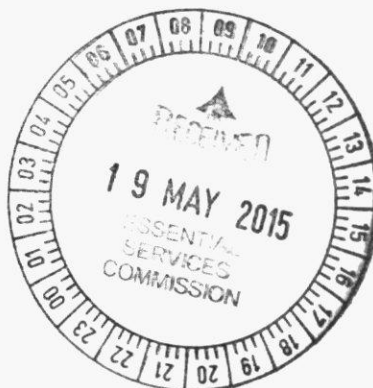




BULOKE
SHIRE COUNCIL

File No: GR/17/10

14 May 2015



Dr Ron Ben-David
Chairperson
Essential Services Commission
Local Government Rates Capping and Variation Framework Review
Level 37 – 2 Lonsdale Street
MELBOURNE VIC 3000

Dear Dr Ben-David

Re: Submission - Local Government Rates Capping and Variation Framework Review

Buloke Shire Council, at its Ordinary Meeting held 13 May 2015, considered and approved the attached submission to the Local Government Rates Capping and Variation Framework Consultation Paper.

A copy of this submission will be emailed to localgovernment@esc.vic.gov.au by 15 May 2015 as required.

Regards,

John Hicks
Chief Executive Officer

Encl.

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SUBMISSION TO THE LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK CONSULTATION PAPER

Introduction:

Buloke Shire Council's submission needs to be considered within the context of the general environment it operates within.

Small rural shires have major barriers to their capacity to provide basic services to their residents. A number of reports have demonstrated this in the past and small rural shires have responded positively by focusing on improving efficiencies, sharing services, innovative service provision and enhanced management. A great deal of progress has been made, and continues to be made, with many of these shires reaching high levels of efficiency but the problem remains.

The major barriers include communities with a capacity to pay typically half of the capacity of metropolitan communities and inherent costs that are typically 3.5 times per unit higher than those of metropolitan municipalities. These costs and lack of capacity arise from a range of factors outside the control of Council including:

- ❑ Lack of economies of scale
- ❑ Large distances and time required to deliver services.
- ❑ More people with lower incomes and other socio-economic factors.
- ❑ A higher proportion of aged people in the population.
- ❑ Lack of competition from service providers and suppliers.
- ❑ Difficulties in the recruitment of staff and skilled contractors.
- ❑ Frequent market failure resulting in premium prices for goods and services.
- ❑ Small population sizes and a consequent lack of capacity to pay for services.

When these matters are factored in, even with the typically higher grant revenues received by small rural shires, the financial circumstances of Buloke Shire are the worst in the State (*Whelan Model, 2013*). Many small rural shires are similarly hamstrung in the long term and cannot provide a decent level of services under the current financial arrangements.

Over the years the Shire has seen high levels of rate increase as these issues have continued to be addressed by increased calls on ratepayers to make up for these barriers to financial sustainability. It is doubtful that the previous rate of rate increase could be sustained by the Shire's population in any case.

These matters are addressed in the submission. A key matter that needs to be addressed by the ESC is the potential for rate capping to introduce yet another cost resulting in a further deterioration of services.

There comes a time when it becomes apparent the residents of these shires have been left with inferior services and poor community outcomes and liveability. The residents of these shires make a considerable contribution to the nation's GDP, as well as paying rates, income tax and GST in the same manner as their metropolitan colleagues but do not receive the minimum level of services. This is clearly inequitable.

This situation reflects poorly on the Victorian Local Government Sector, as the small rural municipalities created at amalgamation are not financially sustainable under the current funding models if they are to deliver a reasonable standard of services to their constituents.

General Comments:

Within the paper there is an inference that generally Councils lack discipline and have not vigorously pursued the efficient delivery of services. In actual fact, small rural shires have been keen advocates of innovation and continuous improvement for decades; principally arising from the discipline necessitated by their heavily disadvantaged financial circumstances and their role as a “price taker” of other levels of government.

Small rural shires have seen levels of funding continuously reduced or withdrawn and have been keen to continually become more efficient and cut their cloth accordingly. Compared to the discipline exerted by these continual reductions in real revenue, the rate cap is unlikely to be able to create any significant further efficiencies that would not have occurred in any case, no matter how well intentioned the rate cap might be.

Local governments are set up as separate entities and provide audited annual accounts as going concerns. They cannot continue to spend more than they receive. The level of rate increases in small rural shires has been too high but even this level of rate increase has not been sufficient to maintain a minimum set of service levels. The pressure of being able to provide these services generates discipline and efficiencies far more effectively than any rate cap will.

There is very little benefit that small rural shires will receive from the operation of a rate cap that would not have occurred in any case. There are, however, significant costs and these will see a reduction in services.

Council would also like to have the following matters taken into account:

- ☒ The paper notes the constrained financial environment for Councils but does not appear to mention two key elements:
 - o The loss of the Country Roads and Bridges fund. This was a key flexible funding source for small rural shires and its loss alone is equivalent to 10% of Buloke Shire’s annual rate revenue p.a. In comparison, the freezing of FAGS is equivalent to a loss of 2% of rate revenue p.a.
 - o The gradual reduction over time of the proportion of the overall tax take provided to Local Government. Over the past 20 years this has halved. This is a key driver of the need for Council rates to increase. The other key driver being the shifting of costs to local government from other levels of government.
- ☒ Rate capping will interfere with communities’ decisions in regard to priorities, resource allocation and service delivery. At the current time small rural communities do not receive basic needed services even with rate increases. The imposition of a cap will see further reductions to services.
- ☒ Rate capping will involve an extra cost, both for submissions and for the actual ESC mechanism involved. Given the process provides no benefits that do not already occur, this will see a further loss of resources and, therefore of service provision, for the residents of small rural shires.

- ☐ In Principle 4 the case for above cap increases should also include the provision of basic services that are not currently being provided.

Response to the Specific Questions contained in the Paper:

In regard to the questions raised in the paper the following comments are made:

A. 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?***

The Local Government Cost Index would be a more accurate and appropriate measure. The CPI is not linked to costs in the sector.

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

See 1.

- 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 already required by the Local Government Act to provide planned rates for years 2, 3 and 4 in line with their four-year Strategic Resource Plan (SRP). The SRP is provided to the Minister each year.

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

The cap should be based on forecasts of the cost index as this will be used for the SRP.

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

Multiple caps could apply to different types of Council, e.g. small rural shires.

B. 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?***

The cap should only apply to rates revenue and municipal charges.

Garbage charges are cost neutral (full cost recovery) to Council and reflect the requirements of the EPA and government policy in relation to demands for recycling and greater requirements in relation to disposal of waste. The majority of these costs are outside the control of Councils and have increased at a much higher rate than CPI; reflecting government policy and charges.

Garbage and other fees and charges should be market based and not included within the cap.

Special charges are negotiated with a segment of the community and should be excluded.

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

The cap should apply to total revenue arising from rates revenue and municipal charges.

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

No Response.

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

Revaluation does not affect the amount of rates collected.

10. What should the base year be?

The base year should be the year 2015/16 which is the year immediately prior to the introduction of rate capping, and the base rate figure should be the actual amount of rates collected and not the budgeted amount. So this may need to be a forecast figure at a specific point in time.

C. THE VARIATION PROCESS

11. How should the variation process work?

The variation process should provide for a simple application by Council outlining the reasons for the proposed rate increase based on the SRP. Given the few benefits and the costs that will accrue to small rural shires from the process, the least resource intensive process possible is critical.

ESC should prepare and provide a template submission for use by the sector in order to reduce duplication of effort and bureaucracy.

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

No Response

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?

Other circumstances include the provision of basic services not currently being provided, the diseconomies occurring for small rural shires with diminishing populations and addressing the infrastructure gap.

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.

This should be the maximum set of requirements.

D. COMMUNITY ENGAGEMENT

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

No Response

E. 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?

Efficiencies will not be driven by this process. Far greater incentives already exist in the system.

F. 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 Council's applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with Council's budget processes. We are interested in stakeholders' views on how this can be achieved.

Council must adopt a draft budget for consultation in May to allow the adoption of the final budget by the end of June. Approval of variations will need to be provided by the end of Feb, leaving March and April for budget preparation and adjustments, May for Consultation, June for the standard ratepayer submissions process before approval by 30 June. It will be critical to have a quick approval process because the forecast outcomes for the previous year will be needed prior to the setting of a proposed rate increase. Thus the earliest a proposed rate increase could be set would be February and an approval will be needed prior to March.

G. 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?

No Response

H. 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 ESC should be determinative so as to remove any potential for political interference.

I. OTHER MATTERS

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

This will be critical.

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

The Victorian State Government should bear all costs to prevent further loss of services by the residents of small rural shires.
