HUME CITY COUNCIL

SUBMISSION TO THE

Essential Services Commission

Local Government – Rates Capping & Variation Framework

Draft Report

24 August 2015

Implementation of framework
Council would like to advise the ESC that due to the State Government's Sunbury Project that commenced in January 2012 and is still ongoing, that it will be seeking an exemption for two-years from the commencement period of the framework (see current project information at [**http://www.delwp.vic.gov.au/about-us/regions-and-locations/transition-auditors-to-guide-sunbury-council-proposal**]).

This request is due to the resourcing constrains and uncertainty that the Sunbury Project has placed on Council to undertake Service Planning that would ultimately allow Council to have meaningful engagement and consultation with its community on service delivery provision and levels. Due to the uncertainty of the outcome of the Sunbury Project this work has had to be delayed and as a result Council has been disadvantaged compared with other Councils. Service Planning has been promoted by both the MAV (Step program) and IPWEA as a means to identifying asset renewal needs and service levels.

Further, the Sunbury Project Transition Auditors have published fact sheets (attached) to demonstrate the level of Rate increases required under two options: 1) Hume City Council and 2) Hume without Sunbury and Sunbury City Council. These projected rate increases have been reviewed by Deloitte for the State Government.

Recommendation	**Comments**
CAP	
1. The Commission recommends that there should be one rate cap that applies equally to all councils in Victoria	**This recommendation is supported.**
2. The Commission recommends that: • revenue from general rates and municipal charges should be subject to the rate cap • revenue from special rates and charges, 'revenue in lieu of rates' and the fire services levy should not be included in the rate cap; and • service rates and charges should not be included in the rate cap, but be monitored and benchmarked	**This recommendation is supported.**
3. The Commission recommends that the cap should be applied to the rates and charges paid by the average ratepayer. This is calculated by dividing a council's total revenue required from rates in a given year by the number of rateable properties in that council area at the start of the rate year.	**This recommendation is <u>not</u> supported.** The calculation of rates and charges paid by the average ratepayer will be calculated twice (excluding service charges and including service charges) and could create a level of confusion. The 'average ratepayer' approach will require a change to Section 185B of the Local Government Act 1989, prior to 1 December 2015.
4. The Commission recommends that the annual rate cap should be calculated as: Annual Rate Cap = (0.6 x increase in CPI) + (0.4 x increase in WPI) - (efficiency factor) With: CPI = DTF's forecast published in December each year WPI = DTF's forecast published in December each year The efficiency factor will initially be set at zero in 2016-17 but increasing by 0.05 percentage points each year from 2017-18. The Commission will undertake a detailed productivity analysis of the sector to assess the appropriate long-term rate for the efficiency factor.	**This recommendation is <u>partly</u> supported.** Council agrees with the approach of a weighted Cap, the weightings used and the DTF forecasts. Council does not agree with arbitrary efficiency factor being applied without the ESC undertaking the productivity analysis of the sector first.
5. The Commission recommends that the 2015-16 rates (general rates and municipal charges) levied on an average property should be adopted as the starting base for 2016-17.	**This recommendation is <u>not</u> supported.** Council reiterates that the autonomy of Councils is preserved to the end of the current Council term. The framework will impact on financial sustainability of all Councils as service commitments and contracts are in existence prior

	to the commencement of the framework (and the ALP Policy announcement in May 2014) that will not be completed prior to 2017/18. Council therefore recommends that the framework commence in 2017/18.
VARIATION	
6. The Commission recommends that the framework should not specify individual events that would qualify for a variation. The discretion to apply for a variation should remain with councils.	**This recommendation is <u>not</u> supported.** A Defined Benefits Superannuation shortfall call should be automatically provided as a variation. This is due to the magnitude and consequence for Councils has previously been large and easily quantified both at a sector and individual Council level. Further, Councils have no control over the outcomes of a closed legacy superannuation fund as well as the difficulty in addressing dot points (requirements) two to four of the five points in recommendation 7. Consideration also should be given to Councils that have sought and received multiple-year variation approvals, post 2017/18, to being able to lodge a further variation as a result of a shortfall call.
7. The Commission recommends that the following five matters be addressed in each application for a variation: • The reason a variation from the cap is required • The application takes account of ratepayers' and communities' views • The variation represents good value-for-money and is an efficient response to the budgeting need • Service priorities and funding options have been considered • The proposal is integrated into the council's long-term strategy.	**This recommendation is supported.** This support is on the basis that a Defined Benefit Super fund call is excluded from the requirements of this recommendation (as per the comment above).
8. The Commission recommends that in 2016-17, variations for only one year be permitted. Thereafter, councils should be permitted to submit and the Commission approve, variations of the length set out below. First year of variation / Length of permissible variation **2016-17** One year (i.e. 2016-17 only) **2017-18** Up to two years (i.e. 2017-18 only or 2017-18 and 2018-19) **2018-19** Up to three years (i.e. up to 30	**This recommendation is supported.**

June 2021) **2019-20 and beyond** Up to four years (i.e. up to 30 June 2023)	
9. The Commission recommends that it should be the decision-maker under the framework, but only be empowered to accept or reject (and not to vary) an application for variation.	**This recommendation is <u>not</u> supported.** Council does not support an all or nothing assessment approach to variation applications as such an approach may be legally vulnerable – as Administrative Law principles require real and proper consideration to the application rather than acceptance or rejection.
MONITORING	
10. The Commission recommends that it monitors and publishes an annual rates report on councils' adherence to the cap and any approved variation conditions.	**This recommendation is supported.**
11. The Commission recommends that it monitor and publish an annual monitoring report on the overall outcomes for ratepayers and communities.	**This recommendation is supported.**
MATTERS FOR FURTHER CONSIDERATION	
The Commission recommends that the Government consider making a formal review of the rates capping and variation framework a statutory obligation. The review should draw on any data and trends identified through the ongoing monitoring regime and all interested parties should have an opportunity for the sector to provide input to that review. The Commission considers a review period of 4 years to be appropriate.	**This recommendation is supported.**
The Commission recommends that the Government consider amending the Local Government Act 1989 to require that service rates and charges must reflect the efficient costs of providing the underlying service.	**This recommendation is supported.**
The Commission recommends that the Government consider initiating a periodic review to ensure that statutory fees continue to reflect councils' efficient cost of providing statutory services.	**This recommendation is <u>partly</u> supported.** This recommendation should go further than for the Government to "consider initiating" a periodic review. It should be tied to the principles of the Victorian State-Local Government Agreement (although it is recognised that this agreement is non- binding).

IMPLEMENTING THE FRAMEWORK

Should the framework commence in 2016/17, it is understood that the proposed timelines for the 2016/17 rating year (Table 5.1 of Volume 1) have been based on the need to create the Framework and these timelines are understood.

However, Council would recommend that the date for the ESC to notify Councils of Variation application decisions be no later than **15 April from the 2017/18 rating year**. As a result, Council does not support the idea of a later adoption of an Annual Budget to August (although this is acknowledged as being currently provided for within the Act) as this is not best practice to be incurring expenditure, including entering contracts, and delivering services and programs from 1 July without an approved Budget.

Council suggests that this date could be achieved by Councils undertaking the necessary engagement and consultation during July to December each year, utilising the updated Cap forecasts provided by the ESC in May each year.

Following being notified in December of the Cap for the future years, Council would then determine if it will submit a Variation application through formal Council adoption by no later than 15 February in each year.

This provides the ESC with two months to assess and communicate the outcome of the variation application.

The cross subsidy

Under Hume City Council's proposed budget, the council will collect $12.6M in what is described as "rates in lieu" from Melbourne Airport in 2015-16. This is money paid by the Airport to the council under an agreement negotiated between the parties. The current agreement has a ten year term which expires in two years.

The Order in Council dated 14 April 2015 provides for Hume City Council to deliver for the first ten years following the Sunbury separation a cross subsidy to the new Sunbury council of the lesser of:

- $2.47 million; or
- 23.6% of these "rates in lieu"

This would be payable from 2016-17 to 2025-26.

The impact of the separation on rates in the City of Hume without Sunbury

With the cross subsidy

Modelling undertaken by CT Management in 2014 indicated that rates in Hume City Council following the establishment of the new Sunbury council would increase by an annual rate of 6.5% for the first three years, 5.5% in year four, followed by a decrease to approximately 5% annually from year five to year ten. This gradual reduction in rate increases is due to the decline in the value of the cross subsidy over time attributed to the cap of $2.47 million set out in the Order in Council.[1]

This contrasts with the forecast annual rate increase of 5.3% set out in Hume City Council's Forward Plan.

Without the cross subsidy

Further analysis by Deloitte Access Economics in 2015 concluded that without the cross subsidy in place, rates in Hume would be similar to those with the cross subsidy but rate increases would be slightly lower.[2]

Rate Increase	2016-17	2017-18	2018-19	2019-20	2020-21
Hume City Council – no change	5.3%	5.3%	5.3%	5.3%	5.3%
Hume without Sunbury – with cross subsidy	6.5%	6.5%	6.5%	5.5%	5%
Hume without Sunbury – without cross subsidy	4%	6.5%	6.5%	5.5%	5%

**A table setting out the estimated annual rate increases to 2026 is attached.*

Note: The potential impact of the Victorian Government's Fair Go Rates System has not been taken into account.

Impact on rates payable

Based on the percentage increases set out in the table above and an average residential property valuation of $336,150 for the City of Hume (excluding Sunbury) provided by Hume City Council, the rates payable in Hume following separation will increase by approximately $18 in the first year with the cross subsidy, or decrease by $19 without the cross subsidy.

Average Rates Payable In Hume City Council	2016-17	2017-18	2018-19	2019-20	2020-21
Hume – no change	$1,574	$1,658	$1,746	$1,838	$1,936
Hume City Council – with cross subsidy	$1,592	$1,696	$1,806	$1,905	$2,001
Hume without Sunbury – without cross subsidy	$1,555	$1,656	$1,764	$1,861	$1,954

**A table setting out the average residential rates payable in Sunbury to 2026 is attached.*

The Fair Go Rates System

In January 2015, the Minister for Local Government announced the Fair Go Rates System would commence from the 2016-17 financial year. The government has commissioned the Essential Services Commission (ESC) to develop the Fair Go Rates System and be responsible for assessing any proposed rate increase above the set inflation rate.

While the impact this will have on Hume City Council is uncertain, rate increases will be capped from 2016-17 and any proposed rate increase above the cap will be subject to a review by the ESC. The outcome of this process cannot be determined at this time.

All reports referred to in this information sheet are available at www.sunburyhumetransition.vic.gov.au

1 Source: CT Management Group, 2014, *Financial Analysis: Sunbury out of Hume Options 5 and 6*, Department of Transport, Planning and Local Infrastructure, Melbourne.

2 Source: Deloitte Access Economics, June 2015, *Sunbury out of Hume*, Department of Environment, Land, Water and Planning, Melbourne.

Impact on Rates in Hume (without Sunbury)

Annual Rate Increases	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Rate increase - no separation (a) *	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Rate increase - separation, with cross-subsidy for 10 years (b) *	5.3%	6.5%	6.5%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Rate increase - separation, no cross-subsidy (b) *	5.3%	4.0%	6.5%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

(a) Forecast annual rate increases extrapolated from Hume City Council 2014-17 Strategic Resource Plan

(b) Deloitte Access Economics, June 2015, *Sunbury out of Hume,* DELWP, Melbourne, p. vi

* Potential impact of the Victorian Government's Fair Go Rate System not taken into account

Average Residential Rates #	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Average residential rates - no separation (a) *	$1,495	$1,574	$1,658	$1,746	$1,838	$1,936	$2,038	$2,146	$2,260	$2,380	$2,506	$2,639
Average residential rates - separation, with cross-subsidy for 10 years (b) *	$1,495	$1,592	$1,696	$1,806	$1,905	$2,001	$2,101	$2,206	$2,316	$2,432	$2,553	$2,681
Average residential rates - separation, no cross-subsidy (b) *	$1,495	$1,555	$1,656	$1,764	$1,861	$1,954	$2,051	$2,154	$2,262	$2,375	$2,494	$2,618

\# Based on an average residential property valuation of $336,150 for HWS (provided by Hume City Council) and assumes no optional waste services are taken

(a) Forecast annual rate increases extrapolated from Hume City Council 2014-17 Strategic Resource Plan

(b) Annual rate increases derived from Deloitte Access Economics, June 2015, *Sunbury out of Hume*, DELWP, Melbourne, p. vi

* Potential impact of the Victorian Government's Fair Go Rate System not taken into account