%	-1.14%	4.57%	4.15%	0.62%
BANYULE(C)	4.37%	2.9%	3.5%	3.73%	3.45%	2.86%	0.33%
BASS COAST(S)	5.63%	4.5%	4.4%	4.61%	4.53%	3.02%	1.37%
BAW BAW(S)	6.17%	4.5%	6.0%	6.85%	6.02%	2.80%	0.21%
BAYSIDE(C)	4.32%	2.8%	3.5%	4.18%	4.01%	3.99%	1.01%
BENALLA(RC)	3.87%	3.2%	3.4%	3.63%	3.02%	3.11%	0.00%
BOROONDARA(C)	4.29%	2.9%	3.5%	4.57%	3.57%	3.21%	0.97%
BRIMBANK(C)	5.52%	4.2%	4.5%	4.20%	3.53%	3.03%	0.77%

³ Assessment numbers have been sourced from the VGC return and have been accepted at face value. The timing of supplementary assessments may impact these findings.

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	
Cap on Rates per Assessment	3.30%	2.35%	3.00%	3.00%	2.65%	2.45%	
	% Change in Total Rate Revenue (Municipal Charge & General Rates) at Capped Rates per Assessment						Average Annual Change in Supps Rate Revenue
BULOKE(S)	3.43%	1.8%	3.4%	2.44%	3.10%	1.84%	0.00%
CAMPASPE(S)	6.33%	2.4%	2.6%	3.83%	2.95%	2.57%	0.47%
CARDINIA(S)	7.72%	7.8%	10.1%	7.46%	8.73%	5.55%	2.33%
CASEY(C)	6.75%	4.8%	5.6%	6.19%	5.00%	5.13%	1.89%
CENTRAL GOLDFIELDS(S)	3.30%	6.7%	-1.9%	4.94%	4.32%	2.65%	-0.12%
COLAC-OTWAY(S)	4.03%	3.0%	5.2%	3.78%	2.53%	4.94%	0.25%
CORANGAMITE(S)	3.04%	2.4%	3.6%	3.11%	2.66%	3.03%	-0.13%
DAREBIN(C)	4.35%	2.4%	4.0%	4.18%	5.00%	3.69%	0.53%
EAST GIPPSLAND(S)	4.59%	3.7%	4.0%	4.46%	3.38%	3.73%	0.45%
FRANKSTON(C)	5.09%	4.1%	5.3%	4.18%	2.26%	5.79%	1.31%
GANNAWARRA(S)	3.98%	2.6%	1.8%	4.16%	1.76%	3.34%	0.11%
GLEN EIRA(C)	3.94%	3.8%	3.7%	3.69%	4.06%	3.30%	0.66%
GLENELG(S)	3.90%	2.8%	3.4%	3.68%	2.47%	1.85%	0.26%
GOLDEN PLAINS(S)	3.30%	4.1%	4.9%	6.45%	6.33%	4.07%	0.91%
GREATER BENDIGO(C)	5.38%	3.8%	4.1%	4.99%	5.41%	4.24%	1.49%
GREATER DANDENONG(C)	4.24%	3.4%	4.6%	4.85%	4.04%	3.35%	1.32%
GREATER GEELONG(C)	4.84%	4.5%	4.1%	5.33%	4.73%	4.06%	0.00%
GREATER SHEPPARTON(C)	4.54%	4.0%	5.1%	3.99%	3.78%	2.73%	0.02%
HEPBURN(S)	4.28%	4.2%	4.4%	4.00%	3.63%	3.27%	0.92%
HINDMARSH(S)	3.63%	2.6%	3.4%	3.84%	2.41%	2.79%	0.00%
HOBSONS BAY(C)	4.04%	4.2%	3.6%	4.05%	4.01%	3.01%	0.43%
HORSHAM(RC)	4.18%	3.0%	3.9%	4.00%	3.65%	3.23%	0.77%
HUME(C)	6.36%	4.2%	5.4%	5.42%	5.68%	5.26%	1.93%
INDIGO(S)	7.13%	3.3%	3.9%	3.72%	2.76%	3.35%	0.12%
KINGSTON(C)	5.01%	3.4%	3.0%	4.70%	4.00%	3.68%	0.91%
KNOX(C)	4.10%	3.0%	3.7%	4.06%	3.74%	3.26%	0.23%
LATROBE(C)	5.05%	3.0%	4.1%	3.78%	3.34%	3.20%	0.63%
LODDON(S)	3.62%	2.7%	3.3%	3.50%	3.31%	2.50%	0.01%
MACEDON RANGES(S)	5.54%	3.9%	12.1%	-2.19%	5.08%	2.94%	1.21%
MANNINGHAM(C)	4.17%	4.0%	3.7%	3.95%	4.21%	2.84%	0.66%
MANSFIELD(S)	3.66%	3.7%	3.9%	5.33%	3.74%	3.19%	0.55%
MARIBYRNONG(C)	3.30%	5.4%	3.0%	4.83%	4.84%	5.60%	2.35%
MAROONDAH(C)	4.32%	2.8%	4.2%	4.29%	3.76%	3.58%	0.64%
MELBOURNE(C)	9.75%	2.3%	9.0%	12.29%	6.65%	9.86%	0.67%
MELTON(S)	10.81%	6.8%	9.5%	7.00%	7.03%	5.46%	2.41%
MILDURA(RC)	4.76%	3.0%	4.3%	3.71%	2.92%	3.03%	3.02%
MITCHELL(S)	5.73%	5.9%	8.5%	4.07%	5.80%	5.50%	2.52%
MOIRA(S)	5.20%	3.1%	4.7%	3.68%	3.55%	4.50%	0.70%
MONASH(C)	4.13%	2.9%	4.3%	4.26%	3.94%	3.55%	0.90%
MOONEE VALLEY(C)	-2.10%	4.3%	4.9%	4.08%	4.92%	4.97%	0.00%
MOORABOOL(S)	2.50%	7.3%	3.9%	4.91%	5.71%	3.64%	1.08%

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	
Cap on Rates per Assessment	3.30%	2.35%	3.00%	3.00%	2.65%	2.45%	
	% Change in Total Rate Revenue (Municipal Charge & General Rates) at Capped Rates per Assessment						Average Annual Change in Supps Rate Revenue
MORELAND(C)	4.77%	4.1%	5.3%	4.78%	5.35%	4.67%	1.75%
MORNINGTON PENINSULA(S)	3.26%	3.3%	3.9%	3.90%	3.50%	3.30%	0.98%
MOUNT ALEXANDER(S)	4.17%	3.0%	4.4%	4.13%	6.47%	1.57%	0.00%
MOYNE(S)	5.91%	3.4%	3.7%	4.05%	3.06%	3.20%	-0.16%
MURRINDINDI(S)	4.24%	2.8%	3.8%	3.14%	2.92%	2.57%	0.00%
NILLUMBIK(S)	4.63%	2.3%	3.6%	3.36%	3.20%	4.09%	0.30%
NORTHERN GRAMPIANS(S)	3.86%	2.1%	3.4%	3.40%	2.84%	2.68%	0.00%
PORT PHILLIP(C)	6.09%	3.1%	4.5%	4.28%	6.10%	4.85%	1.15%
PYRENEES(S)	3.88%	2.6%	3.4%	4.66%	2.67%	2.87%	0.00%
QUEENSLIFFE(B)	4.50%	3.7%	3.3%	3.55%	2.85%	3.16%	0.12%
SOUTH GIPPSLAND(S)	4.44%	3.3%	4.0%	4.10%	3.48%	2.79%	0.75%
SOUTHERN GRAMPIANS(S)	4.62%	3.2%	4.4%	3.49%	2.92%	2.79%	-0.28%
STONNINGTON(C)	4.03%	4.0%	3.8%	5.93%	4.01%	4.76%	1.20%
STRATHBOGIE(S)	3.90%	3.7%	3.5%	5.37%	3.59%	2.82%	0.14%
SURF COAST(S)	6.48%	4.6%	5.3%	4.24%	3.99%	2.84%	0.63%
SWAN HILL(RC)	4.23%	1.9%	4.9%	3.60%	3.40%	2.49%	0.07%
TOWONG(S)	3.89%	3.1%	4.0%	2.36%	3.77%	2.94%	0.00%
WANGARATTA(RC)	4.88%	4.0%	4.1%	3.92%	2.83%	3.47%	0.53%
WARRNAMBOOL(C)	4.68%	4.1%	4.5%	5.05%	4.00%	3.02%	0.00%
WELLINGTON(S)	6.33%	4.4%	2.5%	3.26%	3.00%	8.27%	1.35%
WEST WIMMERA(S)	3.66%	2.8%	3.6%	3.45%	3.93%	2.04%	0.01%
WHITEHORSE(C)	4.11%	3.1%	3.8%	3.66%	4.05%	3.18%	0.67%
WHITTLESEA(C)	9.52%	9.7%	10.4%	8.80%	6.41%	5.31%	3.13%
WODONGA(C)	5.99%	3.3%	5.4%	5.41%	4.52%	3.98%	0.74%
WYNDHAM(C)	12.36%	11.5%	11.3%	8.34%	5.66%	4.39%	1.21%
YARRA (C)	5.73%	3.6%	4.1%	5.59%	4.92%	5.58%	1.40%
YARRA RANGES(S)	4.21%	3.7%	4.0%	3.84%	3.31%	3.28%	0.00%
YARRIAMBIACK(S)	2.65%	3.3%	3.5%	3.23%	3.27%	2.86%	0.12%

According to the ESC Framework this issue would be addressed through the variation process. There would appear, however, to be a reasonable case either for a “no-loss” or “minimum increase” provision applicable to total rate revenues.

3.1.4 Councils Funding Waste Services through General Rates

The Framework excludes sanitation charges normally included as part of the rates notice. This potentially raises issues for councils currently funding these services through general rates particularly should a variation be sought with respect to waste management costs.

An expectation that affected councils should change their pricing policy, and as the majority do, levy a service rate for this purpose is not considered appropriate. Councils' consideration of the regressive nature of such fixed charges and whether in practice the setting of such charges will actually influence behaviour are legitimate factors that inform their decisions⁴.

3.1.5 Exclusion of Rates in Lieu and Rate Rebates

The rationale for excluding rates in lieu, rating agreements and rate rebates, is not really addressed satisfactorily. Rates in lieu and rating agreements are used for universal funding of services and directly influence the general rates paid by other ratepayers.

According to the definitions included in the Framework paper the rate revenue figure used for calculations is a gross figure. According to available data 37 councils currently provide rate rebates for various reasons.

3.1.6 Inflator

3.1.6.1 *Index Weighting Factors*

The cap provided by the framework will render smaller increases than has been historically experienced in the sector and less than generally needed by councils.

The cap is constructed on the basis of 40% wages (wages prices index [WPI])/ 60% "other costs" (consumer price index [CPI]) – approximating the current average proportion of employee costs for the sector. Council data indicate wages account from 23% to 54% across the sector with one quarter of councils outside a standard deviation. A general cap will therefore have variable implications for councils, amplified by differences between the WPI and CPI.

A comparison was made of the implied cap (net of efficiency factors) based on the recommended 40% WPI/60% CPI and what the cap would have been based on actual splits of councils' employee and other recurrent costs for 2013-14. When the difference between WPI and CPI was most marked there was around a plus or minus 0.2% difference when compared against the cap and 0.4% between the highest and lowest councils. While these differences are small in a proportionate sense, the equity side of things is more illustrative when dollar impacts are considered, particularly were relatively large differences to persist in the CPI and WPI over a number of years. For example, the one-year effect in 2014-15 for two metropolitan

⁴ while service rates can make service users more conscious of the cost of waste collection services there is conjecture as to whether they really send strong signals to consumers unless they are more accurately related to respective volumes, the frequency of needed collections, and weight transported and disposed to landfill.

councils ranged from \$91k (advantage) to -\$175k (disadvantage) and the effect for a rural shire was \$-23k.

3.1.6.2 Relevance of Consumer Price Index (CPI)

The CPI reflects movement in the final prices paid by household consumers for a weighted basket of goods and services and therefore is a general indicator of “prices paid” not of production costs. The selection of the CPI represents a bias in favour of perceived community expectations about prices rather than any consideration of the cost of inputs. No consideration is given, in any case, whether the basket items, or their weightings, reasonably reflects the inputs for local government service provision.

Weightings of costs in the CPI produced by the ABS are provided below which indicate that the CPI has little relevance to local government inputs. For example, approaching one third of the weighted change in costs is attributable to food, beverages and tobacco and 19% to housing costs excluding utilities and 3% to education costs. Utilities (excluding water) account on average for around 8% or more of councils’ recurrent costs although the weighted change in the CPI incorporates a figure of less than 4%.

ABS CPI Basket Weightings – Contribution to CPI

Cost	% Total
Food and Non-Alcoholic Beverages	16.84
Alcohol and Tobacco	7.06
Clothing and Footwear	3.98
Housing ex. utilities	18.69
Utilities	3.61
Furnishings, Household Equipment and Services	9.10
Health	5.29
Transport	11.55
Communication	3.05
Recreation and Culture	12.56
Education	3.18
Insurance	1.40
Financial Services	3.68
Total	99.99

The DTF is understood to construct its own version of the CPI for Melbourne where cost categories have been differentiated into market goods and services (excluding volatile items) accounting for 75 per cent of the total CPI basket, with the remaining 25 per cent attributable to other items.

The former group captures the types of goods and services typically driven by market factors (excluding volatile items) and consists of all CPI groups except for automotive fuel, fruit and vegetables, utilities, property rates and charges, child care, health, other services in respect of motor vehicles, urban transport fares, postal services, and education. The excluded items are argued to represent those which are more

heavily influenced by non-market factors (such as administered price changes) or exhibit volatility as a result of supply-side factors.

It is unclear what weights are afforded to the costs within the DTF's remaining basket after discounting for volatile items or whether the balance are merely pro-rated and what material differences arise from this approach. The published dataset, "DTF Macroeconomic Indicators, gives *budget* and *budget update* forecasts for CPI but the *actual* figures included are ABS figures. This begs the question as to what the actuals would have been based on the DTF method. Clearly, what and how much is included in the measure to be used, needs to be clear and easy to understand.

The exclusion of automotive fuels and utilities on the basis of volatility in prices would appear counter-intuitive given the importance of these as costs for councils' service provision e.g. recreation centres and infrastructure construction and maintenance.

A significant proportion of councils' spending, around 22% is dedicated to building and non-building construction and any indices need to be reflective of this. The extent of any consideration of any existing production cost indices or their possible development has not been adequately discussed by the ESC.

3.1.6.3 *Limitations of Wages Price Index (WPI)*

WPI only considers "pure" price changes in labour costs and does not consider changes in the age, grade or level of qualification of the occupant and relevant pay. The local government sector is characterised highly by salary progression via levels within bands. The costs of annual progression for a large number of employees will therefore not be accounted for in the cap which alone may add more than 1% to wage payments in councils with low staff turnover.

While opposition may be taken to any claim local government labour market conditions are different from those generally prevailing, councils are not like private sector providers that can just "close shop" or drastically change product lines – they have to keep providing services and often have to pay premium prices for labour. For example, they have to compete in labour markets where demand is strong in disciplines like planning and environmental health and may need to provide higher rates in order to attract staff to specific locations.

3.1.6.4 Forecast-Based Index

The ESC recommends the Framework should adopt a rates cap based on State Department of Treasury and Finance forecasts of increases in the CPI and WPI. The ESC proposes that the DTF forecasts provided in December of the previous year be used for this purpose.

The State Government Budget is delivered in May of the previous year and includes forecasts for planning purposes. Updated budget (mid-cycle) forecasts are also provided and these are assumed to be the December ones referred to by the ESC.

The cap that is imposed on councils will reflect anticipated general cost and wage movements. Forecasts are not always accurate - what happens in the case where State forecasts vary materially from the actual, particularly where forecasts are too low? Given that a forecast-based cap will have influenced councils' decision-making there would appear good argument for retrospective adjustments to current year capping.

It is instructive to look at what the historical experience shows if the forecast-based cap proposed by the ESC were to be compared with what the cap would have been based on actuals.

	ABS		State Dept. Treasury & Finance							
	Actual	Efficiency Factor	Net Cap	Actual		Budget		Budget Update		
	Weighted Cap 40%/60%			Weighted Cap 40%/60%	Net Cap	Weighted Cap 40%/60%	Net Cap	Weighted Cap 40%/60%	Net Cap	
ESC Cap										
2008	3.67%	0.00%	3.67%	3.66%	3.66%	2.90%	2.90%	3.05%	3.05%	
2009	3.28%	0.00%	3.28%	3.28%	3.28%	3.30%	3.30%	3.30%	3.30%	
2010	2.38%	0.05%	2.33%	2.36%	2.31%	2.70%	2.65%	2.40%	2.35%	
2011	3.46%	0.10%	3.36%	3.49%	3.39%	2.65%	2.55%	3.10%	3.00%	
2012	2.77%	0.15%	2.62%	2.79%	2.64%	3.15%	3.00%	3.15%	3.00%	
2013	2.59%	0.20%	2.39%	2.61%	2.41%	2.85%	2.65%	2.85%	2.65%	
2014	2.77%	0.25%	2.52%	2.76%	2.51%	2.90%	2.65%	2.70%	2.45%	
2015	1.97%	0.30%	1.67%	1.97%	1.67%	2.65%	2.35%	2.15%	1.85%	
Movement										
2008				1.037	1.037	1.029	1.029	1.031	1.031	
2009				1.071	1.071	1.063	1.063	1.065	1.065	
2010				1.096	1.095	1.092	1.091	1.090	1.090	
2011				1.134	1.132	1.121	1.119	1.124	1.122	
2012				1.166	1.162	1.156	1.153	1.159	1.156	
2013				1.196	1.190	1.189	1.183	1.192	1.187	
2014				1.229	1.220	1.223	1.214	1.224	1.216	
2015				1.253	1.241	1.256	1.243	1.251	1.238	

The analysis shows, at least from the ESC's position a serendipitous correlation between actual and budget effects over the eight year period reviewed. A cumulative

difference of only 0.3% in capped revenue is found. However, in specific years and over shorter periods the differences can be more significant. For example, in 2007-08 there is a difference of 0.6% between the cap based on actual and updated budget and over the four years from 2007-08 through 2010-11 the cumulative difference in the cap is 1%. Economic forecasting can be subject to considerable error and there is no guarantee that any differences between forecast and actuals will offset over time, moreover the principle that a rates cap reflects costs fairly not only in magnitude, but also with respect to timing, should be respected. For this reason the ESC should include measures to ensure material differences between the two are addressed through adjustment factors.

3.1.7 Efficiency Factors

The Framework discounts the product of weighted WPI and CPI for an *efficiency factor* in order to “address the cost of living pressures faced by ratepayers”.

The proposed cap does not include any allowance for salary progression and structural changes in labour requirements. Materials and contracts, by far the bulk of *other costs*, are sourced from the wider market and have already been subjected to market forces. In addition, the use of WPI as a measure of wage growth implicitly acts as a productivity measure by removing the effect of increments and compositional shifts in councils’ labour forces. The application of an efficiency factor is therefore considered inappropriate.

The assumption that efficiency gains can be made *ad infinitum* without impacting service effectiveness takes no account of current levels of council productivity.

3.1.8 Capping of individual properties

The draft paper contemplates restraining movements in the rates of individual ratepayers, but ultimately decides against this proposal on the basis of technical barriers and potentially high costs. While the MAV concurs that individual ratepayers’ movements should not be subjected to a cap the ESC clearly misses the compelling rationale – that the distribution of rates burden between ratepayers should be the province of councils and their view of rating equity. Rate levels should be determined by valuations and council rating strategies – inclusive of municipal charge decisions, differential rating categories and waste management charges – not through an arbitrary application of a cap at an individual ratepayer level. Such a move will introduce horizontal equity issues and reduce the efficiency of council rates. The MAV seeks the ESC’s agreement that the proposal should not be pursued on principled grounds – not solely due to technical constraints.

3.1.9 Representativeness of the base

The MAV believes some analysis should be completed to determine whether the 2015-16 year is representative and is appropriate to act as the base year for rate increase calculations.

3.2 Impacts on Councils Heavily Dependent on External Source Revenues

Rate capping will make it difficult for smaller councils impacted by real reductions in external revenue sources, in particular Financial Assistance Grants (FAGs). As these revenue sources reflect a significantly larger share of the total revenues of smaller councils, any proportionate reduction will represent a larger proportion of their rate collections. A 1% real reduction in FAGs is equal to as little as 0.013% (0.025% excluding City of Melbourne) and as much as 0.974% of rate revenue.

4 Variations and Burden of Proof

The construction of the cap will require a large number of councils to seek variations in order to maintain service levels and deal with the issue of capital renewal. The extensive requirements in arguing the case for a variation are considered likely to dissuade smaller less-resourced councils from the variation process.

4.1 Factors to be taken into Account by Councils

A successful request for a variation will be determined entirely by the ESC but despite all the narrative, it is difficult to visualise the level and depth of the case required to be demonstrated by councils.

On any objective reading of the Framework document, the requirements being suggested for success point to a huge task and include councils:

- taking account of ratepayers views including the presentation of other realistic options;
- proving that the variation will provide good value for money, including business cases and cost benefit analyses;
- showing service priorities and funding options have been considered including possible reprioritisation of expenditures and financing options;
- considering all other revenue-raising opportunities; and
- demonstrating consistency with councils' long term financial strategies.

It is easy to suggest the development of business cases and cost-benefit analyses (incorporating various re-prioritisation and financing options) without fully appreciating the expertise, time and resources required to do this work.

In response to concerns about smaller councils' ability to be successful in the variation process, the ESC indicated that the burden of proof that will need to be met may differ depending on the type of council involved. This raises concerns about the objectivity of the process and the need to clearly indicate the task involved.

Despite noting the different capabilities of councils, the ESC maintains that the specific material submitted is up to councils to determine. A suggestion that it would be instructive for the ESC to provide some fictional case-studies showing how well-credentialed submissions for variation would look, in particular encompassing the first three items above, was not considered necessary when raised with the ESC.

Councils should not feel pressured to take on additional risk in the form of less effective but lower cost suppliers/contractors in order to be successful in obtaining a variation (The ESC states councils should "Gather material that can demonstrate that

the variation application is funding items that are fit for purpose and *the lowest cost for the selected level of service*). It is also worth noting that simply accepting the lowest cost suppliers/contractors could breach the Best Value principles in the *Local Government Act 1989*.

There are questions regarding sources, sometimes conflicted, on which the ESC will rely to form opinions about efficiency and need e.g. levels of cost-shifting and renewal gap. Relevant data are disputed by responsible State Government agencies and there are inherent problems expected with the LGPRF.

The Framework is strong on the need for community consultation and involvement however councils are generally on a “hiding to nothing” when this relates to rates. As shown with experience with rating strategies vocal minorities’ views often disproportionately influence the process and State assessments of whether consultation processes are adequate are often seen through the prism of these minorities rather than the community as a whole. State Government is generally never prescriptive in this area which leaves it plenty of room to be critical about consultation. The ESC states that “following on from discussions with councils” that it is “confident that councils with well-established processes for strategic planning and community consultation will not find these requirements unduly onerous”. Community consultation requirements are likely to be influenced heavily by the complexity of business cases, cost-benefit analyses and various options involved in a variation.

The ESC may also wish to give some consideration to the consequences of state and local government partnership obligations, which can often impose significant and ongoing costs on councils. There are many areas in community services alone which by tradition or formal agreement, councils provide significant supporting funding to the benefit of the community. The continued involvement and investment by councils in a range of services at the same level is based on ‘goodwill’ and a mutually agreed partnership which needs to be recognised by the State. The MAV believes that the framework should recognise these partnerships within the framework’s architecture.

4.1.1 Legal basis for ESC decisions

The MAV has been advised by ESC that it intends to recommend that its decisions will not be subject to a merits judicial review but will be subject to administrative law. The Association seeks the confirmation from ESC that this understanding is correct. Assuming this is correct, the MAV wishes to better understand the relevant and irrelevant factors that will inform the ESC’s decision making.

4.2 Council Need for Variations

Any discouragement of councils submitting requests for variation is considered risky to their longer term sustainability, particularly given that a majority of councils will have a need to do this.

There will be a need to submit variations to deal with the issue of population changes generally, and mismatches between population and assessment growth. The impact of councils’ renewal spending shortfalls will also be a significant issue.

Data concerning councils' renewal gaps is generally considered patchy. The latest comprehensive data provided as part of the STEP Program is dated 2011-12⁵. Modelling of this data against rate levels indicates that, in a substantial number of councils, rates capping will have the effect of limiting renewal spending to levels well below that required.

The table below sets out the renewal shortfall (measured at the end of 2011-12 in terms of the current year and five year average annual renewal demand gap) as a proportion of rates revenue. In order to address the issue raised by the ESC about levels of cash reserves being used to deal with additional demand these have also been factored in the analysis.

The data showed a renewal shortfall of varying degrees in around three-quarters of all councils. In 49 councils the annual renewal gap accounted for more than 3% of rates and in 43 councils the annual renewal gap accounted for more than 3% of rates plus net current assets. In 30 councils the current year⁶ renewal gap accounted for more than 10% of rates and in 23 councils the renewal gap accounted for more than 10% of rates plus net current assets.

At the extreme the annual renewal gap accounted for up to 61% of rate revenue and 46% of rate revenue plus net current assets in particular councils. In other words, a capped increase of the dimension likely to be given by CPI and WPI in combination with the running down of **all** liquid reserves would only have a small effect on reducing the shortfall. The solution for these councils can only be higher increases over a longer time frame.

A consideration of councils' using other revenue sources to avoid rate increases as proposed by the ESC is good in theory but many of the councils worst-placed with respect to renewal gap are heavily dependent on government grants with little potential for increasing other own-source revenues. The use of debt to spread costs and hence reduce more immediate rating impacts was raised by the ESC however for some this would only have the effect of pushing yet higher required rate increases into the future. The table also includes the measure used historically by the MAV in assessing the longer term sustainability of councils – its stress index (SI). SI represents councils' net debt, including renewal gap, as a percentage of rate revenue. Net debt has been defined as total liabilities plus renewal gap less current assets less unexpended grants. This approach takes account of both the restrictions that apply to current assets and the ability to use current assets to reduce debt. It assumes that fixed assets are not excess to requirements at balance date. The data on SI show already high net debt levels for some of the most capital needy councils.

⁵ subsequent years only have partial coverage. The STEP data is considered much more reliable than that used by the AG in comparing overall renewal spending and depreciation.

⁶ five year average annual renewal demand gap shows a very similar picture but figures are considered less reliable

Council	One Year Renewal Shortfall					Five Year Average Annual Renewal Shortfall			
	as % Rates ^a	as % Rates plus Net Current Assets ^a	Stress Index	as % Rates [~]	as % Rates plus Net Current Assets [~]	as % Rates ^a	as % Rates plus Net Current Assets ^a	as % Rates [~]	as % Rates plus Net Current Assets [~]
Alpine	6.3%	4.2%		8.8%	5.1%	6.3%	4.2%	8.8%	5.1%
Ararat									
Ballarat	19.2%	15.4%		22.3%	17.3%	17.9%	14.3%	20.8%	16.1%
Banyule	7.2%	4.3%		7.4%	4.4%	4.3%	2.5%	4.4%	2.6%
Bass Coast	4.7%	3.3%		5.8%	3.8%	5.4%	3.8%	6.6%	4.4%
Baw Baw	24.7%	20.8%		28.2%	23.3%	20.6%	17.4%	23.6%	19.5%
Bayside	2.1%	1.6%		2.3%	1.8%	7.7%	6.0%	8.6%	6.6%
Benalla	14.0%	10.6%		16.0%	11.7%	8.2%	6.2%	9.4%	6.9%
Boroondara									
Brimbank	14.0%	11.3%		16.6%	13.0%	14.0%	11.3%	16.6%	13.0%
Buloke	33.1%	41.5%		36.0%	46.2%	28.1%	35.2%	30.6%	39.2%
Campaspe	21.7%	11.2%		26.3%	12.3%	13.9%	7.1%	16.8%	7.8%
Cardinia									
Casey	1.7%	1.0%		2.1%	1.1%	1.4%	0.8%	1.7%	0.9%
Central Goldfields	1.8%	1.3%		2.2%	1.5%	1.8%	1.3%	2.2%	1.5%
Colac-Otway	8.4%	5.6%		9.6%	6.1%	8.4%	5.6%	9.6%	6.1%
Corangamite	1.4%	1.1%		1.5%	1.2%				
Darebin	1.5%	1.2%		1.6%	1.2%	1.6%	1.2%	1.6%	1.2%
East Gippsland	42.1%	26.4%		47.1%	28.3%	27.7%	17.4%	31.0%	18.6%
Frankston	3.6%	3.1%		4.3%	3.7%	0.8%	0.7%	1.0%	0.9%
Gannawarra	5.2%	2.6%		6.2%	2.9%	5.2%	2.6%	6.2%	2.9%
Glen Eira	6.9%	5.8%		8.3%	6.8%	3.0%	2.6%	3.6%	3.0%
Glenelg	9.7%	5.1%		12.7%	5.9%	9.7%	5.1%	12.7%	5.9%
Golden Plains									
Greater Bendigo	14.0%	11.6%		16.4%	13.2%	10.2%	8.4%	11.9%	9.5%
Greater Dandenong	2.0%	1.4%		2.4%	1.6%				
Greater Geelong	10.1%	8.3%		11.7%	9.4%	10.7%	8.8%	12.4%	9.9%
Greater Shepparton	18.4%	13.4%		21.2%	14.8%	12.5%	9.1%	14.4%	10.1%
Hepburn#	6.1%	3.8%		7.2%	4.2%	6.1%	3.8%	7.2%	4.2%
Hindmarsh						6.9%	2.5%	7.6%	2.6%
Hobson's Bay									
Horsham	18.3%	9.6%		20.7%	10.3%	16.7%	8.8%	18.9%	9.4%
Hume									
Indigo						4.4%	3.1%	5.2%	3.5%
Kingston	3.3%	2.8%		3.7%	3.1%	5.4%	4.6%	6.1%	5.1%
Knox	8.5%	6.6%		9.2%	7.0%	1.0%	0.8%	1.1%	0.8%
Latrobe									
Loddon	13.2%	4.3%		14.7%	4.4%	5.7%	1.9%	6.4%	1.9%
Macedon Ranges	12.0%	8.5%		13.9%	9.5%	10.3%	7.3%	11.9%	8.1%
Manningham						0.2%	0.2%	0.3%	0.2%
Mansfield	10.9%	6.1%		14.1%	7.0%	10.9%	6.1%	14.1%	7.0%

Council	One Year Renewal Shortfall					Five Year Average Annual Renewal Shortfall			
	as % Rates [^]	as % Rates plus Net Current Assets [^]	Stress Index	as % Rates [~]	as % Rates plus Net Current Assets [~]	as % Rates [^]	as % Rates plus Net Current Assets [^]	as % Rates [~]	as % Rates plus Net Current Assets [~]
Maribyrnong	16.7%	11.9%		17.0%	12.0%	12.2%	8.7%	12.4%	8.7%
Maroondah	11.1%	7.4%		13.0%	8.3%	11.1%	7.4%	13.0%	8.3%
Melbourne									
Melton	3.0%	2.4%		3.4%	2.7%	3.0%	2.4%	3.4%	2.7%
Mildura	9.5%	7.9%		11.1%	8.9%	9.5%	7.9%	11.1%	8.9%
Mitchell	27.4%	18.6%		33.0%	21.0%	19.1%	13.0%	23.1%	14.6%
Moira	43.8%	30.8%		54.0%	35.6%	36.5%	25.7%	45.1%	29.7%
Monash									
Moonee Valley	7.7%	7.0%		9.0%	8.0%	7.7%	7.0%	9.0%	8.0%
Moorabool	30.5%	21.3%		36.0%	23.9%	21.3%	14.9%	25.1%	16.7%
Moreland	32.2%	26.1%		35.4%	28.2%	21.4%	17.3%	23.6%	18.7%
Mornington Peninsula									
Mount Alexander	2.8%	2.6%		25.2%	14.8%	1.8%	1.6%	16.0%	9.4%
Moyne	16.5%	10.9%		19.9%	12.2%	3.6%	2.4%	4.3%	2.7%
Murrindindi	2.6%	1.3%		3.1%	1.4%	6.0%	2.9%	7.1%	3.2%
Nillumbik	11.9%	9.5%		14.1%	10.8%	6.7%	5.4%	8.0%	6.1%
Northern Grampians	35.2%	22.5%		41.2%	24.8%	42.8%	27.4%	50.1%	30.2%
Port Phillip	7.4%	4.8%		7.5%	4.9%	8.6%	5.7%	8.8%	5.7%
Pyrenees									
Queenscliffe									
South Gippsland	3.2%	2.3%		3.5%	2.5%	0.1%	0.0%	0.1%	0.0%
Southern Grampians						0.7%	0.4%	0.8%	0.4%
Stonnington									
Strathbogie	20.3%	14.4%		23.3%	15.8%	11.2%	7.9%	12.8%	8.7%
Surf Coast	2.6%	1.9%		3.0%	2.2%	2.6%	2.0%	3.1%	2.2%
Swan Hill	12.9%	9.5%		14.7%	10.5%	11.0%	8.1%	12.6%	8.9%
Towong						0.5%	0.2%	0.6%	0.2%
Wangaratta	1.3%	0.9%		1.5%	1.0%	0.3%	0.2%	0.3%	0.2%
Warrnambool	3.3%	2.5%		3.9%	2.8%	4.0%	3.0%	4.7%	3.4%
Wellington	23.8%	16.3%		26.7%	17.6%	11.9%	8.1%	13.3%	8.8%
West Wimmera									
Whitehorse									
Whittlesea	5.7%	3.0%		6.0%	3.0%	5.7%	3.0%	6.0%	3.0%
Wodonga	6.4%	4.9%		8.0%	5.9%	1.6%	1.3%	2.1%	1.5%
Wyndham									
Yarra									
Yarra Ranges	1.3%	1.0%		1.5%	1.1%	1.3%	1.0%	1.5%	1.1%
Yarriambiack	55.2%	29.3%		61.3%	31.0%	45.5%	24.2%	50.6%	25.5%

Notes:

[^]Rates are MCs, general rates, service rates & charges less rate rebates

~Rates are MCs and general rates less rate rebates

SI is net debt, including renewal gap, as a percentage of rate revenue.

SI index > 0 reflects net debt and < 0 reflects net savings or greater than required capital investment

Councils with high levels of SI > 0 and no renewal gap are influenced by high levels of borrowings relative to rates

Net debt for the purposes of this analysis is defined as total liabilities plus renewal gap less current assets less unexpended grants

#Hepburn figure is CT Management figure for 2009-10 plus difference between depreciation and renewal 2010-11 and 2011-12 annual reports

4.2.1 Sector-wide submission

The ESC should give some consideration to a sector-wide submission in the event there is a widespread issue that affects all councils. For example, the recent defined benefit superannuation shortfall placed unexpected and material costs on all councils. The ESC should give consideration to whether a similar future event could lead to a whole-of-sector sector variation to respond to similar challenges.

4.3 Need for Exactness

The ESC Framework argues that requests for variation will need to be substantiated and the amounts required quantified. It states that councils will need to be very precise about the rate outcome they are seeking through the variation process and ESC will decline to partially accede to any increase requested. In other words, councils will have to get their sums exact or they get nothing extra. If a strong case is made, or parts of the rationale are substantiated, it is not clear why some level of additional increase should not be approved.

5 Role of the ESC

5.1 Task Size

The ESC is experienced at reviewing industries that are providers of one or two products. Reservations may be held legitimately that the ESC has the resources and/or expertise to implement the Framework. Councils are far more complicated in what they deliver and in measuring (impacts on) service delivery. In addition to establishing the cap the ESC has responsibility for considering variations, monitoring associated outcomes and benchmarking council performance and efficiency in order to inform the first two. The ESC has indicated it does not expect large numbers of requests for variations but this seems unlikely unless councils are discouraged by the task involved.

The ESC also foresees the possibility of extension of its role into garbage charges and statutorily imposed fees. There appears no rationale for the ESC to extend its brief unless it also includes State output purchases from, and specific purpose funding to, the sector.

5.2 Partiality

Some aspects of the Framework and narrative indicate issues concerning impartiality. The ESC reserves a right to unfavourably review requests for variation where it deems uncontrollable budget blow-outs have occurred and there is no avenue for appeal if a council's request for variation is rejected. The question of objectivity is also raised with the ESC stating that it "does not want to err heavily in favour or against councils seeking a variation".

The role of the ESC should be no more than to monitor whether councils have complied with the rate cap variation. There is something inherently wrong with the ESC reviewing the impacts of rate capping decisions and, in particular, reviewing adverse outcomes for councils that have arisen from decisions that it may have made in declining a variation. This broader monitoring should be done by an agency other than the ESC.

6 Costs

Annual information required from councils that do not intend pursuing a variation appear very limited and can largely be satisfied from existing sources. It is unlikely that a request for variation to the cap could be undertaken without councils' committing significant resources.

The costs of the ESC should not be recovered from local councils. This is a State initiative that provides no additional benefits to councils.

7 Timelines

The MAV is concerned that the timelines presented in the draft report for the preparation and submission of a rates variation will be impractical with existing statutory requirements.

The proposed timeframes will involve councils notifying the ESC of its intention to apply for a rating variation in January, submitting their variation in March and the ESC notifying the council of their decision in May. Council will then be required to undertake their usual statutory consultation process on the draft budget in May before adopting the budget before 30 June.

This process implies councils will be required to:

- have well advanced financial plans well before the cap is announced in December and will most likely need to have a clear view of the proposed rate increase for the following year by September/October
- be well advanced in their supporting documentation by early January
- effectively develop two budgets in the event that a variation is submitted – one based on the variation being approved by ESC and the other based on an unsuccessful variation
- ultimately move away from an 'annual' budget cycle to a rolling medium term budget cycle which is informed by ongoing service reviews.

In order to fully understand the timelines, it will be important for ESC to clarify their proposal further. In particular, additional information is required on when a variation will need to be submitted (i.e. early or late March) and when it expects to have completed its assessment of variations (i.e. early or late May). The MAV believes that a decision by ESC needs to be made by early May to ensure that councils can undertake public consultation on the resulting draft budget and organise for the adoption of the budget before 30 June.

8 Conclusions

The MAV believes that there are opportunities to improve the draft rates capping and variations framework. The MAV remains concerned that the model as written will present significant barriers to councils discharging their full scope of services and infrastructure. Underpinning this concern is the apparent difficult burden of proof that will be applied to applications (although it is noted that in verbal conversations with ESC there has been an indication that the burden will not be significant), as well as a cap that is set well below the underlying movement in councils' costs. Perversely, it is apparent that some of the smaller rural shires that have declining populations and high fixed costs through existing infrastructure will be the worst affected.

Achieving a satisfactory model should not be rushed and requires further detailed analysis and consultation with councils to avoid potentially quite significant negative impacts on the community from a liveability viewpoint.