

Manningham City Council

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Dr Ron Ben-David  
Chairman  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
MELBOURNE VIC 3000

Dear Dr Ben-David

**Re: Draft Report – Local Government Rates Capping and  
Variation Framework Review**

I refer to the draft report *A Blue Print for Change Local Government Rates Capping & Variation Framework Review* released by the Essential Services Commission of Victoria (ESC) in July 2015.

Manningham acknowledges the extensive consultation process the ESC has engaged in with the local government sector in developing the draft report and welcomes the opportunity to provide further input into the framework.

Manningham's submission is based on the following key principles:

1. Removal of the efficiency factor

The introduction of a rate cap already has the effect of constraining rates revenue of local government. Application of an additional efficiency factor will place further challenges on local government to maintain the balance between providing community services and maintaining and improving council assets while at the same time operating within a strong financial sustainability framework.

The adoption of a CPI/WPI annual rates cap will, in itself, imposes constraint on council spending, driving both the finding of efficiencies and reviews of spending priorities and outlays.

The inclusion of an open ended efficiency factor on top of a rate cap is considered irrelevant given that the rate cap is already intended as the industry constraint in terms of both revenue and expenditure impact.

*Recommendation 1*

*That the efficiency factor not be imposed.*

2. Addressing the infrastructure spending backlog

The Victorian local government sector faces a significant asset renewal backlog. The renewal gap was recently identified at \$225 million (as at 2012) by the Victorian Auditor-General's Office.

The imposition of a rate cap that serves to do no more than restrict current levels of expenditure in line with inflationary pressures does nothing to provide councils with genuine scope to address the backlog of asset renewal, and worse may lead to a further increase in the gap.

*Recommendation 2*

*That a percentage (to be determined) be added to the proposed cap to provide tied funding to assist Councils address the extensive asset renewal backlog.*

3. Recognition of cost shifts from State Government

To date, Councils have been burdened with significant costs shifts from State Government. These cost shifts include under indexation of grants and statutory charges, increase in state charges beyond the cap, mandating of new service standards and impacts of new legislation. The report is silent on the ability of local government to increase rates beyond the cap to offset any future costs shifts passed on from other tiers of government.

*Recommendation 3*

*Manningham recommends that the framework incorporate an "as of right" increase beyond the cap to the extent of further clear cut cost shifts from government.*

*It is further recommended that as part of the introduction of a rate capping and variation framework, the State Government review and update statutory fees, fines and charges to reflect the movement in CPI over the preceding ten years.*

4. Potential defined benefits superannuation shortfalls

The Local Government Defined Benefits Superannuation Fund, unlike a similar State Government scheme, is required to be fully asset backed at 30 June each year. During the last 16 years, four "calls" have been made to members to top up an asset shortfall in the fund. The last call was made in 2011/12, when an asset shortfall of \$478 million (including contributions tax) was declared. Manningham City Council's share of the shortfall was \$7.96 million. The potential high value and unknown timing of a superannuation shortfall makes it difficult for local government to include in the budget. The majority of councils do not have sufficient reserves to pay unbudgeted superannuation shortfall contributions at short notice.

#### *Recommendation 4*

*That the framework be reviewed and incorporate an "as of right" increase beyond the cap to the extent necessary to provide the value of interest and principal repayments on a loan not exceeding the value of the superannuation call and not exceeding a period of ten years.*

#### 5. Timing of the variation process

The proposed timing of variation application outcomes makes it difficult for Council to meet its statutory obligations regarding budget adoption by 30 June.

Under current legislation Council is required to exhibit the draft budget and strategic resource plan for 28 days prior to adoption. Should a council apply for a variation, the proposed notification of the outcome from the ESC in May does not provide sufficient time to prepare a revised budget (if the outcome is not supported by the ESC), publicly advertise same, hear submissions and adopt by 30 June.

#### *Recommendation 5*

- *That the proposed timelines for variation application outcomes be brought forward to March to enable the budget adoption process to be finalized by 30 June; and*
- *That submission of variation applications be allowed earlier than the dates suggested in report (see table 5.1 of volume I). It is further suggested that variation applications should be able to be lodged for future years, thereby giving greater certainty to Council and the community on funding for specific initiatives.*

#### Conclusion

As detailed in our submission into the ESC Consultation Paper, Council is supportive of the principles that underpin the objectives of the framework review and takes seriously the onus placed on it to demonstrate that rates are set in line with services being provided to our community and in line with the long-term interests of our ratepayers.

The proposed rate capping framework will present local government with many challenges. A rate cap based on CPI/WPI alone will require local government to drive efficiencies, restrict spending and keep rate increases to a minimum. An efficiency factor imposed on top of that is unnecessary and onerous, and will ultimately act against the community's interest.

Council welcomes the opportunity for input and now seeks ESC consideration of the issues and recommendations raised in its submission. We would be pleased to discuss any aspect of our submission or provide any further information the ESC or the Government may require in its deliberations.

Yours sincerely



**JOE CARBONE**  
Chief Executive Officer