

Submission to [localgovernment@esc.vic.gov.au](mailto:localgovernment@esc.vic.gov.au)



# Submission to the Local Government Rates Capping and Variation Framework

**Moira Shire Council**

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## **1 Introduction**

Moira Shire Council (Moira) welcomes the opportunity to provide feedback on the Local Government Rates Capping and Variation Framework Consultation Paper.

The Essential Services Commission is required to develop a framework under which rate increases will be capped. This Submission focuses on the challenges around identifying the true fixed costs of council operations and the variability across councils within a framework of rate capping.

Covering 4,057 square kilometres and with an estimated population of 28,123 Moira is the largest and one of the fastest growing shires in Victoria's North East. Situated three hours drive north of Melbourne; it is strategically positioned within the broader Shepparton Irrigation Region in the heart of the Goulburn and Murray Valleys, one of the most important dairy and fruit production areas in Australia.

Moira's population is distributed throughout the main towns of Cobram, Nathalia, Numurkah and Yarrawonga, as well as 18 other smaller towns and communities. This variety of population distribution reflects Moira's range of lifestyle opportunities, from large orchards and farms, semi-rural 'lifestyle blocks' and smaller urban blocks.

Moira's population is 28,124. Population growth has been consistent. The Shire has an increasing aging population, with close to 30% of residents aged over 60. It is also worthy of noting the significantly lower number of residents aged between 20 and 39.

## **2 Executive Summary**

The introduction of a rate capping and variation process is intended to instil community confidence in Council's rate practices. While this is a welcome aspiration it may also be a rather blunt tool which, if not properly designed, will unduly penalise Council's ability to respond and service the needs of their communities.

For this reason Moira Shire Council urges consideration to the following aspects of setting the Cap:

- Limited to general rates and not apply to total revenue to Council
- Applied through a rate in the dollar calculation
- Supplementary rates yield be excluded from the Cap
- Set for a four year period with simplified annual review to align with existing Council planning cycles
- Calculated using the Local Government Cost Indices; and
- The ESC determining applications for variations during the first four year cycle while the process matures and implementation is reviewed and this be reviewed after the first four year cycle.

With regard to the implementation of the Cap, we recommend implementation be deferred to the next Council Plan cycle in 2017/18. This deferral is essential to ensure appropriate design of a rate capping model and to enable effective community engagement to fully understand the implications for service limitations across communities particularly in rural and remote areas.

Independent and informed consultation is essential to achieve community acceptance and confidence in the rate capping model. The current consultation timelines prohibit the delivery of authentic community participation in a model that is entirely conceived for their benefit.

The rate capping model will establish an administrative obligation on all Councils and particularly on smaller Councils with fewer resources to call on if circumstances required a variation.

We recognise the challenging timelines in which the ESC is endeavouring to develop a robust and appropriate model for Councils and the community. We look forward to further opportunities to inform this process to develop a rate capping model that genuinely meets the needs of our communities and instils confidence in Council's service delivery.

### **3 Elements**

#### **The Form of the Cap**

**1. *While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?***

A CPI rate cap does not address the major cost pressures on Local Government including the Commonwealth government's announcement of the indexation freeze on Local Government Financial Assistance Grants. Nor does it address the areas of cost shifting such as the funding of services such as home and community care, school crossing supervisors, maternal and child health, emergency management and public libraries.

At the time of making this submission the CPI for the March 2015 quarter is 1.3% which is clearly insufficient to meet the cost of delivering Council services and maintaining infrastructure.

**2. *What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?***

The Local Government Cost Indices would be a more appropriate cap to apply.

**3. *Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative caps for the next two to three years to assist councils to adopt a longer term view in their budgeting and planning, particularly when maintaining and investing in infrastructure often takes a longer term perspective? How should such a multi-year cap work in practice?***

Longer term certainty is important for planning and delivery of services and capital programs. The Cap will restrict Council's ability to generate revenue each year therefore major projects will need to be delivered across multiple years. Rather than setting a cap on a single year basis, we urge consideration of a multiyear process supported by a simplified annual review. We encourage alignment with the four year Council Plan process.

**4. *Should the cap be based on historical movements or forecasts of CPI?***

The key aspect here is to ensure there is certainty around this. The historical movements are problematic because it creates an environment in which the time lag is perpetuated. This is further exacerbated if applied over a multiyear planning cycle. Therefore it is recommended that forecasts of the Local Government Cost Indices form the basis for the proposed rate Cap. For example the current 1.3% CPI would be unmanageable.

**5. *Should a single cap apply equally to all councils?***

A rate Cap built on the rate in the dollar would allow a single Cap to apply to all Councils. Other proposed models imply that all Councils are dealing with the same economic constraints and opportunities and, as a result, are inequitable and comparable to a regressive tax.

There is not consistent growth across all municipalities. Growth is the key factor which can offset the impact of a rate Cap. Large growth areas will exceed this due to an increasing rate base. In slow and negatively growing populated areas a rate Cap can have a far greater financial impact with no opportunity to increase rates to offset the declining or stagnant rate base.

A tiered approach would provide a more equitable outcome across all Councils. Those that are experiencing rapid growth require appropriate infrastructure to keep pace with the growth. An established Council with stable growth requires the ability to sustain service standards.

The criteria for the tiered approach require consideration to the status of the municipality's economic growth in order to provide for its required service needs and infrastructure development.

**The Base to Which the Cap applies**

**6. *What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?***

We propose the Cap should be strictly limited to general rates.

The rate Cap aims to provide the community with a simple indicator of fair rating within a municipality. The proposal has already created a community expectation that the bottom line of a rates notice will not show an increase above CPI. Unfortunately, Councils do not control all elements that appear on the rates notice, for example in the current Victorian Budget the Fire Services Levy is

proposed to increase by around 7%. For this reason a rate cap based on the bottom line of a rates notice is fraught.

A rate Cap applied to the overall revenue recovered from rate payers is more appropriate but compromises the simplicity for ratepayers. This is further exacerbated due to Council's collecting revenue on behalf of the state such as the fire services levy.

The intent of the Cap is most relevant to the general rate where a range of costs are recovered from all ratepayers. These are directly linked to in-house delivery of services which relates directly to communities' expectations around service delivery efficiencies.

The Cap should not apply to special rates and charges and service rates and charges. Both these types of charges are determined through market testing via the procurement process. It is also important to recognise the delivery of these services in rural and/or widely dispersed communities are often more expensive than in densely populated communities.

**7. *Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?***

We propose the Cap should apply to the rate in the dollar. Applying the Cap to the total revenue is unrealistic due to the combination of charges such as special charges and the fire services levy. Total revenue is not confirmed until the end of the year as it is impacted by supplementary valuations. Applying the Cap to total revenue would be difficult to administer and monitor and would not be easily understood by the ratepayer.

A more practical approach would be to apply the Cap to the rate in the dollar for each type of rate to be levied. This does not penalise Councils that are able to encourage positive growth within their municipality.

***How should we treat supplementary rates? How do they vary from council to council?***

A Cap based on the rate in the dollar would flow through effectively to the calculation of the Supplementary rates. Supplementary rates should be excluded from the rate cap. They are a source of revenue to support demand from developed and additional properties.

**8. *What are the challenges arising from the re-valuation of properties every two years?***

Re-valuation every two years is a necessary and entirely appropriate process however it is important to take this into consideration when planning the implementation of the Cap. Applying the Cap to the rate in the dollar provides certainty for council and the community around how their rates calculation will change if there is no change to the valuation of their property.

**9. What should the base year be?**

In terms of implementation it would be best to have the first year of implementation coincide with the four year Council plan cycle ie 2017/18. It would therefore be appropriate to establish the base year as 2016/17.

**The Variation Process**

**10. How should the variation process work?**

If the Cap applies to a four year cycle subject to an annual review then Councils would have the flexibility to exceed the cap in any year provided the total four year cycle does not exceed the Cap.

**11. Under what circumstances should councils be able to seek a variation?**

Councils should be able to apply for a variation outside the four year Cap if they can demonstrate exceptional circumstances such as the need to respond to a natural disaster.

**12. Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, changes in funding levels from the Commonwealth Government, changes in State Government taxes and levied, increased responsibilities, and unexpected incidents such as natural disasters), are there any other circumstances that would justify a case for above cap increases?**

A substantive change in demographics such as the exit of a major industry in a rural or regional area and the declining rate base resulting from this should justify an exception.

Another scenario could be substantive community support for a significant and transformative infrastructure investment.

Councils which are identified to be facing significant challenges around financial sustainability should be eligible for above Cap increases.

**13. What should Councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation?**

A possible set of requirements could include:

- The council has effectively engaged with its community
- The proposed increase in rates and charges is reasonable to meet the need
- The proposed increase in rates and charges fits into its longer term plan for funding and services
- The Council has made continuous efforts to keep costs down

## Community Engagement

### ***14. What does best practice in community engagement, process and information look like? Are there examples that we can draw from?***

The underlying intent of the proposed Cap is to instill community confidence in Council's rate practices. This implies that from commencement there is a strong need for community input in the design and implementation. While individual Councils can seek to inform their local communities it is important that independent and informed engagement take place to ensure the broader community is made aware of the constraints and challenges that will apply within their municipality. This will be extremely important to regional communities where cost to service and population decline are genuine threats to the viability of local councils. The community engagement process should be consistent with the principles of the International Association for Public Participation which obligates full disclosure of impact so that the community can provide fully informed feedback. At present the proposed timeline for consultation and implementation falls short of delivering on these requirements.

## Incentives

### ***15. How should the framework be designed to provide councils with incentives to pursue ongoing efficiencies and respond to community needs? How can any unintended consequences be minimized?***

Application of the rates in the dollar calculation of the Cap does not penalise Councils which attract growth and stimulate development within their communities. It serves as an incentive to boost investor confidence through an effective customer focused Council that operates within a lean and efficient environment.

## Timing and Process

### ***16. A rates capping and variation process should ensure there is enough time for councils to consult with their ratepayers and for ratepayers to provide feedback, and for us to review councils' applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with councils' budget processes. We are interested in stakeholders' views on how this can be achieved.***

It is for this exact reason that we recommend a four year cycle that integrates and aligns with the Council plan cycle.

## Transitional Arrangements

**17. What transitional arrangements are necessary to move to the new rates capping and variation framework? Is there merit in phasing in implementation over a two year period to allow for a smooth transition?**

Yes there is absolute merit in phasing in implementation over a two year period. As stated earlier this is necessary to allow for effective and full consultation with communities and Councils.

## Roles

**18. What are stakeholders' views on the respective roles of the key participants? Should the Commission's assessment of rates variations be advisory or determinative?**

It is our recommendation that the Commission's assessment be determinative during the first four year cycle to provide opportunity for the process to mature without undue political interference and to provide certainty for Council and ratepayers. Over the longer term this can be reviewed as part of the evaluation of the first four year rollout. It would be expected that over the longer term there would be provision to apply to the Minister for Local Government for variation. It is expected there would be direct linkages between the rate capping framework and Ministers special powers. Special provision for Councils to act outside of the proposed cap should be made for response to a natural disaster.

## Other Matters

**19. Is there a need for the framework to be reviewed to assess its effectiveness within three years' time?**

Yes. This is ideal timing as it is midway through a Council election cycle and would provide a relatively stable environment for review.

**20. How should the costs of administrating an ongoing framework be recovered?**

In keeping with the intent of transparency and accountability it is proposed that the administrative costs be ascertained and a cost recovery reimbursement structure developed.

## Other Matters Raised in Earlier Chapters

**21. We are interested in hearing from stakeholders on:**

- **Whether we have developed appropriate principles for this review**

The broad range of principles highlights the challenges associated with introducing a Cap. It is a complicated process that may have an array of unintended consequences. It is necessary that sufficient time and planning is in place to enable success.



- ***Whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important***

Rural councils in particular are constrained by the limitations around available revenue streams. Aside from rates and charges, government grants are another key funding stream. We are seeing a trend in regards to the available pool of these funds decreasing. The impact of these needs to be considered in conjunction with the impact of rate capping.

The introduction of a Cap at any point in time will constrain each specific Council to operating within their current cost recovery structure. For example neighbouring Councils may have significant variances in their existing rate in the dollar and this variance will be locked in as a result of rate capping. While challenging to determine, a more equitable approach would be to determine the true cost of delivering services across rural shires, rural cities, regional cities and metropolitan councils.

- ***Supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.***

Attached is a copy of a Moira Shire Council commissioned report (The Whelan Report) which clearly demonstrates the specific structural challenges faced by our Council and which largely determines the cost of servicing the community.