

THE DRAFT LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK JULY 2015

Summary of Submissions to the Consultation Paper released in April 2015

Our consultation paper asked interested parties to make submissions in response to a number of questions and any other matters they believed important for us to consider in designing and implementing a rates capping and variation framework. We received 287 submissions from ratepayers, ratepayer associations, councils, council service providers, sector peak bodies, other council groups, unions and community organisations. The submissions have provided us with insights into how the sector and the broader community think the local government rates capping and variation framework should work.

The following section outlines some of the key issues identified in submissions. (A commentary on the submissions can be found in Appendix E of Volume II).

Ratepayers' Views

We received a large number of submissions from ratepayers and ratepayer associations. The majority of these supported the introduction of a rates capping and variation framework. Those who were opposed were concerned with the potential for deterioration in council service provision and asset management and maintenance under the framework.

It was commonly viewed that while a Consumer Price Index (CPI) cap may not accurately reflect council costs, it reflects the community's ability to pay. Some ratepayers suggested a cap be based on the Local Government Cost Index (LGCI).

Some ratepayers commented that the rate cap should apply differently to councils to account for cost pressures specific to them; for example, interface councils facing high infrastructure and service demand, or rural councils with smaller rate bases and large road networks. Other ratepayers suggested that if this were the case, ratepayers across Victoria would be inequitably treated based on the council area in which they live.

A number of ratepayers suggested that it is important for the Commission to include a productivity factor into the cap to ensure councils continuously strive to achieve efficiencies in their operations. It was suggested that rate increases above the cap should be once-off and not become part of council rate bases (that is, rates and charges in the long term should grow in line with inflation). Some ratepayers also argued that councils should not be able to unnecessarily increase borrowings in lieu of rates increases.

Regarding the variation process, ratepayers generally emphasised the need for a robust and systematic approach. Suggestions to ensure variations were justified included:

- incorporating variations into long term plans
- sufficient community engagement
- sunset clauses for variations, and
- different approaches for controllable and non-controllable costs.

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Most ratepayer submissions supported greater transparency and more meaningful engagement between councils and ratepayers.

Some ratepayers also suggested that indicative forecasts be given to councils for planning purposes, that there be a review of the framework in two years' time and that the Commission be given a determinative role under the rate capping and variation framework.

Councils, Council Groups, Council Service Providers and Community Based Organisation Views

Submissions from most local councils raised concerns about the appropriateness of using the CPI to cap rates. They argued that the CPI does not reflect movements in costs of the delivery of council services and that the wages, construction costs and utility costs have all been typically growing above the CPI. It was suggested that capping rates at the CPI would result in perverse outcomes for service provision and asset renewal. They advocated for a different basis for the cap, mainly referring to adoption of a LGCI.

These stakeholders also supported indicative cap forecasts and the ability of councils to apply for multiple years of above-rate cap increases. Most councils also supported the use of forecast rather than a historical index in setting the rate cap. Eight councils disagreed with this and preferred the use of a historical index.

A near universal message in council and council affiliated groups' submissions was that the variation process should be simple, clear, inexpensive and not administratively difficult. Many submissions suggested the variation process should run in line with councils' four year council plan and strategic resources process. It was noted that an onerous variation process would discourage some councils from applying even when their case may otherwise be justified.

Most councils and council affiliated groups were concerned that if a cap were set too low, there would be incentives for councils to let infrastructure deteriorate and service levels fall. Many not for profit community groups and council service providers were concerned that if this were the case, job losses could also occur, especially in council services, such as health and family care.

Most councils and other council affiliated groups suggested that the framework should align with current community engagement processes used by councils. It was suggested that there was ample community consultation at present, and that any additional community engagement on top of the existing requirements could diminish the clarity and usefulness of information being delivered to the community.

A number of councils commented that the Commission should have a monitoring and advisory role in the framework. Some councils indicated that they should have the final say in the level at which rates are set. On the other hand, there were a few councils and service

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providers who supported the Commission having a determinative role, commonly citing the independence of the Commission and the need to avoid political interference in the process.

The submissions from councils, council groups, service providers and community organisations also identified a number of the unique features of councils, which are discussed below.

Rural councils

Rural councils stated that they face various challenges in service delivery and asset management compared to larger and metropolitan councils. Rural councils have less capacity to increase rates revenue due to their smaller populations, and are the most reliant on State and Federal Government grant funding¹. They have larger road networks to manage, more dispersed and older communities to support, fewer staff and resources to manage their operations, and are most susceptible to natural disasters such as bush fires and floods.

Regional cities

Like rural councils, regional cities have commented that they typically have large road networks to manage with more dispersed communities relative to metropolitan councils. Regional cities also act as a hub for surrounding councils' areas, which place greater demand on their infrastructure and services.

Peri-urban councils²

Peri-urban councils stated that they face a rapidly increasing population and the challenge for them is to fund growth-related infrastructure and services while maintaining basic and improved levels of services and infrastructure to their smaller towns. They also need to manage important agricultural and natural environment resources. Like rural councils and regional cities, peri-urban councils have generally dispersed communities, large road networks, fewer council staff and resources and with greater susceptibility to natural disasters.

¹ Rural councils are reliant on the Financial Assistance Grant (FAG) from the Federal Government. The FAG is indexed annually in line with population growth and inflation forecasts but the indexation has been "paused" for three years (from 2014-15 to 2016-17). Rural councils reported that they have been affected significantly by this development.

² These include the shires of Bass Coast, Baw Baw, Golden Plains, Macedon Ranges, Moorabool, Murrindindi and Surf Coast. These councils are located on Melbourne's growth corridors and the regional cities of Geelong, Ballarat and Bendigo.

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Interface councils³

Interface councils, like peri-urban councils, have commented that they face challenges with population growth and high demand for services and community assets. They have high expenditure costs due to maintaining Melbourne's green wedges, including services such as pest and weed management and native vegetation management.

Metropolitan councils

Metropolitan councils have commented that they have high population and very diverse communities. They also have to manage some of Victoria's green wedges and maintain assets which are mature and of very high value.

Peak Bodies

Like councils and council affiliated groups, the submissions from the peak bodies argued that CPI would be an impractical and potentially detrimental cap for local government. It does not account for the true costs of councils; mainly comprised of wages, materials and services and construction, and in rural and regional areas, transportation costs and a lack of competition mean increases in costs can be much higher than CPI. There was strong support for the use of a LGCI or for a mechanism that accounted for structural differences in councils.

The peak bodies favoured a rate cap based on a forecast rather than a historical index. They also preferred multiple year forecasts of the cap. Most peak bodies suggested a single cap approach would be the best solution, given the potential inequities to ratepayers across the state depending upon their location, that a single cap would be clear and simple, and that the variation process may be better suited to handle council diversity.

In general, most peak bodies identified rate revenue or rate revenue plus municipal charges as the base to which the cap should apply, citing the difficulties of capping user charges such as waste. There were differing opinions on whether total rates revenue should be capped or if there should be a rates-per-assessment cap. One body mentioned that a rates-per-assessment approach would be unfair to growth councils. Another mentioned a per-head of population would be more reflective of costs than a per-property assessment.

For the variation process, peak bodies supported a clear process with variation thresholds. Most peak bodies thought the variation should be open to all councils for a variety of reasons including renewal gap problems, new capital projects, cost shifting, financial sustainability, grant funding cuts and many more. They wanted the variation process to have as little

³ The Interface Councils lie at the interface of metropolitan Melbourne and rural Victoria, sharing aspects of both urban and rural communities. Characteristically, the population dispersion across the municipalities is concentrated around urban areas, with significant numbers of people living in rural townships. In all of the municipalities, approximately 70 percent of the population live in about 30 percent of the area. The interface councils are Cardinia Shire Council, City of Casey, Hume City Council, Melton City Council, Mitchell Shire Council, Mornington Peninsula Shire Council, Nillumbik Shire Council, City of Whittlesea, Wyndham City Council and Yarra Ranges Council.

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administrative burden on councils as possible and for there to be a tiered approach to the scrutiny of applications.

It was suggested that community engagement for rates capping should align with councils' current processes and existing examples of appropriate engagement. It was mentioned that sometimes there is not a great level of interest from the community for some councils' engagement activities, such as annual budget setting. Most peak bodies supported a review of the rates capping and variation framework at some stage, or on a regular basis in the future, and for the costs of the regime to be borne by the State Government.

Unions

Unions did not consider CPI to be a reasonable cap on local government. It was mentioned that the average enterprise bargaining agreements has been for wage increases of 4 per cent each year, which is far greater than average annual CPI increases of 2.8 per cent. The cap should be set as an index which better reflects council wages, and infrastructure and asset renewal. There was fear that a low cap will cause job losses and the outsourcing of council services, and that if the variation process was too onerous it may act as a disincentive for applications.

In terms of community engagement, it was suggested that local governments already consult considerably with communities and that the new framework would add needless administrative burden to councils' budgeting processes. It was recommended that the Commission should consider ways to ensure that the process is fast and economical for councils.