

OUR REF: KP:TT
YOUR REF:



15 May 2015

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

Sent via email: localgovernment@esc.vic.gov.au

Dear Sir

Re: Review of Local Government Rates Capping and Variation Framework

Thank you for the opportunity for Glenelg Shire Council to provide feedback to the Local Government Rates Capping and Variation Framework.

Summarised below are Council's responses.

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?

Historical evidence would suggest that rate capping in other states has been unsuccessful particularly in relation to financial debt and/or loss of services and deterioration of assets. The capping during the 1990s in Victoria resulted in councils deferring spending on capital programs such as roads maintenance and renewal, parks and footpaths - as a result of under-maintained infrastructure ratepayers of future generations were negatively impacted.

Another consideration is the impact on council resources to implement processes and systems associated with the framework. For example, changes to existing technology - rating/property IT systems.

2. 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?

Indicative capping is unlikely to be beneficial to the community or council for the reasons outlined below:

- (a) Indicative capping and 'lack of certainty' may negatively affect community confidence in Council's strategic planning.

Ratepayers have complained about the lack of transparency and accountability in relation to setting rates, indicative capping may add to their concerns.

- (b) Councils will need a framework that is consistent to enable effective financial planning – indicative capping would be a risk to this process.

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

CPI for the current year (based on All Groups CPI) is low in comparison to previous financial years - 2011 onward. CPI should be based on historical movements.

4. Should the single cap apply equally to all councils?

A single cap would not meet the needs of all councils. The framework should be reflective of the differences between metropolitan and rural councils: metropolitan with its higher population and greater sources of revenue; rural with its road infrastructure maintenance and asset management.

It is a recommendation of this paper that the cap for rural councils is higher than its metropolitan counterpart and therefore, reflective of the diversity in which it operates.

The Base to which the Cap applies

5. What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?

It is a recommendation of this paper that the cap should apply to all rates revenue, service charges and municipal charges. The base cap should be the total rates raised for the year plus supplementaries.

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

It is a recommendation of this paper that the cap should apply to total revenue.

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

It is a recommendation of this paper that supplementaries throughout the year should not be included in the capping of rates.

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

The main challenge arising from the re-valuation of properties is the valuation movements from revaluation to revaluation.

9. What should the base year be?

It is recommended that the base year be 2015-16.

The Variation Process

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

This paper recommends the following circumstances for which councils should be able to seek a variation:

- (a) Superannuation;
- (b) Council debt;
- (c) Major community projects;
- (d) Natural disasters; and
- (e) Unexpected emergency response e.g. to account for counter terrorism incident.

11. 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?

Nil identified.

12. 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 legitimate cause 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.

Per above.

Community Engagement

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

This paper recommends regular community engagement prior to commencement and during the initial phase to ensure the process is consultative. Written information could be made available through council customer service centres (via a display), the council website, Facebook and via local media. It is recommended that consideration be given to using the State Government Fire Service Property Levy advertising campaign as a benchmark - the campaign was informative, capturing a wide audience.

Incentives

14. 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 minimized?

It is a recommendation of this paper that a thorough risk analysis is undertaken.

Transitional Arrangements

15. 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 smooth transition?

It is anticipated that there will be a number of challenges in the transition period:

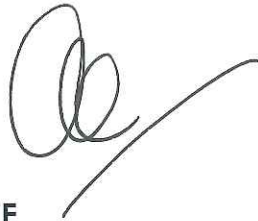
- (a) Council rating/property systems will require software changes and updates to allow for rate capping. For example, the Property Gov. system cannot apply capping on an assessment where the rating category has changed half way through the year - the system is unable to apply capping to additional garbage services half way through the year.
- (b) Staff training and development – ensuring staff are well informed and effectively providing up to date advice to the community as well as operating new software systems efficiently.
- (c) Some projects will not be completed within the financial year. Multi year projects may not be able to be completed in a rate capping scenario.

Other Matters

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

This report is supportive of the framework being reviewed in 3 years to assess its effectiveness.

Yours faithfully

A handwritten signature in black ink, consisting of a large, stylized 'G' followed by a long, sweeping horizontal line that extends to the right.

GREG BURGOYNE

Chief Executive Officer