



Yarriambiack
SHIRE COUNCIL

bs:113-2015

26 August 2015

Dr Ron Ben-David
Chair – Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne, Victoria 3000

Dear Ron

Essential Services Commission – A Blueprint for Change Local Government Rates Capping & Variation Framework

Following Yarriambiack Shire Council's August 26th, 2015 Council meeting, I have been requested to provide a response in relation to the above subject matter.

Yarriambiack Shire is classified as a small rural Shire located in North West Victoria and covers a total area of 7,158sq kms, incorporating 17 townships and a population of just over 7,000 people.

Council's 2015/2016 operating budget is \$21.545m of which \$11.314m is generated from rates and charges and an amount of \$8.87m is derived from grants both capital and operating. As per the majority of small rural Councils, Yarriambiack Shire Council is very reliant and dependant on both rates and grants to provide in excess of 80 services to residents, ratepayers and visitors to the area. A significant challenge to Council is that it maintains in the vicinity of 5,000 kms of road works and an ever increasing infrastructure gap.

Council has expended a considerable amount of time in thoroughly examining and reviewing the draft documents and have identified the following concerns:-

- **One size fits all**

The Essential Services Commission recommends that there should be one rate cap that applies equally to all Victorian councils.

As identified in Yarriambiack Shire Council's April 2015 submission, this recommendation unfortunately does not appreciate the significant and diverse financial sustainability challenges endured by rural Councils and in particular their limited capacity to raise revenue from other opportunities other than rates.

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Another factor and consideration not identified in the draft reports is that rural Councils have significantly higher asset management responsibilities as touched on in the introduction.

- **Addressing equity and disadvantage**
The proposed Essential Services Commission methodology very much undermines the ability and opportunity of Councils to implement a more equitable and appropriate distribution of rates to benefit lower value properties.
- **Underpinning cost indexation is flawed**
The proposed cost indexes used in the formula are not particularly appropriate or relevant. A significant proportion of Local Government costs relate to areas such as construction, asset maintenance, waste management, contracts, wages, fleet, plant and utility costs. Other significant expenses are mandated and/or imposed on councils including for example council elections costs, property valuations and assessments, school crossing supervision, regional and mobile library contributions and insurance premiums. In addition, the wage related index has only taken salary into account and not considered other additional wage cost movements including superannuation.
- **Back to front budget misses the mark**
The application of the cap as presented does not reflect the way councils are required to prepare a budget to determine a rate rise. The rate rise is a product of the amount of rate revenue to be raised including annualised supplementary rates from the previous year, not the other way round. The proposed Essential Services Commission approach to apply a fixed cap and work backwards to determine the level of rate revenue does not comply with the Act (s.158). Adopting the notional "average ratepayer" methodology will reduce total revenue available and by implication reduce the level of services that can be delivered to ratepayers.
- **Responsible use of available funds**
Section 6.3 of the Blueprint implies that councils should raise debt to offset the impact of rate capping and before applying for a variation. This would effectively shift the rate burden to future generations and could possibly result in Councils raising and using debt for inappropriate purposes.

- **Proposed implementation timeline is unworkable and will create confusion**

The proposed timeline, including assessment of council variation requests to Essential Services Commission from March to May, will prevent Councils from placing their draft budget on public exhibition within 1-2 months.

The model proposed by the Essential Services Commission would therefore potentially undermine the trust between Councils and their local communities by compromising the consultation process and timing.

In addition, the fact that 2016-17 is a general re-valuation year will disguise any impacts of the proposed rate capping and confuse the general public.

- **Community engagement**

The opportunity to genuinely engage with community is extremely sensitive to the budget timeline. The timeline proposed by the Essential Services Commission would prevent Councils from meeting the legislated requirements in relation to budget preparation and adoption. Council very much prides itself on its various community engagement and consultation processes and the proposed timeframes would definitely create considerable angst and potentially undermine the present positive and constructive relationship.

The Essential Services Commission will also need to be very clear about what additional engagement processes and evidence based will satisfy their requirements for variation applications.

- **'Best Value' is the role of Local Government**

The inclusion of an efficiency factor assumes that the productivity of Councils is a matter for the Essential Services Commission, and not individual Councils. It is solely the responsibility of councils to define, measure, consult and report on the assessment of value for money in service delivery as defined by the best value principles in the Local Government Act (1989 s. 208B/208C). The Essential Services Commission proposal also flags additional performance reporting outside of existing requirements on top of new measures such as the Local Government Performance Reporting Framework, already a significant administrative burden on small rural Councils.

- **Funding the new model**

It is imperative and appropriate that the Victorian State Government funds the operations of the Essential Services Commission as is the situation in New South Wales.

Applying for a variation can potentially be a costly and exhaustive process in the context of rural Council's budgets and resources.

Rural Council's will definitely require assistance in relation to proposed variation applications. Council's have a responsibility and an obligation to ensure that their respective communities receive an appropriate level of service provision.

In closing, I have very much welcomed and appreciated the opportunity of working in association with you and your team, in addition to the other members of Fair Go Rates Reference Group in what has generally been a very professional, respectful and beneficial process.

During this process it has also become very evident that the local government sector particularly the rural sector is grossly underfunded and resourced and that a more equitable and sustainable funding formula incorporating the three tiers of government needs to be fully examined.

If you require any further information or clarification in respect to Yarriambiack Shire Council's response, please do not hesitate to contact me directly.

Yours Sincerely



Ray Campling
Chief Executive Officer
White Ribbon Ambassador

