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15 May 2015

Local Government Rates Capping and Variation Framework Review  
Essential Services Review  
Level 37, 2 Lonsdale St  
Melbourne VIC 3000

**RE: Submission to the Consultation Paper for the Local Government Rates Capping & Variation Framework Review**

We are writing on behalf of the Revenue Management Association (RMA) and its members in response to the Local Government Rates Capping & Framework Review Consultation Paper.

In making this submission I provide some background on the RMA. The RMA was formed in 1995 following the amalgamation of Victorian Councils in 1994. The organisation was previously known as the Victorian Institute of Rate Administrators.

RMA membership is over 170 and is made up of representatives from Councils across the state who primarily deals with rating, property, valuation, revenue collection and administration and collection of the Fire Services Property Levy (FSPL). We are a committed group of professionals who elect a committee each year to represent all Victorian Councils on a variety of topics. The Committee concentrates on new challenges in the Local Government sector in regards to rates and charges and in particular legislation and legislative change. Where possible we get involved in the early stages of consultation with Government bodies in order that they may be fully informed of Council's process and views.

Please find below responses to the questions raised within the review document.

**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?*

CPI does not represent the true cost of services for Local Government.

Impacts on road and building construction costs have a dramatic effect on a Council's budgetary commitment to the community. This, along with costs shifting from other government bodies and negotiated and signed off enterprise agreements have more bearing on rates and rate setting than annual CPI change.

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

Councils' costs are more closely aligned with the MAV's recently published Local Government Cost Index noting that other significant costs to a council are mandated such as biennial property valuation, Council elections, insurance costs, landfill levies to name a few.

*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?*

Councils are required to prepare a four year Strategic Resource Plan (SRP) in line with Section 126 of the Local Government Act 1989 (LGA).

With most Councils having a heavy reliance on rate income the level of rate income needs to be determined to enable long term plan development.

As stated, maintaining and developing infrastructure is in some cases carried out over periods of more than one year.

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

No. Historical trends in CPI movement have no bearing on the Council to develop an SRP similarly preceding rate changes of a municipality have no bearing on future increases.

The SRP development is based on forecast information and trends in expenditure and revenue.

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

Yes. Consistency across Councils must be implemented.

Alternate means to apply, receive and report for increases over the rate cap are required. (Refer 11, 12)

## 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?***

All rates and charges, excluding Special Rates and Charges, should be included under the cap.

Difficulty arises where councils do not apply separate service charges for services such as garbage, recycling and green waste service collection. This is further exacerbated by Council's who have full costs recovery garbage charges versus part cost recovery and opt in opt out services such as green waste.

Included within these services are landfill levy costs, which in a full cost recovery model, has seen dramatic increases in these costs over the past five years.

If any consideration is given to exclude a charge type from the rate capping model it relies on every Council applying that charge in the same manner e.g. full costs recovery for garbage services.

Consideration must also be given to the treatment of the Fire Services Property Levy (FSPL) and its annual adjustment.

Collection of the FSPL is done by Council on behalf of the State Government to fund fire services across the state.

Not dissimilar to Local governments, FSPL increases are required to cover increased costs driven by increased services to the community and negotiated enterprise bargaining agreements.

Any FSPL change outside of the rate cap will distort a rate bills bottom line and give false rate changes to ratepayers.

Clear reporting to property owners and community on rate changes to the FSPL need to be ran in conjunction with a Rate Capping introduction.

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

Total rates and charges raised ***after*** annualisation of supplementary valuations processed in a given year.

In a non-revaluation year, application of the rate cap against differential rates in the dollar and service charges. In a revaluation year, or where changes have been made to Councils rate structure, take into account the annual rate revenue including supplementary valuations.

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

Supplementary valuations should be annualized, added to the base revenue and rate capping applied. Budgeted supplementary rates should be excluded from the cap and a new rate revenue base established each year including the full year impact of the prior

year's supplementary adjustments.

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

Valuation and valuation movement following the biennial revaluation causes confusion in the current rate cycle when property owners compare previous bills to current rate changes.

Including the rate capping in a revaluation year will not provide clear comparison for owners to see the net effect of the rate cap.

With a biennial revaluation cycle property owners have one year where a simple calculation of the current and previous bill can demonstrate the rate change.

In a revaluation year, while the total revenue raised by Council has changed by proposed increases or cap, the distribution of the rate charges varies from property to property depending on their valuation movement, rate in the dollar adjustments, service charge amendments and the possible addition or removal of rate categories.

A change to a four yearly revaluation cycle, in line with SRP requirements, would possibly provide property owners with greater clarity in not only rate application but the impact of the rate cap.

A four yearly cycle also provides financial relief to Council, provides a longer lag time for valuation comparison, ensures the revaluation cycle can be completed to meet budget requirements under the LGA all while still providing updated valuation data through the supplementary valuation processes to the State Revenue Office.

**10. *What should the base year be?***

The base year should be 2015/2016 but with a rate capping introduction of 2017/2018 to provide clarity to property owners.

## **THE VARIATION PROCESS**

**11. *How should the variation process work?***

A simple, template submission form made available to Councils for completion.

Provision for supporting documentation such as Annual Budget, LTFP, Rating Strategy, SRP etc. to be used in the business case.

The timing of application and approval is imperative as approval/decline will impact on future budget decisions and would need to be actioned very early in the budget process.

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

Community has sought or is seeking change.

A thorough, demonstrated community consultation process has been undertaken

determining support for request.

Demonstrated growth in varying aspects of service delivery, addressing capital works expenditure based on asset renewal plans or maintaining service levels while striving for future innovation and efficiency gains.

- 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?*

Renewal of infrastructure assets and managing infrastructure renewal gaps.

Superannuation Defined Benefits call.

- 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 - Proof*

*there is a legitimate case for additional funds by the council – Business Case*

*the proposed increase in rates and charges is reasonable to meet the need - Affordability*

*the proposed increase in rates and charges fits into its longer term plan for funding and services – Community Growth/Needs*

*the council has made continuous efforts to keep costs down.- Efficiencies/savings*

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

Generally agree and must have documented, evidence based justification.

## **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 carried out in many forms across Councils and tends to be unique to the demographic set up of the municipality.

Suggestion may be to look at how the ESC currently consults on Water industry processes in regards to setting revenue levels. Would this process or similar sit within the Local Government realm?

## 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?*

Incentives received through shared service implementation.

Measured community needs and feedback through funded surveys.

## 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 timing should align with Councils SRP process feeding into annual budget process.

Community consultation is undertaken as part of the annual budget process and development/update of Council Plan. (Refer 18)

## 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?*

The introduction of rate capping should commence from the 2017/2018 financial year with a transitional 'rate cap' provided to Councils for 2016/2017.

A transition rate cap may be a proposed or indicative change from State Government and councils wishing to exceed the transition need to demonstrate to the community the need for higher increase.

Many Council's, if not all, have long term forecasts within their Budgets and all have four year SRP's. Providing an indicative 'rate cap' for 2016/17 allows long term forecasts to be amended and implemented, SRP's to be aligned and gives Councils a longer run in to the variation process in whatever form it may take.

This will give clear line of sight and stability to property owners as the rate cap will commence in a non-revaluation year and demonstrate Council application of same.

## 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?*

The Commissions assessment should be determinative.

## OTHER MATTERS

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

Yes. Reviewing the suitability of the index, monitoring the volume of applications received and granted and the timing of same along with the impact on a Councils service delivery and renewal gaps.

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

Costs should be borne by the State Government.

## 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; and*

*supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges*

The focus of the Rate cap should not be solely based on costs. For a resident or property owner to agree that a rate cap should apply is a simplistic view as most people when quizzed whether they would like their bills to be capped at x% increases are going to agree however the underlying ramifications of this message is not delivered.

Impacts on service and service delivery and how they are measured are imperative in the introduction and application of the Rate Cap and it is paramount that the State Government provide suitable and easily reported indicators for Councils to report to, not only theirs, but communities across the state.

Should yourself or a member of the ESC wish to discuss this matter further or require additional information the RMA would be happy to discuss and we look forward to the release of the draft report in July 2015.

I can be contacted via email [Petergh@brimbank.vic.gov.au](mailto:Petergh@brimbank.vic.gov.au) or by phone on 9249 4000.

Yours sincerely,



Peter Horne

**President – Revenue Management Association**