Yarra City Council submission to the Essential Services Commission
– Local Government: Rates Capping & Variation Framework Consultation Paper

15 May 2015

Executive Summary

Yarra City Council's submission addresses two areas: illustrating the broader local government and Yarra context into which a 'rate-capping' framework and system will be introduced as well as identifying specific concerns with how rate capping will negatively impact Council and how this can be minimised.

Context

- The livability of Melbourne and the quality of life outcomes for our communities is highly dependent on the soft and hard infrastructure. The multiple services and community facilities that local Councils provide is a fundamental platform of Local Government.
- The City of Yarra is undergoing significant demographic change and population growth which requires a dramatic rethink of the community's service and infrastructure needs in the future.
- Yarra's community is generally becoming more educated, professionally employed and affluent however there is still a large community of residents experiencing high levels of disadvantage.
- Council's service planning and review process will ensure that we continue to tailor services to meet current and emerging service needs.
- Maintaining and improving ageing assets and building new infrastructure to meet changing community needs in an inner-City context is complex and expensive.
- Cost shifting, and relatively declining State and Commonwealth government funding, increases the burden on local property rates if Council service levels are to be maintained.

Specific feedback

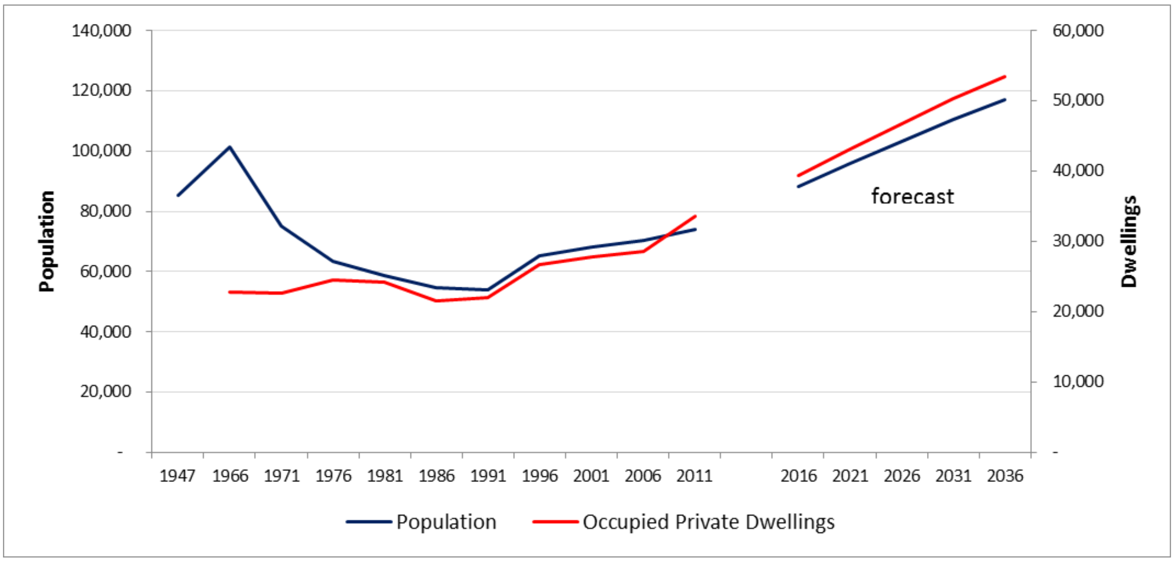
- Councils already have an extensive set of strategies and plans that should be the basis for any discussion with the ESC about proposed property rate levels.
- The Consumer Prices Index should not be used for setting property rate levels as it is not designed to inform such decisions and bears little relation to the level of services delivered to local communities and the cost pressures on these services.
- A transition period is required for Councils to methodically and sensibly change service levels and asset renewal programs to match a revised Long Term Financial Plan (and Strategic Resource Plan) built on new revenue and expenditure assumptions.
- A proposed model for the transition would be to allow up to 2% above a final agreed cost index in the 1st year (2016-17), up to 1.5% above in the second year (2017-18) and up to 1% (2018-19) in the third year. This would be considered within the 'rate cap' for those years and not require any variation process.
- Any rate cap should be based on overall rate income excluding Supplementary rates and special charges.

Context

City of Yarra

The City of Yarra has been undergoing substantial transformation. As late as the mid 1960's, Yarra's population was over 100,000, yet by the early 1990's this slumped to around 54,000 residents as working class families decreased in size and many followed the manufacturing jobs, as well as the suburban lifestyle, to Melbourne's outer south-eastern suburbs (see Figure 1).

Figure 1: City of Yarra change in population and dwellings



Source: various ABS Census data www.abs.gov.au , Forecast id http://forecast.id.com.au/yarra/home

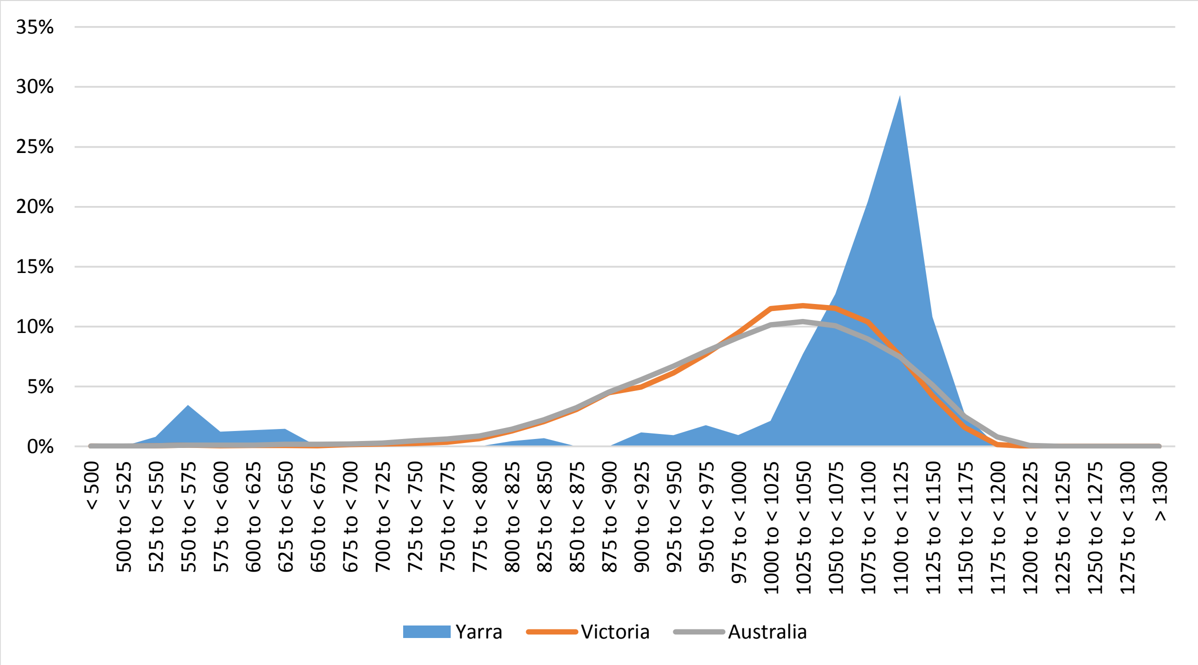
Gentrification saw Yarra's population recover and by the early 2000's we were adding around 600 residents per annum. As Melbourne's population boomed in the mid to late 2000's Yarra jumped to an average of 1,500 additional residents each year. In 2012 Yarra grew by over 2,000 residents, in 2013 by around 2,500 residents and in 2013 by just under 3,000 residents. In the year to 30 June 2013 Yarra was the 6th fastest growing municipality in Victoria.

Admittedly, these growth figures are not as large as that experienced by Melbourne's outer growth areas, however in an inner-city context this represents dramatic change. All of this growth is achieved in high-density, and largely high-rise, housing replacing factories and warehouses as well as popping up along our activity centres and main shopping strips.

Yarra is also a rapidly changing community. There is a high turnover of residents – at each Census around 50% of residents lived at a different address 5 years earlier. The people choosing to live in Yarra, as evidenced in successive Census, are increasingly more educated, more affluent and professionally employed.

Yarra is home to the largest population of public housing residents in Victoria: around 8,000 residents, now comprising just under 10% of Yarra's population. This leads to Yarra having a quite unusual distribution of advantage and disadvantage compared to other municipalities as seen in Figure 2 below. Yarra has a very high proportion of its population within high levels of disadvantage: 8% of residents are below '650' on the Advantage / Disadvantage index (Socio-Economic Index for Areas or SEIFA) compared to an average of 0% in Victoria and 1% for Australia.

Figure 2: Socio-economic disadvantage for Yarra, Victoria and Australia



Source: ABS Census 2011 www.ato.gov.au

Recent Australian Taxation Office data shows that of Victoria's 696 postcodes, Yarra has 3 postcodes ranked in the top 50 for average taxable income, whilst the other 3 postcodes are in the top 100 (see Table 1).

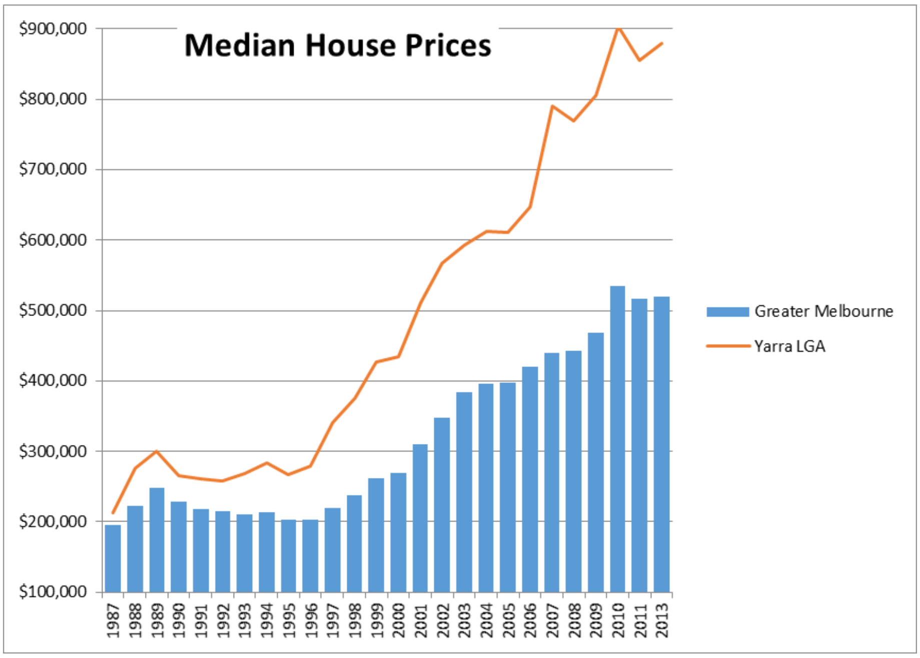
Table 1: ATO average wages and taxable incomes, Yarra

Post code	Suburbs	Avge Wage / Salary	Rank	Avge Taxable income	Rank
3068	Clifton Hill / Nth Fitzroy	$66,547	32	$71,254	41
3121	Richmond	$65,701	34	$70,762	43
3054	North Carlton / Princes Hill	$61,576	54	$68,770	48
3065	Fitzroy	$60,026	65	$66,117	59
3067	Abbotsford	$58,453	82	$61,987	69
3066	Collingwood	$56,384	100	$57,771	93

Source: ATO www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-statistics/Taxation-statistics-2012-13

Historic data shows that where Yarra's house prices were close to the Melbourne median in the 1980's, they have recently averaged around 70% higher (see Figure 3). During the recession in the late 1980's and early 1990's there was little difference in median house prices between Yarra and greater Melbourne, however this changed quickly through the mid-1990s as the economy recovered and Yarra experienced a rapid gentrification.

Figure 3: Median house prices, Yarra versus Melbourne



Source: www.housinginvictoria.com.au

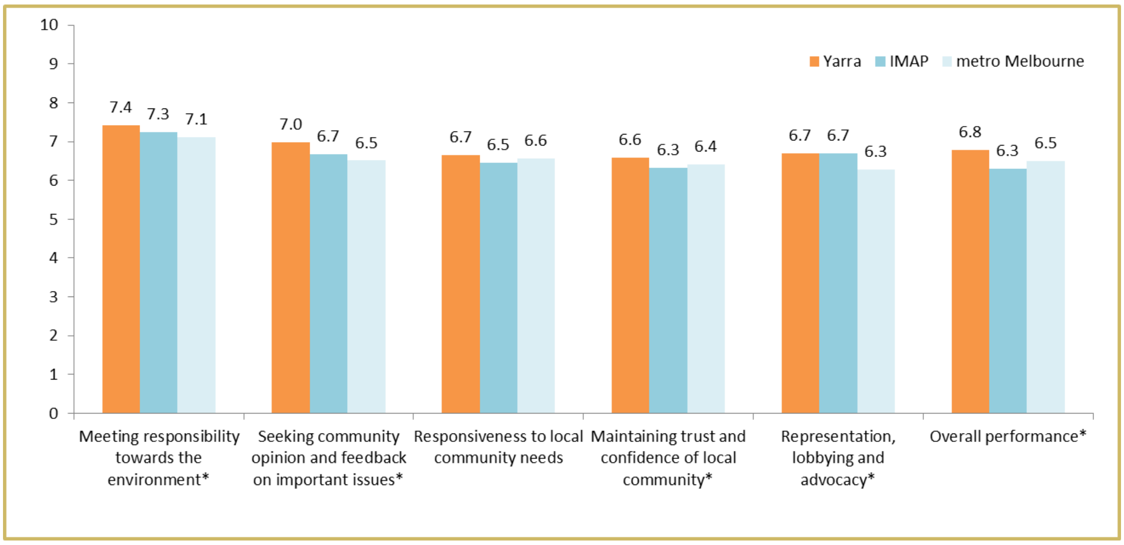
Alongside these demographic changes, Yarra remains a socially, environmentally and politically passionate, aware, engaged and articulate community. Local residents and ratepayers each four years elect Councillors who are active in the community and represent a range of political parties. Each Council Plan, as well as many Council Strategies and Plans, express the community's strong vision for the City they live in.

Yarra City Council and the community have been long-term advocates in many important areas including for example:

- recognition of same-sex marriages (a Relationship Declaration Register was established in 2007);
- championing the rights of refugees and asylum seekers (Council committed to be a Refugee Welcome Zone in 2002 and in 2005 endorsed a Refugee and Asylum Seeker Statement);
- addressing environmental challenges locally, Council having lowered its greenhouse gas emissions (in 2011-12 emissions were 22% than in 2000-01) and was recognised as the first carbon neutral Council in Victoria, and second in Australia in 2012 (under the National Carbon Offset Standard); and,
- supporting sustainable transport solutions such as the proposed Doncaster rail project.

Yarra City Council assesses its performance against community expectations through the Annual Customer Satisfaction Survey. This face to face survey is conducted by an independent research company and provides feedback from 800 residents across the City. Council's advocacy, consultation, responsiveness, environmental responsibility and trust by the community compare favourably with benchmarks for the 5 inner-Melbourne Councils and metropolitan Melbourne (see below).

Figure 4: Community satisfaction for Council's governance and leadership, comparative results



Source: Annual Customer Satisfaction Survey 2014

Yarra City Council ensures that services continue to be relevant through service planning and reviews. The Council Plan 2013-2017 sets out a strategy to: "Deliver Council services that meet community priorities and needs". Service Planning, which involves every branch and unit of Council, is the framework for the process, development and review of Council's services, programs, facilities and activities. Integral to this framework is a program of Service Reviews that Council has commenced.

Service Review is a detailed process that reviews a service or groups of services that Council provides based on Best Value principles from the Victorian Local Government Act (1989). The outcomes of this program include the continuous improvement of the efficiency, effectiveness, equity and consistency of Council services.

City of Yarra residents have access to many local community facilities and services, generally at provision levels higher than most municipalities. Yarra's 86,506 residents enjoy, for example:

- 5 libraries or 1 for every 17,301 residents;
- 3 Leisure Centres and swimming pools or 1 for every 28,835 residents; and
- 9 Neighbourhood Houses or 1 for every 9,612 residents.

Local provision of community facilities is important to resident's amenity due to the significant traffic congestion and travel times that would be otherwise required to travel cross-town to fewer facilities.

Recent community infrastructure projects give insight into the long-term costs of maintaining Council assets. The newly renovated 19th Century Collingwood Town Hall was reopened in July 2014. This was a once in a life time upgrade to make this a safe, accessible and appropriate community and office space incorporating modern features such as a lift, fire sprinkler system, heating and air conditioning and electrical wiring as well as retaining its heritage features. This upgrade cost over $15 million and required the closure of the Town Hall for two years.

In many capital works projects Council has to factor in the additional cost of managing contaminated soil, a legacy of being home to much of Melbourne's industry. This includes major sites around the Richmond Town Hall and on Alexandra Parade in North Fitzroy associated with former gas works.

Council has proposed to the State Government a major redevelopment of the large Gas and Fuel site in North Fitzroy, including remediation of the contaminated soil and the construction of a regional indoor sports centre as part of a commercial and residential precinct.

The North Fitzroy Community Hub is a $14.5 million development on St Georges Road and will be completed in 2016-17. This is the culmination of decades of community campaigning for a purpose built Library in North Fitzroy to replace the small leased facility established there in the early 1980s. The lack of suitable sites, particularly to avoid encroaching on the precious open space at Edinburgh Gardens, saw the compulsory acquisition of a former petrol station. Due to the limited footprint of this triangular site a three-storey design was required to accommodate the Library, children's services and community rooms.

Council has delivered on average one new open space each year. These have required significant planning and community engagement as well as ingenious use of available public space. Four recent projects were:

- Church Street, Burnley opened in February 2015 on a former freeway off-ramp at a cost of $1.1 million (3000 sq m);
- Richmond Terrace and Docker Street, Richmond opened in July 2014 on former road space (600m sq m) at a cost of $680,000;
- Oxford St park, Collingwood opened in August 2013 on former road space (500 sq m) at a cost of $750,000;
- Peel Street park, Collingwood opened in July 2011 on a former car park (1,050 sq m) at a cost of $700,000.

Local Government Sector

More broadly the local government sector has faced decades of cost shifting as well as the relative decline in State and Federal funding, both untied (Financial Assistance Grants) and tied grants.

The Hawker Inquiry into cost-shifting and the financial position of local government 2003 with the subsequent report "Rates and Taxes: A fair share for responsible Local Government" (House of Representatives Standing Committee on Economics, Finance and Public Administration). The Hawker Inquiry found:

- local government service delivery and responsibilities were growing faster than its revenue;
- financial pressures were generally managed at the expense of infrastructure maintenance and renewal; and
- State governments were imposing revenue restrictions on local government and often imposing fees and levies on Councils.

The Productivity Commission reported in 2008 on 'local government's revenue raising capacity'. This inquiry found:

- local government has shifted to a broader range of services and responsibilities;
- local government property rates decreased as a proportion of Gross Domestic Product from 1% in 1990-91 to 0.9% in 2005-06;
- Councils in urban areas were predominantly reliant on rates, fees and charges to fund services, compared to rural Councils that were more reliant on government grants;
- urban Councils tend to 'draw lightly' on their community's financial capacity to pay; and
- urban Councils, in marked contrast to rural Councils, could be financially independent if they drew on their community's ability to pay higher local rates, fees and charges.

Additionally, local communities face increased costs imposed by State Government such as waste levies as well as State Government set fees that Council charges (for example statutory planning fees) which do not keep pace with CPI increases let alone allow Council to recoup the costs of processing planning applications for an increasing pace of development. These impacts are either met through higher property rates or reduced community services.

Yarra has experienced rate rises over the last four years, however these have not been far off the Municipal Association of Victoria's Local Government Cost Index (LGCI. See comparison in Table 2 below). The LGCI was developed to better reflect the different cost inputs to Council service delivery such as wages and construction. This contrasts with the Consumer Price Index (CPI) which is considered a limited measure in other contexts, and is why the aged pension has for a long time been indexed to the growth in average male wages.

Table 2: Local Government Cost Index versus Yarra rate rises

	2011-12	2012-13	2013-14	2014-15
Local Government Cost Index	3.5%	4.4%	3.4%	3.4%
Yarra rate in $ increase	3.5%	n/a	4.4%	5.4%

Source: MAV www.mav.asn.au/about-local-government/local-government-finance/Pages/cost-index

Why does this matter?

The community has exercised its democratic right to elect its representatives and hold them accountable, and through local participation and engagement determine its priorities. The Local Government Act provides clear and strong mechanisms for Councils to engage their communities in the planning for their needs and priorities and in being accountable to deliver on these.

Specific Responses to the Consultation Paper

This section of Yarra City Council's submission provides feedback on the specific topics and questions raised in the ESC's Consultation Paper.

ESC: What are some of the Key Issues?

1. <u>Autonomy of councils should not be compromised by rates capping</u>

Yarra:

Councils face specific issues and should be able to engage their communities in looking at how property rates, and any other legitimate revenue source, can be used to respond to these issues. Long term Community Plans, Service Reviews, Asset Management Plans and Long Term Financial Plans, as well as the outcomes of community engagement, should be central considerations when the ESC assesses requests for rate rises above any 'cap'. Basing the assessment of proposed rate rises on Council adopted Plans and Strategies at least acknowledges the policy and planning, if not financial, autonomy of local government.

Focusing on property rates (revenue) without considering the broader economic and social benefit delivered to local communities from the associated expenditure is short-sighted and validates a notion that taxation is necessarily bad. Consultation should focus on amenity and service to communities, not on the abstract notion of a rate cap. Ideally, Council's performance, and what it delivers for its community should be the basis for assessing its rate levels.

2. <u>CPI is not the appropriate index of council costs</u>

Yarra:

The notion of a Consumer Price Index as a proxy for the fluctuation in costs of local service delivery and infrastructure renewal is inappropriate and trivialises the role and value of local government. For many years Aged Pensions in Australia have been indexed to average male wages acknowledging that a CPI indexation would see the purchasing power of pensioners progressively erode.

If the logic of rate capping is:

- "*to keep rates to the level of the sector's cost increases*" then a local government cost index would be logical;
- "*based on the capacity of the community to pay*" then the cap should be indexed to an income or economic growth measure such as the growth in adult wages or local taxation data; or,
- "*based on the willingness of the community to pay for the services they want*" then a cap is illogical as the democratic and representative nature of Councils provides communities with the means to exercise their views.

Further, the CPI level does not take account for the additional burden of cost shifting and diminishing government grants to local government. The indexation of Financial Assistance Grants has been suspended leaving Councils with a funding gap between actual costs and revenue.

An additional consideration with pegging rates at CPI levels is how this will be perceived when CPI is at a much higher level than currently or if CPI was above the average growth in wages.

3. <u>Quality and level of service will deteriorate and infrastructure will run down if rates and charges are capped at CPI</u>

Yarra:

The Local Government Performance Reporting Framework includes financial sustainability and performance measures that are an appropriate mechanism to monitor Councils' capital renewals expenditure.

The scale of the cumulative impact of rate capping necessarily means services and infrastructure expenditure will necessarily be reduced. Yarra City Council estimates that the impact of a 1.5% lower rate level increase (3% p.a. compared to an assumption of 4.5%) is $93 million over 10 years.

The options available to Council, all things being equal, is to reduce some service levels and standards, not invest in new infrastructure, and look to reduce its assets to a level that can be realistically renewed.

It also raises the likelihood that Council will need to push back more strongly than previously on State and Federal Government 'cost-shifting' and the consequences of declining grant funding.

6. <u>An additional layer added to the council budgetary and planning cycle</u>

Yarra:

Yarra's annual planning process commences around August each year:

- starting with an analysis of strategic priorities, emerging issues and challenges;
- work through September to November refining recurrent operational Budgets and requests for funding for new and upgrade Capital projects and new operational projects;
- early community engagement in the Budget in November;
- review of the Long Term Financial Plan from November through to March;
- engagement of Councillors through December to March to develop a draft Budget; and,
- engagement of the community in the formal Budget adoption process from April to June.

Awareness of the notional rate cap level at the latest by November would assist early Budget planning and managing realistic expectations about Council's Capital Works program and new initiatives. However, the variation process needs to allow for Council to request a rate level above the cap when it has a more solid understanding of its end of year financial position.

Significantly, the application and value of the 4-year Strategic Resource Plan (in the Council Plan) would need to be rethought as the rate levels and matching expectations of services to be delivered would be determined by the Essential Services Commission on an annual basis.

ESC: What is our approach?

<u>PRINCIPLE 1: Local communities differ in their needs, priorities and resources</u>

Yarra:

As outlined above, Yarra's circumstances of rapid population growth as well as complex and changing demographics, of the greater than average costs for construction of buildings or acquisition of land for much needed open space, are not consistent with the application of a national Consumer Price Index.

It should not be assumed that one group of Councils, rural or interface Councils for instance, are 'worse off' than others and therefore caps should be set at variable levels. Inner-city Councils, as outlined earlier, face their own complexities.

<u>PRINCIPLE 2: Local communities and ratepayers are entitled to hold their councils to the highest standards of accountability and transparency when setting rates</u>

Yarra:

Democratic and representative government is based on the premise that elected representatives govern and are accountable to the community not only through 4-yearly elections but also through direct engagement in strategic planning and decision making.

<u>PRINCIPLE 3: The framework should support the autonomy of councils to make decisions in the long term interests of their community and ratepayers</u>

Yarra:

Shifting away from a 4-year Council Plan and Strategic Resource Plan to driving service and Capital Works delivery on the basis of an annual decision by the ESC is not consistent with long-term planning. Council will need to reforecast its forward financial planning in response to the ESC's decision. Either this shifts Council to continually reduce services to be able to fit below a rate level capped at CPI or Council will need to plan in the short-term following each rate level decision.

<u>PRINCIPLE 4: Councils will need to satisfy the burden of proof outlined in the framework when seeking a variation above the cap</u>

Yarra:

Any burden of proof should be largely based on the existing strategic planning modelled under the Local Government Act and established local government best practice such as long term Community Plans, service reviews and plans, Asset Management Plans, Strategic Resource Plan, Long Term Financial Plans, as well as Council adopted strategies and plans. Adding further processes and documents just consumes more local resources in responding to the State Government.

<u>PRINCIPLE 5: Rate increases should be considered only after all other viable options have been explored</u>

Yarra:

Property rates are the only means of taxation open to local government, the third independent tier of government in Australia. Placing greater pressure on Councils to raise sufficient revenue to fund local services from fees and charges for services, parking fines and fees, or more entrepreneurial activity should be considered as less efficient sources of revenue and are likely to be more regressive than property rates.

Again, the LGPRF contains performance indicators that report on Council's revenue and expenditure relative to other Councils and would identify Councils that excessively raise rates.

The ESC should build into the variation process easy approval where rates are increased to fund compliance with increased regulatory responsibilities from State Governments as well as other forms of cost shifting on to local government.

PRINCIPLE 6: The framework should support best practice planning, management systems and information sharing to uphold council decision making

Yarra:

Councils are already required to comply with the Local Government Act and the changing requirements for planning and reporting. Councils have moved through Compulsory Competitive Tendering, Best Value, changes to Council Plans and Strategic Resource Plans, the ESC's performance reporting framework, then the Local Government Performance Reporting Framework and now rate capping. Perhaps it is timely to evaluate the relative costs and benefits to local communities from compliance with this shifting planning and reporting framework.

PRINCIPLE 7: The framework should be flexible and adaptable

Yarra:

Ultimately there is a paradox between a flexible and adaptable framework that might account for a volatile environment and the certainty that a more clear and defined framework may offer Councils and communities.

As a tier of government responsible for delivering over 130 services, many with their own specific regulatory and financial accountabilities to State and Federal Governments, the ability to meet the community's needs should be paramount.

ESC: What are the relevant questions for the review?

THE FORM OF THE CAP

The Consumer Price Index is an inappropriate and inadequate measure for local government service delivery. A local government cost index should be developed and maintained to ensure there is a clear link between local government costs to sustain business as usual and the level of property rates.

Waiting until February / March for the ESC to set a rate cap is too late to build into Budget modelling. Potentially significant changes to services and capital programs would be made for a draft Budget and then go out to community consultation. Late notification will impact on the delivery of capital works projects particularly where tendering is involved and this will create additional pressure on capacity to deliver within the project year.

Late fluctuations would also have knock on effects in the LTFP. At a minimum, a 2-year rolling rate rise cap would support Councils to plan over a 2 year period with more surety about service levels and capital programs, accepting some funding decisions are for multiple years.

THE BASE TO WHICH THE CAP APPLIES

For a growing inner-city Council, Supplementary rates are highly variable and they are critical to enabling Council to fund demand for services and the associated assets for servicing residents in new developments. Supplementary rates levels should be excluded from the rate cap as they are difficult to estimate when budgeting given the uncertainty of planning processes and building activity levels impacted by economic activity levels.

Property rates are an efficient tax base and shifting income to other sources (fees and charges) may impose a greater burden on communities (e.g. transaction costs).

Growth is associated with a range of increased costs and supplementary rates are a means of funding those impacts closer to when they occur. The Rate cap should be confined to general property rates for certainty and apply to overall rate income, excluding supplementary rates and special rates.

WHAT SHOULD THE BASE YEAR BE? THE VARIATION PROCESS

Yarra has its own differences that need to be considered in the variation process. Yarra is undergoing both population growth and a changing demographic profile and upgrading and replacing infrastructure and services to meet the needs of this new community is expensive and may include 'once in a generation' projects. Justification for a variation above the rate cap should include changes to services, and associated infrastructure, not just adding to business as usual services due to population growth.

The variation process should also allow for easily managing significant one-off costs across the sector such as Defined Benefits Superannuation liabilities.

COMMUNITY ENGAGEMENT

At time of writing, close to the end of the formal submission process for the proposed 2015-16 Budget, only 1 submission out of 23 raised a concern with the proposed rate level. Both November and April / May consultations. In the initial consultation in November 2014 to inform the Budget development only 2 of 23 submitters raised concerns with the level of rates.

TIMING AND PROCESS

The current Annual Planning process is long and complex – Yarra's starts in August. Adding a specific and new process to engage the community on a proposed rate increase level prior to seeking ESC approval and developing a draft Budget is too onerous. The ESC should accept general community consultation on level of rates and services as evidence of community views. This may be in the form of community surveys. Council's consult continuously with their communities on Strategies and Plans. The directions outlined in these documents reflect community needs and wants. These documents underpin Council's budget and LTFP.

TRANSITIONAL ARRANGEMENTS

The introduction of a rate cap, if it proceeds, should be phased in over three years to allow Councils some time to restructure their Long Term Financial Plan, as well as reprioritise service delivery and Capital Work programs.

Councils are committed to Enterprise Agreements with staff, along with staff levels, that anticipate a Strategic Resource Plan and assumed rate increases. Changing service levels, which may impact on staff levels or the transition of services, would need to be managed over several years to allow appropriate consultation with service users, Unions and staff. Similarly, existing contracts were predicated on the SRP and revenue expectations and require time to be phase out of old contracts and run new tender processes with redesigned service levels based on available resources.

Existing borrowings may also need to be restructured to take account of different revenue and expenditure assumptions and Councils need time to phase this in.

A proposed model would be to allow up to 2% above a final agreed cost index in the 1st year (2016-17), up to 1.5% above in the second year (2017-18) and up to 1% (2018-19) in the final year. This would be considered within the 'rate cap' for those years and not require any variation process.

This model would support Councils to take a strategic and medium term approach to their financial, service and asset planning and ensure that once the rate cap is fully operational they are able to financially sustain their service delivery and asset renewal. Necessary changes to service levels and standards would be undertaken during this transition.