

Local Government - Rates Capping & Variation Framework

Submission to ESC Consultation process
Ararat Rural City Council
13 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?

- Ararat Rural City Council fundamentally disagrees with rate capping, it is an unnecessary constraint (and burden) placed on the legitimate democratic freedom of Council to determine the appropriate level of services (and consequent charges) to their community.
- In an environment where Federal Assistance Grants (FAGs) are currently frozen and where Councils are mandated to assume responsibility for many processes that were previously performed by the State Government, good financial management under rate capping will be an impossible task.
- Rate capping will inevitably result in a massive reduction of services for residents and ratepayers and will eventually lead to massive deterioration in the quality of vital community infrastructure. The only way forward for Councils will be extensive user-pays systems, which will be felt the hardest by pensioners and low income socioeconomic groups.
- Councils will no longer have the ability to respond effectively to local community needs, and this will undoubtedly have multiple negative knock-on effects. Social cohesion, community safety and many of the finer aspects of Australian life are at risk. Depending on the ability of each Council to raise significant revenues from other sources, the viability of all non-essential services, including libraries, kindergartens, art galleries, etc. will be at risk.
- In particular, Rural Councils already have insufficient sources of funds to maintain ageing infrastructure, including the need to renew and upgrade local roads, bridges, and culverts, that are now under pressure from more and heavier vehicles that they were ever designed for.
- The Australian accounting standards (AAS27 in particular) places obligations on Councils around financing of long term asset management, and Victorian Councils have been working to address their identified asset management backlogs. Rate capping will exacerbate this backlog (as it did in NSW) and make a complete mockery of responsible asset management (particularly in rural areas).

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

- We do not agree with the underlying premise of rate capping (see above).

- If a rate cap were to be applied, it should take account of the specific cost pressures faced by many Rural Councils, and certainly not be simply based on the consumer price index (CPI). As has been shown time and time again, the CPI is a flawed concept for Council cost rises (we use very little bread & milk...). Perhaps multiple indices should be considered, thereby allowing Councils to be grouped by their situation or needs (municipal area, population, distance to major city, demographics, infrastructure, etc) and looking at the genuine rises experienced by Councils on the products they do consume, or the costs they do experience.
- If this process is to be properly administered by the ESC (and not end up being a grubby, distorted political process - as it is in NSW) then a thorough examination of the services being supplied, the cost pressures experienced, the asset maintenance/management requirements, etc, needs to be conducted for each Council every 4 years (to coincide with Council electoral terms). This should then result in a consequent 4 year rate rise allowance being approved, based on each Councils needs & costs (similar to how the water and electricity industries are treated as essential services providers). This process (of course) should be paid for by the State, as they are the ones imposing this unrealistic (and unnecessary) burden on Councils, for purely political reasons.

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?

- As stated above - We do not agree with rate capping.
- However, if it is to be applied then it should encompass a 4 year period to ensure stability, and underpin the 4 year Council Plan and Strategic Resource Plan. Any exemptions to the cap should also be based on these timeframes.

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

- We do not agree with rate capping.
- However, if it is to be applied then it should be based on expected and forecast future movements as the past is not a basis for future economic environments.

5 Should a single cap apply equally to all councils?

- No (see above).

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 do not agree with rate capping.
- However, if it is to be applied then it should only apply to rates, as the majority of other charges are set based on the functions they perform.

- On the other hand all Government set charges, including statutory planning fees (which Councils have not been allowed to raise for years – despite significant cost increases) should automatically rise by the capped amount.
- Other charges which Councils collect on behalf of the State (such as the fire service levy (soon to be increased by 7.17% - which is well above CPI) should also be restricted to the capped rise (what is good for the goose should also be good for the gander....)

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

- We do not agree with rate capping.
- However, if it is to be applied then it should be based on the total rates revenue.
- Even with rate capping, differential rating strategies and property revaluations will mean the rates for some premises will increase by more than the cap, whilst the rates for other premises will increase by more than the cap.

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

- Capping should be based on the forecast rates from the prior year and it should not include supplementary adjustments.

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

- Revaluation processes should not change under rate capping (ie the process should remain the same regardless of who specifies the overall rate rise or the extent of that rate rise).
- The value of rural properties (mainly farms) can fluctuate significantly from year to year - often due to ongoing drought, bushfires or floods. For the purposes of calculating rates, consideration should be given to using a longer-term (say 5 year rolling average) land valuation for rural properties. This would provide greater operating expense certainty for farmers.
- If the State wishes to cap local rate rises, the State should consider funding the re-valuation of properties every 2 years.

10 What should the base year be?

- If capping is to apply the base year should be 2016/17, no earlier.

THE VARIATION PROCESS

11 How should the variation process work?

- It should be as simple and inexpensive as possible. Small Councils have very limited human and financial reserves to fund expensive assessment processes.

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

- Whenever funding from other government levels decreases.

- Whenever services demanded from other levels of governments increase.
- Whenever council experiences a natural disaster.
- Whenever a poll of the community indicates majority support for additional services or a desire to maintain current levels of service (including remediation of an asset renewal gap).

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?

- See Q 12

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.

- Whenever a poll of the community indicates majority support for additional services or a desire to maintain current levels of service (including remediation of an asset renewal gap).

COMMUNITY ENGAGEMENT

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

- This depends on what you are trying to achieve. Engaging with a community that does not want whatever is being proposed looks vastly different to engaging with a community that will benefit from what is proposed. Does the community perceive rate capping as a benefit – or as a short term political stunt?

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?

- Councils have always been motivated to respond to community needs.

- Unintended consequences are likely to be numerous and severe. It would be really nice to think this aspect was evaluated by the State before rate capping was announced – but we know that wasn't the case.

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.

- The rate capping and variation process must be established in line with the 4 year Council Plan, and therefore there should not be a need for an annual review. If a municipal emergency occurs (fires, floods, storms, etc), alternative financial measures should be in place to allow for increased finances, or additional rate rises above the established cap.

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?

- Most Councils will manage, regardless of the circumstances foisted upon them, but the longer transition the better.

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?

- Advisory. Councillors are elected to determine what is best for their local community, and only they can fully understand what the community can or cannot afford.

OTHER MATTERS

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

- We do not agree with rate capping - and the quicker it is exposed as the political stunt that it is (and disposed of) the better. Our estimate is that for every year the review (and abolition) is delayed, it will take 5 ~ 10 years for our community infrastructure to recover.

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

- Rate capping will only add financial stress to the Ararat Rural City Council. Administration of the process must be fully funded by the State – including all costs incurred by Council when making submissions to the ESV to review the cap.

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.
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- No comment at this time