HUME CITY COUNCIL

SUBMISSION TO THE

Essential Services Commission

Local Government –
Rates Capping & Variation Framework

Consultation Paper

11 May 2015

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?

Council submits that the level of increased revenue from Rates in a year is used to fund the increased cost (net of other income) of delivering expanding services in responding to a growing population; increased levels of Capital Works expenditure (net of capital income and borrowings); and increased levels of borrowing repayments (principal & interest costs).

As a result, Council states that the premise that the Consumer Price Index (CPI) is an acceptable basis for setting a Cap on rate increases is not supported as CPI does not demonstrate relevance to the three needs above that increased rates address.

Council further argues that the premise that CPI is simple to understand as opposed to simple to report is not correct. Each quarter the "headline" CPI rate is reported by the Australian Bureau of Statistics and is reported widely. However, Council would argue that the level of understanding broadly held in the community is questionable.

What is CPI

The CPI measures quarterly changes in the prices of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (metropolitan households). The basket covers 87 expenditure classes (60 goods and 27 services) categorised into eleven groups. The publication of all 87 expenditure classes is known as the "All Groups" index which is further segmented into the eight capital cities, as the CPI only measures price movements in the geographic areas of metropolitan locations (capital cities). As a result regional and rural price movements are not measured within the CPI.

Group	**Weighting of Group (Melbourne capital city)**
Food and non-alcoholic beverages	17.04%
Alcohol and tobacco	6.89%
Clothing and footwear	3.96%
Housing	22.03%
Furnishings, household equipment & services	9.03%
Health	4.93%
Transport	12.05%
Communication	3.04%
Recreation and culture	12.58%
Education	3.64%
Insurance and financial services	4.81%
TOTAL	**100.00%**

Council recommends that the Essential Services Commission (ESC) in determining the level of Rates cap to apply in any given year, source information from the Australian Bureau of Statistics (ABS) or other source, relevant to Victorian Councils, that is, information collated at a total "Victoria" level or at a minimum at the "Melbourne" level. In addition, subject to the outcome of *Question 4 - historical or forecast measures*, **Council recommends** that the information used to support the outcome of the Cap is generated at the same point in time each year, that being 30 June prior to the year of application.

Further recommendations will be provided to Question 2 that highlight the limitations that use of CPI as a measure of the increased cost to service delivery would represent.

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

State Government Objectives of Framework

- Contain the cost of living in Victoria while supporting council autonomy and ensuring greater accountability and transparency in local government budgeting and service delivery.
- Promote rates and charges that are efficient, stable and reflective of services that the community needs and demands.
- Promote rates and charges that are set at a level that ensures the sustainability of the councils' financial capacity and council infrastructure.

Council reiterates that CPI as it is generally reported, CPI – All Groups Melbourne, does not represent an adequate measure of Rate increases required to addressing the three needs for Local Governments in Victoria.

In doing so, Council regards that the framework applied by the Independent Pricing and Regulatory Tribunal (IPART) in New South Wales is a significant improvement on a simple and unrepresentative measure such as CPI – All groups. Further, **Council recommends** an additional element to the IPART framework to measure the recognised occurrence of Cost Shifting from both State and Commonwealth Governments. This additional element would measure the impact that constrained revenue in the form of grants and statutory fees & charges have. However, balanced with this impact would be a netting of an increased level of revenue generated from non-statutory fees & charges.

For example, for non-capital government grants a significant proportion of these grants received are from only five sources:

- Victorian Grants Commission – General and Roads components
- Home & Community Care
- Preschool
- Child (long day) Care
- Libraries

By separating revenue elements from cost elements in the calculation of both the increased net cost of delivering services and in generating the Cap, Council believes this will assist in delivering the above State Government objective of accountability and transparency in budgeting and service delivery as CPI does not take into account "real" reductions as opposed to "nominal" increases in State and Commonwealth Grants and Fees & Charges.

Further, **Council recommends** that as part of the Cap framework in considering the financial impact on the net cost of services that Government grants and Statutory fees & charges have, that the following principles from the Victorian State Local Government Agreement, September 2014, are utilised:

PART 3
AGREED PRINCIPLES

9. For the benefit of Victorian communities, the Parties agree that the following principles should guide state-local government relations:

> *v. The transparency of the financial relations between state and local government should be improved to enhance decision making. The Victorian Government commits to reporting its financial relationships with local government in its annual Budget.*

vi. The use of intergovernmental agreements should be promoted to ensure that roles and responsibilities are clearly articulated and full financial considerations are made.

This would include the generation of Regulatory Impact Statements by all State Departments in accordance with the Department of Treasury and Finance (DTF) 2011 guidelines - *Victorian Guide to Regulation incorporating: Guidelines made under the Subordinate Legislation Act 1994*.

Also, **Council recommends** that the approach taken by IPART to include changes in employee costs when calculating the Cap is also followed. However, as Council's in Victoria operate under both the Local Government Award and Enterprise Bargaining Agreements to set salary conditions, remuneration and retention, the cap needs to be cognisant of this, including the financial impact that promotion and progression has in the level of annual increases for employee benefits.

As a result, **Council recommends** that the ESC utilise wage inflation rates published by the DTF as part of the State Government Budget and updates. Further, DTF also publish a quarterly leave liabilities update that provide advice on the wage inflation estimates to be followed when valuing current and non-current Annual and Long Service Leave provisions. This advice also recognises that state entities, including Local Government should allow for progression and promotion of their staff at a rate of 1% above the wage inflation rate.

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?

Council recommends that the Rate Cap must provide enough certainty for Councils to be able to meet its legislative requirements, under S.126 of the Act, to prepare a Strategic Resource Plan (SRP) for four years. Therefore, Council would recommend a four-year cap period.

In practice, Council would see that a Rate Cap for year one is confirmed with the provision of Indicative Caps for the following three-years (to a high confidence level based on current and trend information). As year one moves to year two, a re-calibration is performed against the actual movements of the elements considered within the cap. [Please note that this approach would be subject to knowing the sources and timing of the information required to calculate the actual cap]. The re-calibration would lead to an adjustment up or down to the new years' cap.

To assist Council in budgeting and planning for long-lived infrastructure the Cap would ideally be provided for a minimum ten year period. To do this based on a Cap for year one and an Indicative cap for years two to four, Council would then need to forecast the Cap for years five to ten (and further of up to twenty years) to enable adequate Asset Management planning.

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

Council recommends that the ESC provide to all Councils the cap level by 30 November each year. Again, this would be the cap level for the next financial year; with an indicative cap level for year's two to four. This would allow Councils sufficient time to consider their required rate levels that would be the subject of a Variation application.

This timing would also allow Councils to undertake Stakeholder and community engagement and Council planning sessions between December and February at a minimum, however would not preclude Councils undertaking engagement earlier than this. As a result, it is suggested that forecasts are used to generate forecast cap increases for the four years. However, this would be balanced with the option of single year re-calibration to the actual outcome of cap measurement as at the prior 30 June.

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

Council recommends that the Cap is Sector-wide or Council group wide. The influences and inputs that affect the cap should be those that are beyond a single council's control. In making a decision to have more than a single sector cap, consideration should be given to the efficiency or effort to undertake this and how community consultation would occur.

Council would not support a uniform Cap that for example resulted in a uniform growth rate being applied to the cap rather than for individual Councils being able to make a variation application due to the impact of growth. Having said that **Council recommends** a cap and variation framework that excludes growth completely (by not including supplementary rates when applying the cap).

Ideally the Rating cap should treat all Councils equally. Therefore, the creation of the framework will be a balance as to what elements are considered within the cap and what elements are considered as variation applications by individual councils.

In addition, Council is a designated "growth" Council within the operation of the Metropolitan Planning Authority and the Planning & Environment Act 1987. To date six Precinct Structure Plans (PSP's) have been approved for areas within Hume. The PSP's have a legislated requirement for Council to collect development contribution funds and to ensure the delivery of local infrastructure. As can be seen in the table below the infrastructure requirements within these new developments will require Council to fund $47.7m of this infrastructure. The requirement for Council to fund the shortfall for this infrastructure would be an example of what is beyond a Council's control and for what it would seek a variation for in the year that the funding was required.

Development Contribution Plan	Cost of Infrastructure	Development Contribution	Shortfall in funding
Lockerbie	$120,234,454	$120,234,454	$0
Merrifield West	$88,573,625	$66,929,821	$21,643,804
Greenvale Central	$40,505,411	$37,517,632	$2,987,779
Greenvale North R1	$15,427,021	$7,100,313	$8,326,708
Greenvale West R3	$13,874,725	$10,597,106	$3,277,619
Craigieburn R2	$52,199,015	$40,691,167	$11,507,848
Total	**$330,814,250**	**$283,070,492**	**$47,743,757**

This shortfall only represents the shortfall associated to new local level infrastructure provision and excludes new regional level infrastructure such as a Library or Aquatic Centre. When regional infrastructure is included the total new infrastructure shortfall for the six PSP's is $208.9m.

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?

Council recommends that the Cap should apply to any rating item (mechanism) that can be included on a Rates notice as this is specifically Section 158 of the Local Government Act 1989 (Act) and is therefore consistent with the power provided to Minister for Local Government under Section 185b of the Act. Whilst, special rates and charges are levied via a rates notice, **Council recommends** that special rates and charges are not included in the base quantum of the cap calculation, as they normally relate to a special purpose benefit to a very small number of ratepayers.

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

Council recommends that the Cap should apply to the Total Rate Revenue applying from these categories. This is consistent with the strategic element to which all Councils determine rate increases, whereas an individual rate assessment is determined by how a Council determines who pays. To explain this further, if the cap only applied to general rates, then a Council could increase its total rate revenue above the cap level, through for example a higher level of increase in its municipal charge, subject to the 20% maximum allowed under Section 159(2) or a higher than cap increase in a service charge or rate.

Further, rates and charges per assessment is calculated from total rates and charges divided by the number of rateable assessments. The total number of rateable assessments includes commercial, industrial, farm, extractive industry based properties in addition to residential properties. Whilst Council has outlined its arguments to not support the principle of using a change in the level of CPI as a rate capping device, to include non-residential properties in assessing the cap movement is equally not supported.

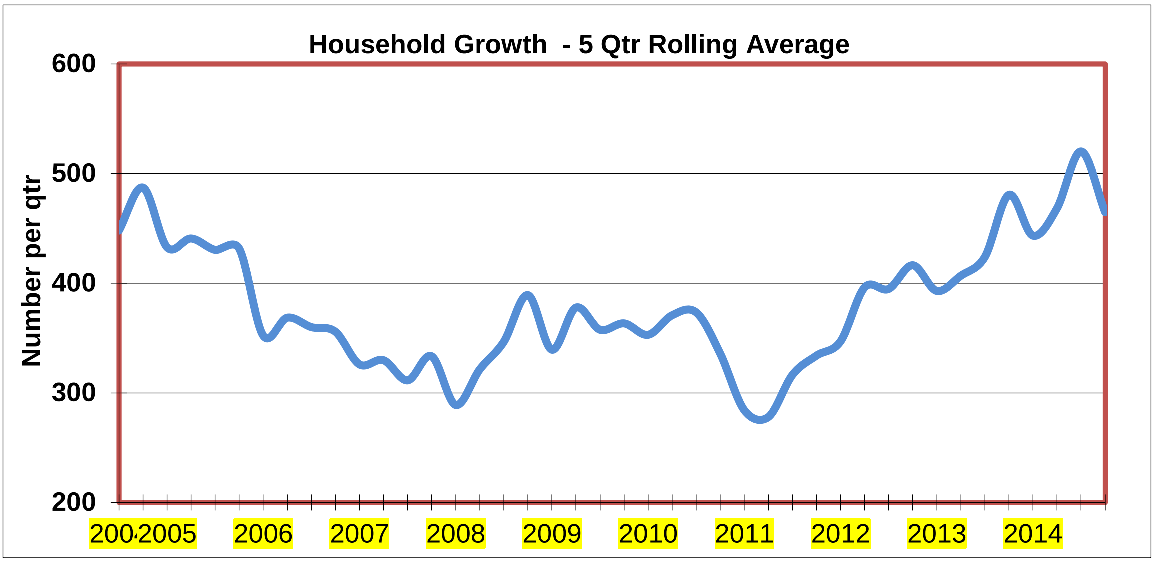
8. How should we treat supplementary rates? How do they vary from council to council?

Council recommends that Supplementary Rates are not included in the base total rates revenue that the cap would be applied to. This is due to Supplementary rates being an estimate, as required under Regulation 10(2)(q) of the Local Government (Planning and Reporting) Regulations 2014, under which Council must include in its Rating information of its Annual Budget, the "estimated total amount to be raised by all rates and charges compared with the previous financial year". The breakdown of each estimated rate elements are also required under Regulation 10 (2)(c,d,l,o).

Further, Council believes that the objective of rating transparency and accountability would be enhanced through a greater breakdown of the current information reported for Regulation 10(2)(q) within the Annual Budget. In addition, the transparency of a rating cap should allow a ratepayer to clearly see the rate calculation as their property existed and was valued in the year prior. Supplementary rates are charged where a property has been subdivided into more than one; a new house has been added to vacant land; an extension to a building on a property; a demolition of a building; or a change in the zoning of that property. Any of these changed circumstances would mean that it is impossible to compare the level of rates levied on an individual property with rates in the following year, simply by the addition of the rating cap.

Council applies a growth calculation to its level of service delivery within its 10-year financial plan. This calculation is undertaken by combining the growth rate occurring in new residential households and residential population and then averaging the result. Council looks at leading indicators such as the number of residential lots (vacant land parcels) submitted in new subdivision plans; residential lots released to the property market; dwelling approvals and finally certificate of occupancy for new residential properties. In addition, Council undertakes property projections for a twenty-year period and reviews these projections against the actual development rate every two years.

For the last five-years this calculation has resulted in an average growth rate of 2.5% that is trending upward as can be seen in the following graph.



9. What are the challenges arising from the re-valuation of properties every 2 years?

Council recommends that the requirement for Council's to undertake a General revaluation of all properties every two years be changed to every four years within the Valuation of Land Act 1960. The benefit in performing a two-yearly revaluation increase State Government revenue in the form of increased Stamp Duty and Land Tax. As the ESC is aware, Councils' alter the effective tax rate imposed on ratepayers, through an adjustment to the rate in the dollar, as a method of rates distribution rather than revenue generation.

Since 2000, when the requirement to introduce two-yearly general revaluations was imposed, Council have had to expend a significant effort in explaining why rate increases are above the published Budget rate for those properties with valuation increases higher than the average valuation increase. As was recommended earlier, should the rate capping and variation framework commence in the revaluation year of 2016/17 this would add a much greater level of explanation. In addition, due to the complexity of revaluations and the fact that property values are only relative within a municipality further support the rate cap framework applying to Total Rates and Charges and not on an average rates and charges per assessment.

10. What should the Base Year be?

This question could be considered in two ways, firstly the Base year to which the Rating revenue is applied to in the first year and secondly, the year in which the source information / data is from used to generate the calculation of the cap.

Council recommends that the base year is the year prior to capping commencing, ie: if the framework commences for the 2016/17 financial year, then 2015/16. Further, **Council recommends** that the commencement year to be 2017/18 for three reasons. Firstly, 2016/17 is a revaluation year and this will make the explanation of the first application of the cap very complex, especially at the individual property level; second many Councils will have completed their existing EBA's by 30 June 2017; and third, Council elections will take place in October 2016.

The challenge of a revaluation year has been explained at Question 9.

The largest cost in service delivery for all Council's is employee costs of which 78 of 79 Councils negotiate through an Enterprise Bargaining Agreement (EBA). The rate of employee cost increments built into existing EBA's is a fixed item until a new EBA can be negotiated.

Council is aware that the dates for Council's EBA expiry are as follows:

- 2015 – 16
- 2016 – 31
- 2017 - 26
- 2018 - 5
- Boroondara – no expiration date – individual work area agreements.

As the next Council election will occur in October 2016 and to ensure that the State Government objective of Council autonomy is supported by the Rate capping and variation framework, a commencement year being 2017/18 would allow newly elected Council's to set their Council Plan objectives and Strategic Resource Plans fully cognisant of the cap and variation framework.

THE VARIATION PROCESS

11. How should the variation process work?

Council recommends that the variation process be considered as a predictable part of the framework rather than rarely used. As was stated earlier, if the three needs of Council rate revenue is supported by a broad application of a rate cap then the items to seek a variation could be minimised. Council would see the process in practice as a recognition of those items that are outside the control of a Council however may be uniform across the sector (those items marked below with a hash). There are other items outside a Council's control that are specific in circumstance or magnitude to that Council. As a result, Council further recommends that the items marked with a hash are included within the cap.

Outside Council Control

- Natural disasters (not otherwise reimbursed eg: Grants commission reimburses first $35,000 per event);
- Defined Benefits Call (based on a 10-year payment plan);
- Infrastructure in a PSP where there is less than 100% contribution;
- #Changes to funding levels (if not included as part of the Cap calculation);
- #Changes to Super Guarantee legislated levels (if not included as part of the Cap calculation);
- #Insurance – reinsurance market (if not included as part of the Cap calculation);
- #Cost shifting by other governments, such as the imposition of additional taxes or levies or increased statutory responsibilities [for example Early Years Service policy changes] (if not included as part of the Cap calculation);
- Changes to the composition of population (influx of migrants and refugees); and
- Other not elsewhere included.

Within Council Control

- Council based Service provision and level changes;
- Asset Renewal below a required threshold (this could be tested against new asset provision); and
- Other.

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

Council recommends that those items identified in Question 11 should be the subject of a variation application, unless already included within the cap calculation.

13. 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 levies, increased responsibilities, and unexpected incidents such as natural disasters), are there any other circumstances that would justify a case for above cap increases?

Council recommends that the items identified within Council control in Question 11, subject to community engagement and service planning, being:

- Council based Service provision and level changes;
- Asset Renewal below a required threshold (this could be tested against new asset provision); and
- Other not elsewhere included.

would be circumstances that should be considered appropriate for a variation application.

14. 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

□ there is a legitimate case for additional funds by the council

□ 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.

We would like stakeholders' views on whether the above requirements are adequate.

Council recommends that a self-assessment approach be considered to elements outside of Council control. This could include a "web portal" based self-assessment platform that would provide an initial level of information to support an application, subject to review by the ESC.

Those items within Council control would require a higher level of community engagement and consultation along with the opportunity for efficiency improvements to be highly regarded within a variation application. Therefore, Council would support the five possible requirements outlined as being adequate for those items within its control.

COMMUNITY ENGAGEMENT

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

Community engagement is an essential component of Council's decision making processes. Effective engagement strengthens the relationship between Council and community, providing a platform for the community to have their opinions heard and considered. Through these engagement activities Hume aims to build community capacity to understand complex issues and ensure stakeholders are informed of and/or involved in decisions that may impact them.

Council developed a Community Engagement Framework in consultation with the community in 2011. The framework provides guidance to Council and the community on when and how to undertake engagement activities and what steps and processes should be considered. The framework has been developed based on the International Association for Public Participation's IAP2 Spectrum for Public Participation.

Council uses a range of tools and methods to engage with the community on a range of issues. This includes the allocation of future budget expenditure, the development of new infrastructure, the planning of new strategies and program development. Online surveys, 'world café' community discussions, community barbecues, and storytelling through words and visual art have all been used to capture community opinions and feedback on a range of issues.

Council continues to explore how it can improve the community's engagement and understanding of Council services and has been exploring the concepts used in 'participatory budgeting'. This concept has been previously used by Wagga Wagga City Council, Devonport City Council and Melbourne City Council. Participatory budgeting allows ratepayers to prioritise Council's expenditure and help determine levels of service delivery, including what programs Council should and should not fund.

INCENTIVES

16. How should the framework be designed to provide councils with incentives to pursue ongoing efficiencies and respond to community needs? How could any unintended consequences be minimised?

Council recommends that demonstration of efficiency and productivity within service delivery be highly regarded as part of a variation application, consistent with the last possible requirement outlined under Question 14. Further, Council recommends that the IPART Discussion Paper, *Measuring and Assessing Productivity Performance in Local Government, September 2011*, be considered and acknowledged when developing this section of the framework.

Potential Unintended consequences

- Existing service standards (provision and level) are not maintained
- In addition to non-maintained services standards, Asset Renewal is not achieved
- Fees and charges, where not set by regulation, are increased at significantly high levels (ie: greater than 10%) or create a distortion to standard patterns of demand management (eg: services that are full/part a "public good" are priced at a full-cost / cost plus level.
- Borrowings – will the cap force councils to take on debt, especially where the cost of new debt is greater than the cost saving of bringing forward new or renewed infrastructure spending.

Again, **Council recommends** that to minimise the opportunity of unintended consequences, that the cap part of the framework is not just based on CPI and follows Council's recommendation of viewing the change in the net cost of services and the variation part of the framework adequately addresses the individual differences amongst Councils.

TIMING AND PROCESS

17. 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.

Council recommends that as the 2016/17 financial year is a Property revaluation year that any communications plan to explain how the cap has been implemented not be lost "in translation". If the timing of the introduction of the framework is not able to be delayed until the non-revaluation year of 2017/18, then it is proposed that the variation framework commence in 2017/18, being one year after the cap.

The Community Consultation process to explain (i) why a Council would seek a Variation; and (ii) the options of the potential outcomes of the Variation approval process would most likely need to occur between September and November, followed by the application process (Council would recommend a predominately self-assessment process, see response to Q.14) between December and January and a Final submission by the end of February with a final determination of the Variation provided to Councils by the end of March.

Further, **Council recommends** that the Cap is provided / communicated to all Councils by the end of November [with the suggested forecast Cap for the future three years beyond the upcoming financial year, to be consistent with the SRP period]. Again if the cap is commenced in 2016/17 then a transitional variation could be provided to all Councils, otherwise Councils will be attempting to undertake community engagement and consultation about the variation process prior to the final Framework being publically released in November 2015.

TRANSITIONAL ARRANGEMENTS

18. 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?

Council recommends that the implementation to coincide with a non-revaluation year to enable greater clarity in communicating to the community on how the framework is applied. This approach would be consistent to the last significant Rating change that occurred with the introduction of the Fire Services Property Levy onto Rate Notices in 2013/14, a non-revaluation year. Again it is recommended that the framework commence in 2017/18 not 2016/17. If the commencement in 2017/18 is not supported, then Council recommends that the first variation application period should be in 2017/18 and an arbitrary variation provided to all Councils for 2016/17 to enable sufficient time to undertake community consultation post the release of the Final Framework Report in November 2015.

See also comment about the ending of a significant number of EBA's on 30 June 2017 that include a fixed cost increase that cannot be altered at Q10.

ROLES

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

Council recommends that the Rate Capping and Variation Framework recognises the expected level of autonomy required to ensure Council's legislated role under Section 136 of the Act - Principles of sound financial management are implemented. Further, it is acknowledged that the Minister has the opportunity to impose a direction to Council(s) on the level of general income of a Council in a financial year. The community has a right to expect the opportunity to be consulted and be able to engage with Council on all matters proposed within the Council Plan, Strategic Resource Plan and Annual Budget.

Variations be advisory or determinative
Whilst the consultative paper does not provide any information to the merits or operation of either an advisory or determinative approach to approving variations in the framework, **Council recommends** a self-assessment approach to the Rate Variation component. Council envisages that a self-assessment portal, on the ESC website, could exist for Councils to enter information in predetermined variation (outside and inside Council control) categories (see response to Q.11) with the result being an advisory outcome, automated through an algorithm, that would highlight the level of technical or other information required to receive a determinative outcome.

OTHER MATTERS

20. Is there a need for the framework to be reviewed to assess its effectiveness within three-year's time?

Yes, that would seem a reasonable time period to assess if the three key objectives have been met or are significantly improving to the point where they will be met. It would also allow for an assessment of the communities understanding of how the framework operates both within revaluation and non-revaluation years. However, as was submitted at question 10, **Council recommends** that the framework should not commence in a revaluation year as 2016/17 is. If this recommendation was supported and the framework was to commence in 2017/18, then a review of the framework should occur after the first two revaluation years being 2018/19 and 2020/21 to enable both Council's and communities to provide feedback on its application.

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

Council is aware that the Essential Services Commission operates under its own specific legislation, the *Essential Services Commission Act 2001 and that t*he Minister for Finance sets annual licence fees payable by the regulated businesses in the electricity, gas, ports and water industries. In each case, the annual licence fees payable by the regulated businesses are determined by the Minister for Finance, as the Minister administering the *Essential Services Commission Act 2001*.

Council recommends that the creation of the Rate Capping & Variation Framework is a State Government requirement that its administration should not have any financial impact on Council's, otherwise this effectively becomes a regulatory cost impact on Councils. Therefore as the ESC uses a Licence Fees based cost recovery approach for the Electricity, Gas, Ports and Water industries that it regulates, such a licence fee could be applied to Local Government. Further, **Council recommends** that like the Water Industry the level of fee be relative to the revenue level of each Council. However, to ensure that the framework has no financial effect on Council, that the fee is added, in percentage terms to the approved cap. For example, if the ESC set a licence fee of 0.08 of 1% of Operating Revenue, Hume City Council's fee could approximate $200,000 for the 2016/17 financial year, equivalent to 0.15% of a rate increase, which would be recommended to be added to the approved cap for the year.

OTHER MATTERS RAISED IN EARLIER CHAPTERS

22. We are interested in hearing from stakeholders on:

- whether we have developed appropriate principles for this review
- whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important
- supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.

Point 1

Overall Council supports the Principles identified. However, for Principle 4, **Council recommends** that a self-assessment style of Variation Application process is considered. The reasons for seeking a variation are reasonably predictable as part of the development of the framework with circumstances within a Council's control required to meet a higher "burden of proof".

Point 2

Design of framework

In designing the framework, **Council recommends** the ESC to view the cost pressures of Council's inclusive of the "net" cost of services and funding shortfalls for new or renewed infrastructure. This will provide a holistic view of the increasing costs that Council's face rather than a cost-only measure such as the CPI.

A further design matter that needs to be taken into account is the interaction of the Fire Services Property Levy and the mechanism under which it is set by the State Revenue Office and the level of communication that is provided to Council's and the community. It is envisaged that a situation could arise where the increase to this Levy is significantly different to the rate cap.

Implementation of framework

Council would like to advise the ESC that due to the State Government's Sunbury Project that commenced in January 2012 that it will be seeking an exemption for two-years from the commencement period of the framework (see current project information at [**http://www.delwp.vic.gov.au/about-us/regions-and-locations/transition-auditors-to-guide-sunbury-council-proposal**]. This request is due to the resourcing constrains and uncertainty that the Sunbury Project has placed on Council to undertake Service Planning that would ultimately allow Council to have meaningful engagement and consultation with its community on service delivery provision and levels. Due to the uncertainty of the outcome of the Sunbury Project this work has had to be delayed and as a result Council has been disadvantaged compared with others. Service Planning has been promoted by the MAV (Step program) and IPWEA as a means to identifying asset renewal needs.

Point 3

Council would further like to stress that the impact of Rate Capping will be very significant on Council's Long-term financial plan outcome. For example, the outcome for a reduction of the projected rate increase in the plan by 0.1% equates to $10.61m over 10 years. As such the issue of cost pressures facing Council that is beyond Council's control extends to constrain or reduced real revenue from Grant indexation and Statutory set fees & charges. Again, **Council recommends** that the sources of the most significant impacts (HACC grants, VGC Grant allocations, Statutory Planning Fees) are known and the supporting information could be minimised by creating pro-forma information sets for these cost pressures.

Rating history and Impact

With the adoption of 2015/16 Annual Budget, Council's movement in Total Rates (including Rates-in-lieu) has been $48.6m over the last 5 years. When combined with the increase of non-service income (from Interest income and property rental) this brings the available additional funding to $51.3m. These funds have been applied as follows:

Net cost of Service Delivery	$32.7m	(63.8%)
Capital Works – council funded	$14.9m	(29.0%)
Repayments of Debt / Super	$3.7m	(7.2%)

The annualised rates increase over the last five years has been 8.1% consisting:

Base Increase	5.0%
Growth	2.5%
EPA level	0.4%
Defined Benefits Super	0.2%

The net cost of Service Delivery has increased as follows:

Services Delivery costs	$47.2m, annual increase of 6.8% (4.3% ex growth)
Service Grants and Fees & Charges	$14.5m, annual increase of 6.3% (3.8% ex growth)
Net Service Delivery cost	$32.7m, annual increase of 7.0% (4.5% ex growth)

The major changes to the net cost of Service Delivery over the last five years are in the following Services:

Parks and Open Space	$8.4m
Family & Children Services	$4.4m
Leisure & Youth	$3.2m
Libraries & Learning	$2.9m
Transport & Drainage	$2.5m
City Development	$1.3m
Aged & Disability services	$1.0m
Waste & Litter management	$1.0m

The lower level of increase in Service Grants and Fees and charges of 3.8% versus 4.3% for service delivery costs represents $3.6m over the last 5 years equating to 0.4% of the rate increase.

Council has maintained a consistent projection in its long-term financial planning of a base rate increase of 5% plus growth for the past 10 years. In looking forward the difference between the base rate of 5% and a hypothetical rate cap, without any variation, of 2.5% would equate to $247m over 10 years.