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5 May 2015

Local Government Rates Capping and Variation Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE 3000



Dear Sir/Madam

SUBMISSION TO THE LOCAL GOVERNMENT – RATES CAPPING & VARIATION FRAMEWORK
– CONSULTATION PAPER – APRIL 2015

Horsham Rural City Council (HRCC) has considered the Consultation Paper prepared by the commission and provides responses to many of the 22 questions posed.

As an overall general comment HRCC has 4 key points that it wishes to highlight:

1. CPI may not be the most appropriate index to use.
2. Defining the exact way in which the base is calculated is important to ensure that there is no ambiguity in what this should or should not be.
3. One of the largest cost pressures for Council is cost shifting from other tiers of government with cuts to funding and also charges from other tiers of government increasing above CPI ie Environmental Protection Agency fees for landfills, Audit costs re new Performance Reporting Requirements etc. These must also be maintained and contained.
4. Funding for Infrastructure Renewal is a problem for all levels of Government but additional rate increases have been utilised by HRCC over many years as a way to be pro-active in addressing this issue and this opportunity needs to continue to be available.

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?*

See response in point 2 below.

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

Serious consideration should be given to adopting the Local Government Cost Index as the relevant measure for the Local Government Sector.

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?*

We suggest caps should be indicative years 2, 3 and 4 as in line with the four year strategic resource plan established by Councils as part of their budgeting process.

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

The cap should be based on historical movements of the cost index as this can be fairly established.

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

A single cap should apply equally to all Councils to allow the community to clearly understand what is being proposed.

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 clearly not influenced by CPI as much as by the requirements of the EPA and government policy in relation to demands for recycling and greater requirements in relation to disposal of waste.

Garbage and other fees and charges should be market tested/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?*

Supplementary rates should not be covered by the rates cap as these rates are collected on new properties. Supplementary rates vary from Council to Council and provide a means of funding additional services and are required as the ratable properties increase.

Supplementary rates however should not be excluded from the calculation of the prior year's base figure on which the cap is applied.

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

We cannot envisage any challenges in relation to revaluations. This is an issue of rate capping, revaluations only serve to provide a basis for establishing the amount of rates paid by each property, not the total rates collected by the Council.

10. *What should the base year be?*

The base year should clearly 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 budget. So this may need to be a forecast figure at a specific point in time, based on known supplementary rates.

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 and demonstrating the purpose to which will be put in the long term and supported by the four year strategic resource plan which outlines the future year rate increases proposed.

ESC should prepare and provide a template submission for use by the sector in order to reduce duplication of effort and bureaucracy. Consideration should be given to an exemption that is based on a 4 year SRP not an annual budget process

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

Nil 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?*

Closing of critical infrastructure gaps should also be included as stated in your Principle No.4. Some small Councils with declining population bases have increasing costs associated with diminishing economies of scale and this may also need to be a consideration.

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.

Submissions should consider:

- The Council has a robust 10 year Long Term Financial Plan and 4 year Strategic Resourcing Plan in place;
- The Council has a clear plan to bring rating increases back in line with appropriate levels within a reasonable timeframe;
- The Council can demonstrate clear and transparent communication and consultation with their community in the development of their annual budget and/or 4 year SRP;
- AND : The Council is subject to extraordinary financial drivers that are outside of their control which may include such factors as :
 - Implications of State or Federal Government policy changes;
 - Recovery from emergency or other disaster;
 - Legacy asset management concerns;
 - Shifts in global money markets affecting superannuation calls or other linked investments.
 - Declining populations and economics.
- OR, where rate increases are in direct relationship to increased service provision (e.g. the introduction of a new Green Waste Service) the Council can demonstrate community consultation and preparedness to pay.

C. COMMUNITY ENGAGEMENT

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

Nil response

D. 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?*

Nil response

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 its budget by 30 June so any variations will need to be approved well before that date to allow for S.223 consultation processes to take place. So approval of variations will be needed by say the end of Feb, leaving March & April for budget preparation and adjustments, May for Consultation, June to listen to ratepayers submissions before approval by 30 June. Submission may not occur until Jan so it will be critical to have a quick turn around in the process or the 30 June budget date will need to be move which is a retrograde step.

E. 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?*

We don't see the need for any transitional arrangements.

F. 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.

G. OTHER MATTERS

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

Yes.

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

The Victorian State Government should bear all the costs of administering the ongoing

H. 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*
- *supporting information on the major cost pressures faced by Councils that are beyond their control and the impact on Council rates and charges.*

Principle 1 - should also reference population decline.

Principle 2 – is a good principle, however, in practice it is very difficult for an individual ratepayer to assess Council as a shift in their rates can be a result of changes in rating policy/ strategy and valuation and not just because of any increase in the rates.

The State Government should also undertake to increase funding to Councils by CPI and not increase any of their charges by more than CPI.

Yours faithfully



PETER BROWN
Chief Executive