

AUSTRALIAN SERVICES UNION

SUBMISSION TO THE LOCAL GOVERNMENT: RATES CAPPING & VARIATION FRAMEWORK CONSULTATION PAPER



A·S·U

Australian Services Union

**Victorian and Tasmanian
Authorities & Services Branch**

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ABOUT THE AUSTRALIAN SERVICES UNION

The Australian Services Union – Victorian and Tasmanian Authorities and Services Branch (hereafter ASU) is the local government union in Victorian and Tasmania. The ASU, via its predecessor unions the Municipal Employees Union and Municipal Officers Association, has been representing local government employees since 1885.

Our members roles are varied and include work in administration, childcare, garbage collection and recycling, garden maintenance, home care and road work and as Engineers, Librarians and Truck Drivers to name but a few.

ASU members are active and strongly committed to protecting and improving their workplace rights. This work aims at winning decent enterprise agreements containing above average pay increases as well as protecting existing jobs and conditions. This is achieved through an active representative structure and a strong consultative presence at the workplace.

This union belongs to our members. People join the ASU to have a voice in their workplace and use this voice together with other members to meet not only their workplace needs but those across the wider community.

Members are encouraged to become actively involved in their Union and work closely with their delegates and organisers as workplace representatives.

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1. INTRODUCTION

First the ASU would like to express its disappointment the Essential Services Commission (ESC) hasn't consulted with the ASU prior to the release of the consultation paper, despite the ASU being the major union with coverage over local government employees and the ESC being required under the terms of reference to consult unions. The ASU is a key stakeholder in local government, whether the ESC likes this or not. Hopefully, and with this submission being the first step, the ESC corrects its error and begins meaningful dialog with the union covering local government employees (which harbours deep concerns about rate capping if left unaddressed will see job losses and cuts to services) as it seems to have already consulted to a large extent with councils, their peak bodies and even the representative bodies of local government managers.

To say rate capping has caused tremendous anxiety among the local government sector, and its workforce, is an accurate description. No sooner has local government recovered from the shocks induced during the Kennett years and its destructive policies in local government - which included a draconian rate cap - than it is faced with the double blow of Commonwealth government cuts to Federal Assistance Grants and a further blow in the shape of the Andrews government's rate cap policy. Despite the opportunistic claims of the state government and interest groups hostile to certain councils, there is no clamour for a rate cap. The sector did not ask for it. Nor did serious stakeholders involved in local government. And despite the flimsy popularity of the policy within the context of a 24 hour media cycle during an election year, the public was not demanding one. This raises the question: do we even need a rate cap?

It is a fact that rates pay for services. Unfortunately this truism appears to have been lost in the rush to enact this populist, though ill-conceived, policy. Of further cause for concern is the ESC discussion paper failing to consider in any way the impact a rate cap will have on the local government workforce and the repercussions for the services these individuals provide. Clearly the improvement and expansion of services is not the chief factor behind the rate cap policy.

This submission will argue why a rate cap is bad policy. It will also demonstrate how some of the assumptions and suggested policy prescriptions in the ESC discussion paper will have a deleterious impact on local government, its workforce and the services provided by that very workforce.

2. ASU POSITION

The ASU opposes any form of rate capping. The ASU believes local communities must have the autonomy to make decisions in their best interest, without interference from other tiers of government. Only local Councils, working with their communities, have the knowledge to respond to local needs.

This system is underpinned by local democracy and accountability. It is up to democratically elected councillors and senior management, having ascertained community need via their rolling consultation processes, to prioritise these needs and devise revenue measures so as to enable Council to deliver on community expectations. In the event revenue measures (not just rate increases, but also user fees, charges etc) exceed CPI, council needs to justify its move to the community, not the state government or its agencies.

Under the current legislative framework there is ample opportunity for Councils to justify their expenditure to their communities. Consultation on annual budgets is compulsory under the *Local Government Act 1989* and its associated regulations. Further, Councillors need to articulate to the community why they believe rate increases are justified – or face defeat at the next election. This is the basic democratic principle that underpins local government.

Yet the state government's rate cap fundamentally disturbs this arrangement. Far from making Councils and their elected councillors more accountable to their communities, all rate capping will succeed in doing it remove a key responsibility from the shoulders of Councillors and place it in the hands of the ESC, which has no real understanding of local government, and by extension the state government. Nor will communities have a means of holding the ESC accountable when it makes the wrong decision. Immediately following the Commission making the wrong call, ratepayers will be treated to a display of blame shifting commonly seen in our nation's federal-state relationship; for when Councils fail to provide the things needed by their community due to the revenue constraints imposed by the state government, finger pointing and excuse making will ensue.

Under such circumstances the community will rightly ask 'who is accountable?': the Council that wants to increase services, but can't due to constraints imposed by the state government? Or the state government who've capped revenue yet expect Councils to provide services and infrastructure as if nothing had changed? Or the ESC who have been given formal power to set a rate cap? Under these scenarios, communities will be left more confused as to who shoulders ultimate responsibility. Far from subjecting Councils to greater transparency the rate cap system will only obfuscate decision making, allowing Councils to absolve themselves of responsibility for their own decisions.



3. OVERVIEW OF HOW COUNCILS ARE RESPONDING TO RATE CAPPING

Already the policy has exacted a toll on jobs and services. In its discussion paper the ESC may describe these occurrences as ‘unintended consequences.’ But there is nothing unintended about them for they are a logical outcome of efforts to strangle Council revenue streams. Job losses and cuts to services in anticipation of a rate cap are a reality. It cannot be ignored nor disentangled from its cause, rate capping, and attributed to other reasons.

Victoria has its examples. Baw Baw Council is one example.¹ We also witnessed a recent near-miss at Bendigo Council – only after a prolonged community backlash. Frankston Council has outlined the toll externally imposed financial constraints – rate capping combined with state-federal ‘cost shifting’ – will have on its ability to provide services while pointing out the relatively small savings to individual rate payers, estimated at only \$70 per year, a rate cap will deliver.² The ASU is aware of a plethora of other Councils who have currently placed in train processes to review service delivery under rate capping.

Councils have been forewarned about the new, CPI constrained reality they face as of next year. This reality means the days of being able to raise revenue freely are over. That being the case, processes are commenced to find answers to questions such as ‘which services do we cut or abandon completely?’ or ‘how many staff do we let go?’ For many Councils such questions, as odious as they are, are unavoidable. As of next year the money simply isn’t going to be there to provide the same level of service.

And while Councils struggle to make do, rate capping will deliver negligible savings to households. For the mere saving of \$70 per annum or \$1.34 per week, ratepayers will have to endure cuts to services they’ve grown accustomed to receiving. In future ratepayers will find the savings simply do not outweigh the cuts – cuts to services; cuts to jobs; cuts to infrastructure.

With the state’s population projected to grow, demand for services will also swell. Yet Councils won’t be able to respond to demand because they are not free to levy revenue measures to deliver the full suite of services their community demands. Certainly the state and federal government aren’t prepared to contribute and fund any revenue shortfalls to entice Councils to retain services. A funding ‘black hole’ then emerges – a foretaste of things to come no matter how perfect the government believe the system will become.

Some quarters have argued that since rate capping hasn’t yet been introduced, those Councils looking to exit services or cut jobs on the pretext of rate capping are misleading their community. The true cause, so the argument goes, can be located elsewhere – just don’t blame rate capping.

It is folly to argue that since the rate cap has yet to be instituted that it cannot be blamed for cuts to jobs and services. How can any serious observer of this issue believe that Councils will not position themselves NOW for a revenue constrained future as has been articulated by the state government? Jobs lost now and services cut now are done so because Council has reached a decision that it cannot sustain such things if it cannot raise revenue to fund them. Keeping in mind the losses sustained due to Federal Assistance Grants cuts, rate capping becomes a major factor in Councils’ decision to quit some services.

Finally rate capping is all the more disappointing since the present state government won power on a job creation platform. Rate capping will have a toll on jobs, that much is already obvious. How the government responds to ensure its policy does not lead to devastation for local government jobs only time will tell.

¹ See Appendix A

² See Appendix B

4. KEY ISSUES

4.1 *Undermines ability of Councils to provide services and infrastructure and leads to job losses*

It is disappointing in the extreme that the ESC discussion paper failed to solicit any views on what impact a rate cap will have on the local government workforce. This omission is conspicuous by its absence and can only mean a rate cap will be a disaster for local government workers. It also demonstrates the ESC's lack of expertise on matters affecting local government as most Council services are provided by staff 'face to face', with human operated automated services being a relatively small though essential component of local government services. A rate cap will have an effect on services and the staff that provide them, and the following discussion will explain how.

From the outset we must state that a rate cap will have a deleterious impact on the provision of services. In the words of academics Brian Dollery and Albert Wijeweera writing for NSW which employs a rate cap called a 'rate peg', 'if the net effect of rate-pegging has indeed been to constrain total council income, then it follows that it must have limited local services as well.'³ Similarly the Victorian proposal to cap rates is designed to constrain Council income. There is no reason to believe the outcome for service delivery in Victoria will be any different from the outcome encountered in NSW.

The ASU understands that staff costs alone constitute somewhere in the range of 50% to 60% of council expenditure. The remainder is made up of operational costs associated with services – for example building/construction materials, equipment and other operational costs. These costs – wages and operational expenses – as a percentage of a Council's expenditure budget fluctuate at different rates from Council to Council. The reason for this is largely due to a Council's level of service delivery and the service delivery model it chooses to adopt. Staff costs are largely governed by bargained outcomes contained in a Council's enterprise agreement, while operational expenses are subject to different factors – these include building materials; construction costs; landfill fees are also subject to external pressures such as state government fees and even federally imposed climate change abatement costs.

Councils have been vocal in articulating the fact their costs do not rise with CPI. For all intents and purposes CPI is an irrelevant measure when it comes to tracking Council costs. Aside from the

foregoing observations the ASU will not add to what Councils already have said about the relevance of CPI to their cost pressures.

Thus local government faces having its revenue streams contained to CPI, though Council costs do not move in line with CPI. What are the consequences for services and the staff that provide them of their employer being prevented from generating sufficient revenue to pay wages and meet operational costs?

Councils have few options. Under one scenario, they can cut back on the services and/or allow asset renewals to run down, exacerbating the already sizable asset-renewal backlog. Under this scenario, jobs will be lost and members of the community will be denied access to some services as some form of waiting list will be required and priorities on access will need to be set. Far from aiding the community to meet cost of living pressures, this outcome will mean rate payers will need to look elsewhere for services, and face a cost premium to receive it. And in relation to asset renewals, the community will simply have to tolerate crumbling infrastructure until such time as Council deals with the problem, or (highly unlikely) another level of government provides additional funding to address the asset renewal gap. The ESC may describe service cut backs and asset renewal backlogs as 'unintended consequences', yet they are one of the unavoidable pitfalls of limiting an organisation's ability to meet its costs due to imposing a cap on its ability to raise revenue.

Another scenario is that Councils exit some services. Faced with the reality of costs exceeding revenue, some Councils will have to make the hard call and prioritise which services they provide. One service that is likely to be subject to intense scrutiny is the popular school crossing supervisor programme. Council provides this service on behalf of state government. State government provides a portion of funding to assist Councils to deliver it, though not enough to cover costs. A Council could take the view that since this is a state government service and the Council is not in receipt of sufficient money to cover expenses of delivery, that Council exit the service as a saving measure.

Another target area is the Home and Community Care programme. Currently HACC is undergoing a slow transition towards a national system. Some Councils may see the transition as an opportune moment to exit HACC as a means of saving money. Indeed, the City of Greater Bendigo had attempted to go down this path, only backing down in the teeth of strident community opposition. Had community feeling not been as strong, this decision would have been made easier for them due to the fact they will be required

³ Brian Dollery and Albert Wijeweera, 'An Assessment of rate-pegging in New South Wales local government', in *Commonwealth Journal of Local Governance*, issue 6, July 2010 p. 66

to make savings to meet other service requirements once rate capping is introduced. Who is to say other Councils won't be as receptive to community opinion? And so it is that Councils will have the invidious choice of having to prioritise whether to cut HACC or school crossing supervisors so that they can continue to collect garbage on a weekly or fortnightly basis or mow football ovals.

Another scenario can see Councils contract out services to the lowest bidder. Unfortunately this appears to be the favoured outcome of the ESC, seen in its 'Principle 5'. This is an outrageous and alarming intervention from the ESC. It has been charged by the government with devising a rate capping policy - not to pursue an agenda for contracting out in-house services.

The ESC claims that local Councils and their communities will continue to be responsible for decisions on services and how services are to be provided. Yet it feels it can make sweeping suggestions such as exploring 'alternative models of service delivery' to enable Councils to live within a rate cap! What happens when the ESC exercises a veto on a Council's application to increase rates above CPI because it has not explored 'alternative models of service delivery'? Does the ESC propose Councils take the axe to their in-house staff before they are granted above CPI rate increases? Or what happens if the ESC does not like a Council's decision in regard to prioritisation of expenditure? Will Councils be required to consult the ESC before finalising their budgets, just to make sure they don't include spending the ESC may frown upon? So much for communities and their Council retaining decisions on services and their delivery!

Contracting out in-house services has been a costly disaster for service quality and local employment. Invariably the winning bid comes from a contractor promising to do the work for least cost. This is done by paying the lowest wages possible, understaffing and economising on quality. Contractors pay is so low they struggle to attract staff. The ASU has seen contractors in local government resort to 475 visa workers because the pay on offer is so low no local worker is willing to do the job.

And where the pay is poor, staff lack motivation and service quality suffers. Experienced and better performing staff opt to chase better wages at other employers. And although the contractor is physically providing the service, it's the Council that takes the community's blame for the contractor's shortfalls. Contracting out also attracts redundancy costs – these often run into the millions of dollars for as few as 10 experienced employees.

If the government's aim is to cut 'wasteful spending' in local government then surely redundancy costs must be avoided by protecting jobs?

Finally, once a Council has sold off its assets (plant, equipment, facilities etc.) needed to provide a service, contractors begin to raise their fees, knowing Council won't take the service back in-house because the one-off cost of doing so is prohibitive. Yet the contractor won't pay better wages or provide a better service, but will extort as much out of Council as it can.

Victorian local government has a bad past with contracting out. In the 1990s, the Kennett Liberal government compelled Councils via its Compulsory Competitive Tendering policy to contract out most of their services. The result was a disaster: job losses, services cuts and service quality were compromised beyond recognition.

The worst hit communities were in regional Victoria, where contractors were few and far between. Shoddy operators were able to fill the vacuum, gladly receiving Council contracts yet failing to provide basic (let alone quality) services. In most cases local employment was harmed as opportunistic contractors from other parts of the state took contracts, dismissed the local workforce and used their own staff. As history showed, the Kennett government paid the ultimate price for this policy at the 1999 election when rural Victoria swung wildly against his government and its policies.

Put simply, contracting out succeeds only in impoverishing the workers affected and their families. All communities are worse off for it. In smaller communities the negative multiplier effect of such policies – with severely damaged local economies and hurt local business – are even greater to those felt in metropolitan areas. Beliefs and arguments to the contrary are not borne out by the facts and, quite frankly, are simply delusional.

Anyone, or combination of, the above scenarios is possible. Since staff costs make up the bulk of a Council's expenditure budget it is inevitable that Councils will look there to make savings. The price, in turn, will be cuts to services and jobs. This is the real cost of rate capping.

4.2 Effect on Bargaining and Contrary to FW Act Objectives

Rate capping will undermine good faith bargaining. In Victoria, local government staff wages and conditions are set pursuant to the *Fair Work Act*. The Act obliges employers to negotiate in good

faith with their employees, or their employees representatives, to arrive at an agreement known as an enterprise agreement. Enterprise agreements determine the terms and conditions of employment at any individual employer, and all Councils in Victoria are a party to an agreement made under the *Fair Work Act*. One of the objectives of the *Fair Work Act* is to encourage good faith bargaining and productivity improvements.⁴

Rate capping will see employers ignore the normal processes of negotiation and offer only a CPI wage increase. Such practices have absolutely no regard to productivity improvements; or compromise/concessions made through bargaining; and are not made in good faith as they are a pre-determined outcome before negotiations even commence. Practices such as these are manifestly contrary to the objectives of the *Fair Work Act*. Yet Councils face the real prospect of not being able to pay their staff a greater increase won through the normal process due to lack of revenue thanks to the imposition of a rate cap.

So in the simplest terms the Australian industrial relations system is designed to encourage greater productivity in return for workers getting higher wages as a reward. But what incentive do workers have to agree to higher productivity if they won't receive the reward to go with it? Why increase productivity if wages won't increase to match the productivity gains?

The ASU has already seen Councils evade these obligations to negotiate in good faith and reward productivity improvements due to rate capping. Some Councils have attempted to insert clauses into EBAs that will limit their staff pay increases to CPI if rate capping become law in Victoria. Interestingly no such CPI cap appears to be placed on the wages of CEOs and senior managers – whose salaries are set through a different process that does not involve the ASU – demonstrating the brunt of the rate capping policy will be felt at the bottom of the Council organisational structure leaving the top unscathed. Brimbank City Council is one where a CPI wage cap has been attempted.⁵ Such practices fly in the face of good faith bargaining, are impervious to productivity increases, trade-offs or any other compromises reached after a process of negotiation and agreement as stipulated by the *Fair Work Act*.

However if Councils are limited to raising rates in line with CPI (or whatever measure the government settles for) but the quantum pay increase to staff exceeds whatever the ESC has deemed to be a permissible rate increase for the year, Council could find itself

in a position where it cannot afford to pay its staff. This scenario will lead to job losses or reductions in the hours worked – thus services will be cut. If the ESC or the state government attempts to modify a certified enterprise agreement lawfully entered into by the Council and the ASU representing its workforce, with the objective of bringing it within the rate cap, such a move will fly in the face of the objectives of the *Fair Work Act* and would, at any rate, be of questionable legality. Indeed for the state government or ESC to attempt to interfere in Councils wage setting process, or the bargaining process per se, would also be of dubious legality.

4.3 Undermines local democracy

Local government prides itself as being the arm of government closest to the community. This is manifest in numerous ways. Council meetings are accessible to members of the community and are held in locations generally familiar to the community – as opposed to the remote nature of state and federal parliaments. Councillors are part-time, mainly having to juggle paid employment with Council responsibilities. Councillors are easily accessible to ratepayers, both via their Council provided mobile phones and after duly constituted Council meetings besides the plethora of community events they attend on a daily basis. This is a world away from the barriers of electorate officers and advisors erected to shield state and federal politicians from the public.

Members of the community are involved in Council decision making process. Section 129 of the *Local Government Act 1989* guarantees Council consult its community once it has completed a draft budget. Section 223 of the *Local Government Act 1989* gives community members the right to make a submission to Council. Councils typically notify the community on the opening of a consultation process via various means – these include postings on their web pages, public notice in local and state circulating newspapers and on certain occasion municipal-wide letter box drops. Councils develop their annual budgets, Council plans and community plans after a lengthy consultation process. Outside of these formal requirements Council often seeks the opinion of the community on matters that may affect certain residents – for instance the local park, local planning issues, local parking issues and so on. And should members of the community have questions about a Council decision they have a range of options at their disposal to obtain the answer: public question time, information in Council publications or simply ask your local Councillor.

⁴ See Fair Work Act 2009 (Cth), section 3

⁵ See Appendix C



And Council is often the most visible tier of government to members of the community. Waste is collected weekly; streets are swept; parks are maintained and members of the community eligible to receive home care do so, among a plethora of other services. And when disaster strikes, Council is the first port of call after the SES.

This system is built on democratic principles. If the community is not satisfied with their Council, and they have raised their concerns through the various forums available to express their disappointment, then the opportunity exists for Councillors to be voted out at the next election. In this way Councillors are accountable for their strategic management of Council.

Yet a cap on rates removes a major responsibility from councillors – that is the levying of rates. As a consequence, the ESC's own 'Principle 2' and 'Principle 3' articulated in its consultation paper is hopelessly and unavoidably compromised by a state government imposed rate cap. The ESC contends that the rate capping framework should provide ratepayers with confidence that proposed variations above the cap are being independently assessed by the Commission⁶ but believes this will somehow enhance Council accountability and transparency. How can any serious observer argue that taking away responsibility from Councils enhances the accountability of Councils? Moreover, how and by whom will the ESC be held accountable?

Unlike local government, the ESC does not hold a mandate from the ratepayer. It is the height of folly to contend that accountability and transparency will be strengthened by entrusting an unelected, obscure government agency like the ESC with a rate setting responsibility. And while the ESC sheds crocodile tears that ratepayers have 'little bargaining power'⁷ in Councils' rate setting process – despite the extensive, statutorily mandated process to consult ratepayers – it remains an undisputed fact that Councillors can be voted out of office should the community feel they have been poorly served by their elected representatives. The ESC, on the other hand, is immune to any democratic backlash. Indeed, one is inclined to turn the question on its head and ask 'what bargaining power do ratepayers have when dealing with the ESC?'

The simple fact is that if the ESC or any other organisation external to Council has any statutory role in the Council rate setting process Councillors cannot be held exclusively accountable for rate increases and the ensuing failures/shortfalls in the event Council has not raised sufficient revenue to meet community expectations. Once funding is restricted due to an externally imposed rate cap,

Council's service shortfalls will no longer be the sole responsibility of Councillors – rather the state government and its arm the ESC, having involved themselves in Council decision making processes through the imposition of a rate cap will share the blame when Council fails to live up to community expectations.

In this sense, rate capping fundamentally disturbs the democratic principle that underpins local government. In effect there will be a transfer of responsibility for setting levels of rates from local Councillors to the ESC. Further it is impossible to envisage how a remote organisation – detached from any community – like the ESC can possibly undertake the level of consultation with the community, prior to determining whether a Council is 'justified' in raising its rates above CPI. How will the ESC do this with 79 different local government jurisdictions? Out of the diversity of views any community may hold whose opinion will the ESC favour, those expressed by a vocal and disaffected minority or the silent majority? How long will this process take? Which service or infrastructure project will the ESC force the Council to cut when it denies an above CPI rate increase but after the Council had already undertaken extensive community consultation and determined community need for said service/project? And finally what would be the point of Council consulting its community on rate increases when the final decision does not sit with Councillors? Why not simply leave rate setting to the ESC? Such questions have no easy answer. What is beyond doubt is that the nexus between Council-Community-local democracy-local accountability will be irreparably disturbed under rate capping.

4.4 Shifts responsibility from Council to state government for rate increases

It follows from the discussion above that rate increases under rate capping will become the responsibility of the state government. The ESC, as an agency of the state government and acting on a framework legislated by the government, exercises this responsibility. Henceforth blame for rate increases and/or service delivery shortcomings for want of funds will also be borne by the state government.

The Commission in its consultation paper seeks to deny rate capping will result in the type of shift in responsibilities we have described. It says:

While we are mindful of the need for simplicity when designing the framework, we are also determined

⁶ Essential Services Commission 2015, Rate Capping – Rates Capping and Variation Framework Consultation Paper, April, p. 16

⁷ Essential Services Commission 2015, Rate Capping – Rates Capping and Variation Framework Consultation Paper, April, p. 16

*that the framework does not inadvertently or partially shift responsibility for rate-setting from councils to the Commission. Councils are responsible for the services they provide and therefore the rates they levy and the legacies they leave. The framework will clearly place the onus on councils to demonstrate that their rates are being set in-line with the services they provide to their communities and in line with the long-term interests of their ratepayers.*⁸

Yet at the heart of this objective lies an intractable paradox. How can Councils be held responsible for the 'legacies they leave' when they will not be the ultimate decision-maker on the finances to build that legacy? Nor by the sound of the foregoing paragraph drawn from the ESC consultation paper will Councils have power to exclusively determine what are (or are not) in the long term interests of their communities – since the ESC via its framework will establish how this is to be decided. Regardless of whether the rate cap framework takes a 'hard, hands-on, interventionist' or 'soft, hands-off, non-interventionist' approach with respect to intervention in Council business, the inescapable conclusion is that the Commission, and by extension the state government, will take some responsibility for the decisions made by Councils due to the mere fact they have interfered in Council business. Far from increasing Council accountability all rate capping will succeed in doing is the opposite.

This is precisely the experience of 'rate pegging' in NSW. In that state the Independent Pricing and Review Tribunal (IPART) calculates the rate peg, which is based on an index measuring local government costs. In NSW Councils have largely absolved themselves of responsibility for setting rates since the IPART has, *de facto*, assumed that responsibility. The upshot of this system has seen local governments increasingly not consult their communities on budget issues.⁹ Under the NSW system, the possibility exists for Councils to apply for above-peg rate increases. However the system is so complex, and when combined with the possible local political backlash for above-peg rate increases, many Councils prefer not to apply for the so-called 'Special Rate Variation.'¹⁰

So through the role of the IPART, and even allowing for above-peg rate increases, the *de facto* responsibility for rate setting has shifted from local to state government.

The un-democratic character of rate pegging in NSW has also not gone unnoticed. The Victorian Local Governance Association (VLGA)

observes of the rate peg:

*Councils who need funds beyond the rate peg to meet the needs of the community who elected them are forced to answer to an unaccountable and undemocratic body. Regardless of the transparency of the process, IPART is a decision-maker that has the power to shape local activities by approving or declining applications.*¹¹

Respected local government academic Brian Dollery, along with his colleague Albert Wijeweera have also observed in respect to the NSW system: 'it would appear obvious that regulation of rate-setting must diminish local democratic autonomy since it arbitrarily limits local decision making.'¹²

The ASU believes the foregoing criticism of the NSW rate peg system, and the role of IPART in particular, will be unavoidable in the Victorian context. The only difference will be one of acronyms: instead of IPART, we will be discussing the ESC.

4.5 Flawed assumption to believe that rate capping will force Councils to 'self-correct', stop wasting money and do the right thing by their communities

One of the arguments postulated in favour of rate capping is that it will force councils to 'stop wasting money' and focus on more important things like service delivery. This is a noble intention. The ASU supports the notion that Councils stop wasting ratepayer's money on excessive executive remuneration, consultant fees, costly white-elephant capital works projects, stunts and other things rightly referred to as wasteful spending.

The ESC has described its intention to cap rates with the following outcome in mind:

*A well-designed cap and variation process will work as a useful and independent discipline on councils to prioritise and efficiently deliver services, contain rate increases and demonstrate their disciplined approach to ratepayers.*¹³

The logic, as it is, is that capping rates will force errant Councils to re-focus on matters that are of primary importance to their communities. Cap rates, Councillors and senior managers will see the folly of their ways and will 'self-correct,' stopping further waste, or so the thinking goes.

Unfortunately a rate cap will not achieve this objective. The

⁸ Essential Services Commission 2015, Rate Capping – Rates Capping and Variation Framework Consultation Paper, April, p. iii

⁹ Victorian Local Governance Association, 'Rate Pegging' in NSW: Arguments for and Against, 14 July 2014, VLGA, p. 2. See also concluding remarks in Brian Dollery and Albert Wijeweera, 'An Assessment of rate-pegging in New South Wales local government', in Commonwealth Journal of Local Governance, issue 6, July 2010 p. 74.

¹⁰ Dollery and Wijeweera report that only 26 councils out of 155 applied for a special rate variation in the 2008/09 year. See Brian Dollery and Albert Wijeweera, 'An Assessment of rate-pegging in New South Wales local government', in Commonwealth Journal of Local Governance, issue 6, July 2010 p. 65. See also Victorian Local Governance Association, 'Rate Pegging' in NSW: Arguments for and Against, 14 July 2014, VLGA, p. 3.

¹¹ Victorian Local Governance Association, 'Rate Pegging' in NSW: Arguments for and Against, 14 July 2014, VLGA, p. 3.

¹² Dollery and Wijeweera, 'An Assessment of rate-pegging in New South Wales local government', in Commonwealth Journal of Local Governance, issue 6, July 2010 p. 66

¹³ Essential Services Commission 2015, Rate Capping – Rates Capping and Variation Framework Consultation Paper, April, p. 12.

reason for this is clear: those responsible for wasteful spending are the decision makers on how Council funds are spent. In a word, those responsible for wasteful spending are predominantly senior managers and Councillors. And merely restricting their capacity to generate income will not force them to do the right thing and eliminate waste while leaving services totally untouched.

This is for the simple fact that rate capping does not drive behavioural change, it only restricts revenue. Granted some waste will be cut, especially in the early years of a capping regime. But bad councillors and bad managers will make bad decisions regardless of revenue constraints. Self-obsessed individuals will continue to spend money as their whim dictates – junkets, MBAs at the expense of the ratepayer, projects not wanted by the community – and they will find ways and means within their budgets, rate cap notwithstanding, to gratify themselves. This is because a rate cap does not actually force errant Councils to clean up their acts. Moreover these things will be made possible by those ‘at the top’ forcing those ‘at the bottom’ to make all the sacrifices.

The ASU is in no doubt that some Councils will continue to spend money on the wasteful things described above and they will do this by cutting services, contracting-out or economising on staff to free up resources. In our view a cap will only give licence to these actions.

4.6 Reductions in service quality and availability due to cuts to funding

As touched on in earlier sections in this submission, rate capping will have a downward effect on services and employment in local government. It follows logically that with less revenue to draw upon local government will not be in a position to expand its service levels. In real terms this means less growth in employment and less growth in services requiring ‘face to face’ contact, such as home care.

Where Councils do seek to retain services or expand services, they will have little choice but to seek the cheapest service provider. This can only mean Councils turn to the cheapest contractors. Empirical evidence and the experience in local government is that community satisfaction with out-sourced service providers is lower than community satisfaction with in-sourced service delivery. An obvious conclusion to draw from evidence of this nature is that out-sourced service providers offer inferior quality of service when compared to their in-house counterparts.

The reasons for this outcome have been touched on earlier, but it is worth restating. Contractors pay lower wages and offer worse conditions than local government does itself. Low pay and bad conditions lead to low staff morale. In turn, this leads to higher rates of staff turnover, as staff seek better paying employment. Finally the precarious character of contractors within local government (since all contracts have an expiry date) creates a level of unnecessary uncertainty in employment security. This is another factor in staff seeking alternative, more stable and better paid employment.

The true cost of this system must not be measured in dollars: rather the true cost must be measured in communities failing to receive value for money due to the inferior quality of services contractors provide. Rate capping will only provide momentum to these forces; whether intentional or not, rate capping creates an imperative for services to be contracted out.

4.7 Cost shifting and obligations placed on Council by other levels of government yet funding does not match the obligations

A further cause for ‘excessive’ rate increases is the practice of state and federal government cost shifting. Cost shifting occurs when state and/or federal government mandate local government to provide a service, yet do not provide funding to match the cost of providing that service. An additional means of cost shifting is to offer any particular council a joint funding arrangement to provide a service, yet state/federal government fails to increase its contribution through an appropriate indexation formula.

Through this mechanism, state and federal governments are able to claim they have contributed to the provision of a service, while blaming local government for any shortfalls or cost blowouts in said service. Blame can also be attributed to Councils when cost (such as user fees) become involved with access to the service.

At the time of writing of this submission, the great majority of Councils in Victoria were in the process of preparing their annual budgets. While the ASU has sought responses from Councils on precise dollar figures on cost shifting, it was too soon in the Council budget process to provide those figures.

Nevertheless, from the details the ASU has been provided, all Councils experience a heavy cost-shifting burden. From the information given by the local government sector to the ASU it is obvious that, were it not for state/federal government short changing Councils for the provision of some services, the financial position of all Councils in Victoria would be far stronger and the need for large rate increases would be greatly reduced. Some of the services provided by Councils that are directly impacted by cost shifting are valued and visible community services. These include the school crossing supervisor programme, home and community care programme and public libraries. Successive governments have failed to sufficiently fund these services, with rate payers forced to foot the bill. Once a rate cap is introduced, these services will be the first to be put under the microscope. Councils will be forced to make the tough call about whether to continue to offer, for example, HACC services or focus on road maintenance. In the ASU's view this is an invidious choice no Council and community should be forced to make – but it will be unavoidable due to the financial constraints imposed by rate capping combined with the government practice of cost shifting.

5. ESC 'PRINCIPLES' CONTRADICTORY

There are many glaring examples of contradiction in the ESC's rate capping objectives. For instance, the ESC claims it does not seek to involve itself in Council consultation with their communities, nor interfere in council decision making, particularly in relation to priorities, resource allocation and service delivery.¹⁴ Yet in the next breath, the Commission's atrocious 'Principle 5' asks 'Rate increases should be considered only after all other viable options have been explored,' and among the options listed are 'alternative models of service delivery' and 'reprioritisation of expenditures.'¹⁵ Such wildly divergent and mutually exclusive objectives suggest the ESC may be under the hold of a 'Jekyll and Hyde' type malaise.

Such contradiction, yet again, exposes the entire rate capping enterprise for the anti-democratic shambles that it is. The Commission can't decide whether it wishes to allow Councils to conduct their business or whether it involves itself in said business. As we have said in the preceding parts of this submission, by rate capping's very nature, it is unavoidable for the ESC to interfere in Council business.

Of the many contradictory ideas found among the ESC 'Principles', the ASU would like to express especial concern for the matters outlined under 'Principle 5.'

The views contained in 'Principle 5' are especially obnoxious. This principle stipulates that above-CPI rate increases may only be granted after Councils have explored all viable alternative options. This requirement, in and of itself, is a naked intrusion into the ability of Councils to run their own organisations, for if a Council should wish to raise its rates by more than CPI it would first have to prove to the ESC it had considered other options.

¹⁴ Essential Services Commission 2015, Rate Capping – Rates Capping and Variation Framework Consultation Paper, April, p. 17.

¹⁵ Essential Services Commission 2015, Rate Capping – Rates Capping and Variation Framework Consultation Paper, April, p. 18.



So what are some of these ‘other options?’

The ESC’s suggested ‘other options’ make a bad idea immeasurably worse. Foremost among these ‘other options’ is a requirement for Councils to consider ‘alternative models of service delivery.’ This is a truly outrageous intervention by the Commission. It is common knowledge that ‘alternative models of service delivery’ is code for contracting-out or full privatisation of in-house services. It shows the ‘principles’ underpinning the rate capping policy is a willingness to use it as a vehicle for contracting-out local government services, with the ESC imposing this agenda. We have already explained why contracting-out in local government is a bad idea earlier in this submission.

How is this principle intended to sit with the objectives contained under ‘Principle 3’, where the ESC asserts it will not interfere with any Councils’ service delivery model? Is the ESC’s intention here that it shall not grant an above CPI rate increase until a Council has substantiated that it actively sought to destroy the livelihoods of its own workforce via out-sourcing, market testing, or whatever euphemistic name such practices are given by the ESC? Whatever the name, the consequences for the workers affected, their families and the broader community will be the same – unemployment and impoverishment.

Principle 5 is entirely unacceptable. It cannot be ‘fixed.’ Its premise contradicts everything the ESC has said about its putative respect for local governments’ ongoing responsibility for decision making. The government ought to be ashamed that its rate cap policy, supposedly aimed at addressing cost of living issues, will only contribute to job losses in local government if ‘Principle 5’ becomes a feature of the rate cap framework. If implemented as suggested in the ESC discussion paper, ‘Principle 5’ will guarantee that job losses and ensuing cuts to services will become an annual, routine event during the yearly rate capping process.

The ESC must respect Council’s chosen service delivery model. It must abstain completely from any interference in any Council’s service delivery model. The ESC must not attempt to use rate capping to force Councils to out-source their services. The ESC must not attempt to interfere in wage setting, staffing levels or services. It is as simple as that.

6. ASU RESPONSE TO ESC QUESTIONS

Questions under the heading ‘The Form of the Cap’

The ASU does not support any rate cap. The ASU believes any use of CPI in setting a cap will force Councils to sustain a revenue king hit that will cut services, cost jobs and hurt infrastructure. CPI does not measure Council costs – costs that include things like employee costs, waste management, building material and other like costs. CPI does measure things like the cost of private education, private health, recreation and household goods – things that are of scant consequence to the ordinary functioning of a Council. So one need only inquire into the ‘basket case’ of household goods used to measure CPI to realise why that measure is completely irrelevant to Council costs and, accordingly, must not be used – either as a benchmark or any other measure – to cap Council rates.

Questions under the headings ‘The Base to Which the Cap Applies’ and ‘What Should the Base Year Be? The Variation Process’

The ASU opposes any rate cap. The ASU believes democratically elected Councils must exclusively retain the power to set and vary their level of rates, user fees and other charges free of external interference. Earlier in this submission we explained why we believe this to be the case and how the Commission’s involvement in the rating process will shift responsibility for Council’s work onto the shoulders of the Commission and by extension the state government.

The ASU notes that many of the items contained under point 14 are already done by all Councils in Victoria. The ESC process will only duplicate what already takes place. Nor is there any sense in a Council having to justify anything to the ESC – a Council’s obligations are to its community, not an unrepresentative, un-democratic government agency.

Questions under the heading ‘Community Engagement’

As we have described in an earlier section of this submission, councils already undertake extensive consultation with their communities on a range of issues.

Questions under the heading ‘Incentives’

If Councillors waste ratepayers’ money they will face the judgement of the voters at the next election.

The ASU is concerned whenever the Commission mentions the word 'efficiency.' Are we to take this to mean that the ESC will impose its 'Principle 5' on Councils – forcing Councils to out-source services – in return for permission to raise rates by more than CPI.

The ASU believes the current, long-established democratic process must prevail in this as in all matters on the question of setting rates.

Questions under the heading 'Timing and Process'

Councils already consult their communities on rates, budgets and other issues. Given the Commission seems to seek to examine a Council budget on a 'line item by line item' basis, the budgeting process will only be needlessly delayed, harming the continuity of service delivery. Moreover when and how is a Council supposed to 'justify' its budget to the Commission? Who will do the 'justifying' – the Mayor? CEO? All Councillors? Will this be done through a formal meeting or by completing a 'tick and flick' checklist?

All these things are an unnecessary burden on Councils and could potentially see budgets dragged out for months after they were supposed to be formally adopted.

Questions under the heading 'Transitional Arrangements'

The ASU opposes any rate cap. As a result, further comment on the matters under this heading are irrelevant.

Questions under the heading 'Roles'

As already said above, we believe organisations external to Council have no role in the process by which Councils set their rates, budgets, fees etc. Democratically elected Councils are best placed to make decisions of this type and must be left alone to do their job.

Questions under the heading 'Other Matters'

The framework, if introduced, should be abandoned as soon as possible, viz., after one year.

Any costs should be borne by the state government since this is a policy of theirs and it is not wanted by local government. Otherwise if state government seeks to recover costs from local government all that it will succeed in doing is contribute further to cost-shifting.

Questions under the heading 'Other Matters Raised in Earlier Chapters'

We have already expressed deep concern about the rate cap issue and the ESC's approach. To reiterate, the ASU is deeply concerned at the implications of so called 'Principle 5' which the Commission needs to scrap immediately.

It is worth reiterating the cost pressures faced by local government due to cost-shifting from federal and state government. Cost-shifting is one of the major reasons for Council rate increases. Indeed, were it not for the state and federal government practice of cost shifting, Councils would be in a far better financial position. Therefore the only serious way to address rate increases is to address cost-shifting – which neither the Commonwealth nor state government are prepared to do. Instead all the local government sector is faced with is the populist and lazy option of blaming Councils for rate increases and imposing a cap, while completely ignoring the significant reasons why rates continue to rise.

Finally the ASU is curious as to how the ESC will compel Councils to apply for rate variations in order to protect services and jobs? The ASU fears that some Councils may merely adopt a CPI rate increase, ignore the variation process and use the CPI cap as an excuse to get out of some service delivery. What mechanism is in place to compel Council to sustain their current level of service deliver, not to mention grow the level of services? How will the ESC force Councils to apply for a rate variation if that were the only means of ensuring a Council retained any particular service? The Commission's paper is silent on this contingency, yet this is a scenario that must be addressed.



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25 February 2015

Richard Duffy
ASU - Branch Secretary
116 Queensberry Street
Carlton South, Victoria 3053

April Byrne
Professional Australia –
Senior Organiser & Industrial Officer
Level 1, 163 Eastern Road
South Melbourne, Victoria 3205

Dear Richard and April,

I appreciate our meeting earlier today to discuss Baw Baw Shire Council's proposed draft restructure of the organisation.

Firstly, I support your position on how important it is to have a clearly articulated case for change. I believe the information that I have already provided to staff on release of the draft restructure does this, but I accept that your concern that those arguments be made clearer is genuine. On that basis, I would like to concisely outline what the Executive and I believe to be some of the key arguments for change:

- Baw Baw Shire Council has been operating under a tight financial environment for many years now. It was over two years ago now that the Executive implemented a vacancy control process where all positions, whether replacement or otherwise are heavily scrutinised for approval to proceed prior to recruitment. In many instances, positions have not simply been recruited in favour of business practice improvements.
- Like all other Victorian local governments, we have had to absorb our liabilities in relation to the call on defined superannuation benefits. These amounted to almost \$3.5 million. Importantly, this was achieved without loan borrowings and without any effect on our organisation at the time.
- We have also observed over this period all manner of external grant opportunities drying up, including the Federal Government freeze on financial assistance grants. The reality of this situation is that there is and will continue to be less certainty on available grant incomes going forward, which limits a smooth transition for Council from each financial year to the next.
- You are also well aware of the current State Government's announcement on rate capping to take effect from 2016. While you may hold an alternate view on the precise effect of this on local government, it would not be prudent in my position in running an \$80 million business to form a view otherwise, of the potentially disastrous financial effect this could have on our organisation and the wider community.
- As context, I am fully aware of the implications of rate pegging in NSW and the administrative burden placed on those local governments in seeking rate relief, however small. If a similar scheme were to be implemented in Victoria, I would have little confidence in the ability of any local government organisation to confidently plan and respond to the community needs on anything other than a short term horizon.

- Like other Peri Urban Councils, Baw Baw Shire Council operates in an extremely complex environment, where it is struggling to maintain its current services and infrastructure during a period of unprecedented growth.
- While that growth may be slowing down in recent times, we are still expected to maintain high quality services for our community of over 45,000 and across an area of 4,000 sq.km, which is equivalent in size to 23 inner city municipalities.
- To respond to these increasing demands, the Executive have implemented a proactive Best Value Review program to tease out what opportunities exist either within the organisation or through our service delivery, to ratchet back the financial burden upon us.
- The Council itself has recognised the challenge of providing affordable services, but has also been listening to our community, who have demanded rate reductions. This was implemented last financial year and will remain as evidenced by our Long Term Financial Strategy.
- Through this period of change and uncertainty, we have driven key asset management reforms to respond to the growing infrastructure gap that exists in the Shire. This has led to a monumental change in our business strategy that now focuses a far greater proportion of our Council budget to capital works. While we are now seeing the positive effect of this change on the ground, the task will take a stable income stream and many years to address.
- The above clearly demonstrates the change that Council has already taken over the last few years without significant impact on the staff that deliver the services for our community. But with the further prospect of rate capping, which clearly limits our ability to determine our future for ourselves, the only levers that remain to manage our financial situation is our operating costs and the structure that supports our service delivery.
- With this mind, the draft reorganisation is not about shedding jobs, but rather carefully considering how the structure, and importantly our existing staff, can respond to the future demands.
- We provided you several examples, of how this might occur by way of the draft structure, which include:
 - ◆ The expansion of the roles of Local Laws to perform a whole of regulatory service for the community, whether that be animal management, asset protection, parking enforcement or planning compliance.
 - ◆ The integration of recreation into asset management to provide a more holistic approach to the longer term provision of services and the infrastructure that support our growing community.
 - ◆ Combining the functions of land use planning with community and social planning providing an important next step in our community development.

I appreciate your concern for the staff of Baw Baw Shire Council. I am very much aware of the potential impacts of the changes and can assure you that the Executive and I have taken every care and attention to the individual needs of staff during this period of change.

But I want to reaffirm that these changes are draft and nothing more at this stage until the reorganisation is finalised. I look forward to your ideas and feedback in how that may be best achieved.

As committed, I have attached the further information you were seeking to better understand the rationale for the proposed draft changes, which includes a copy of each of the Best Value Reviews undertaken, along with a copy of the position descriptions for some of the roles relevant to the draft structure.

I look forward to our collaborating to achieve the best outcomes for our staff and community.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Helen Anstis', written over a large, faint circular watermark or stamp.

Helen Anstis
Chief Executive Officer



Frankston City Council

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Reference: A1864454
Enquiries: Allison Clarke
Telephone: 9784 1801

17 March 2015

Mr Richard Duffy
Branch Secretary
Australian Services Union
116-124 Queensberry St,
CARLTON SOUTH VIC 3053

Dear Mr Duffy,

RATE CAPPING – FRANKSTON CITY COUNCIL

At its meeting held on 2 March 2015, Council received a report and presentation on the effect of rate capping on the Council and the services we provide to our community.

While Council is mindful of the cost rates have to the community, rate capping will not provide any significant financial benefit to individual ratepayers currently estimated to be approximately \$70.00 per annum particularly when measured against the reduction in services and capital works that would result.

In considering the effect of rate capping Council was mindful of several key points, namely:

- Council's Long Term Financial Plan, adopted following community consultation has rate increases set at a level that is needed to provide the necessary services to our community, currently 5.5% p.a.
- Should rate capping at the level of CPI (currently 1.7%) be applied, it will reduce Councils total funding available from rates by \$22 million over four years.
- Council's funding has already been severely constrained by the freeze on Grants Commission allocations.
- Victorian Local Government's share of property based rates and taxes has reduced from 50% in 1997-1998 to 43% in 2013-2014. In effect, a freeze on State Government property taxes would have a greater benefit to property based taxpayers.

APPENDIX B



Frankston City Council

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- “Cost shifting” in the provision of services from State and Federal Government to Frankston City Council, has imposed an additional annual cost of \$4.2 million.
- The Consumer Price Index is not relevant to costs affecting Local Government.

Following consideration of the report Council resolved that it:

1. *Notes the report.*
2. *Writes to the Premier, State Opposition Leader, Treasurer, Shadow Treasurer, Minister for Local Government, Shadow Minister for Local Government, Local State and Federal Members of Parliament and the MAV enclosing a copy of this report, calling on the Government to abandon its proposed capping of municipal rates in the financial year 2016/2017.*
3. *Expressing councils grave concerns on the effect that this proposal will have on our community with the loss of vital services and jobs in a community that can already least afford it.*
4. *Along with the already introduced Federal Governments cuts to local Government the effect of rate capping will only exacerbate an already constrained financial future for our city.*
5. *Also that this council seek meetings with the executive committees of the ASU and the CFMEU to express our concerns that the effect that this policy will have on our community and their members.*
6. *Request the Chief Executive Officer to distribute a copy of this report (and attachments) to all Victorian Councils.”*

For your information I have attached a copy of the report and presentation and would welcome the opportunity to meet with you to further explain Frankston City Council's concerns. My office will make contact with you shortly to arrange a further discussion with your Executive Committee to further elaborate on our concerns.

I urge you to do whatever is possible to ensure this regressive policy is overturned.

Yours sincerely

Dennis Hovenden
CHIEF EXECUTIVE OFFICER

APPENDIX B

Executive Summary

11.1 Rate Capping

Enquiries: (Tim Frederico: Corporate Development)

Council Plan

Community Outcome:	3. Sustainable City
Strategy:	3.3 Ensure good governance and management of Council resources
Priority Action	3.3.1 Ensure the organisation is financially sustainable

Purpose

To brief Council on the impact of the State Government proposal to cap Council rates.

Recommendation (Director Corporate Development)

That Council:

1. Notes the report.
2. Writes to the Premier, State Opposition Leader, Treasurer, Shadow Treasurer, Minister for Local Government, Shadow Minister for Local Government, Local State and Federal Members of Parliament and the MAV enclosing a copy of this report.
3. Requests the Chief Executive Officer to distribute a copy of this report (and attachments) to all Victorian Councils.

Key Points / Issues

- The State Government has announced that its policy to cap Council rates will be implemented from the 2016/2017 financial year. It is anticipated that the rate cap will be set at the Consumer Price Index. The most recent figure (for year ending December 2014) was 1.7%.
- Of the taxes collected across Australia, Local Government collects 3.4%. State Government collects 15.3%, with the Commonwealth Government collecting 81.3%. Accordingly, a cap on rates will have a benefit to ratepayers of 20% of what a cap on State Government revenue would bring.
- In 2013 Council adopted a Long Term Financial Plan predicated on rate rises of 5.5%. This allowed for the maintenance of services and adequate investment into the capital programme.
- Over the last two years this Council has identified approximately \$5 million in cumulative savings in the operational budget. Any savings have been used to increase the capital programme or support delivery of additional services such as the operation of the new aquatic centre and the repayment of associated loan borrowings. The 2013/2014 budget had a net operational cost increase of 1.3%.
- In 1997/1998, property tax collection was split equally between State and Local Government in Victoria. In 2013/2014 this had skewed to a 57% to 43% split. Over this period of time, local government has indexed its tax rates by adjusting them downwards in recognition of the increase in property values. The State Government has not.
- A cap on rates will reduce Council's available funding by a total of \$22million over the next four years.

11.1 Rate Capping**Executive Summary**

- For a sample basket of funded services (library, home care, school crossing supervision, foreshore management, maternal and child health and pre-school services) Council contributed 55.8% of funding. For these same services in 2013/2014 Council contributes 66.0%) This equates to an increased cost of over \$4.2million per annum in 2013/2014 (equivalent to approximately 5% of rates).
- CPI is not a relevant index for Local Government. It is calculated on costs of food, clothing, health transport etc. That is, a basket of typical household costs. The key drivers of local government costs are wages, construction, waste and other contract and material costs.
- Wages account for 54% of Council's costs. The current EBA has an increase of 3.25%. This would equate to a freeze on all other nominal expenditure should rates be capped at CPI.
- It is estimated that should rates be capped at CPI, it will save the average household \$56.00 per annum, or just over \$1.00 per week. This amount represents the net cost to ratepayers for the provision of library service, foreshore management and school crossing supervision. Does a saving of \$1.00 per week outweigh this loss of services?
- Should rate capping proceed, Council's only options will be:
 1. cut services
This will lead to job losses. Given the large proportion of staff that live in or around Frankston, this will have a serious impact on the local economy and population.
 2. reduce the capital programme
Council is just maintaining expenditure at adequate amounts to fund the renewal programme and a small component of new infrastructure. Any cuts will reduce amenity and liveability. Further, if rate capping had been in place, Council could not have funded the construction of PARC. We would be left with the tired and obsolete Jubilee Park pool.
 3. borrow funds to support operations
This is untenable and would lead to the financial failure of the Council.

Financial Impact

It is noted that the State Government has indicated the Council rate increase will be capped at or about CPI from the 2016/2017 financial year. Over a five year period this will reduce Council's revenue by a cumulative amount of approximately \$22 million. This will have a severe impact on Council's ability to maintain services, deliver key initiatives and improvements and maintain adequate levels of capital expenditure.

Consultation**1. External Stakeholders**

A presentation of the effects of rate capping has been made to local MP's and also the Minister for Local Government.

11.1 Rate Capping

Executive Summary

2. Other Stakeholders

Nil

Analysis (Environmental / Economic / Social Implications)

These implications are clearly outlined within the report.

Legal / Policy / Council Plan Impact

Charter of Human Rights and Responsibilities

The Charter of Human Rights and Responsibilities has been considered in the preparation of this report but is not relevant to the content of the report.

Legal

Nil

Policy Impacts

Nil

Officer's Declaration of Interests

Council officers involved in the preparation of this report have no Conflict of Interest in this matter.

Risk Mitigation

The effect of rate capping on Local Government is a key risk facing the sector, and measures will need to be instituted to ensure Council maintains its financial sustainability.

Conclusion

It is readily evident that a rate cap will have a detrimental impact on the provision of services. Council will be faced with difficult decisions in preparing its 2016/2017 budget.

Should the State Government proceed with rate capping, it is imperative that the cap be set at a level which does not render this Council's operations unsustainable.

ATTACHMENTS

Attachment A: Rate Capping

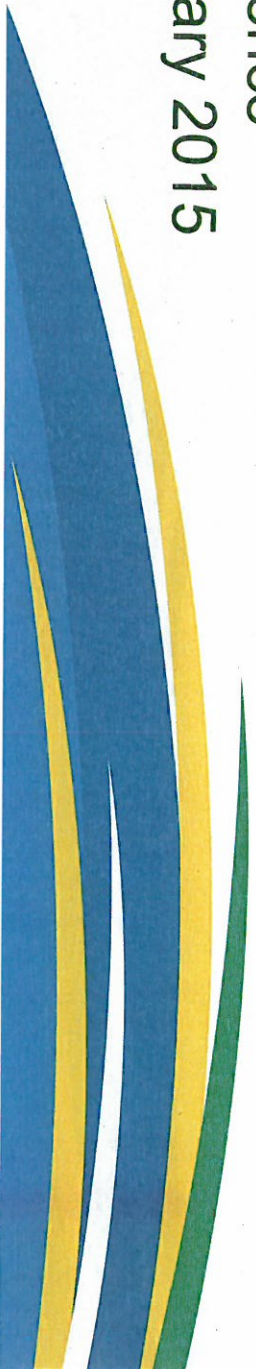
Frankston City

Rate Capping

1. Background
2. Victoria Context
3. Frankston Context

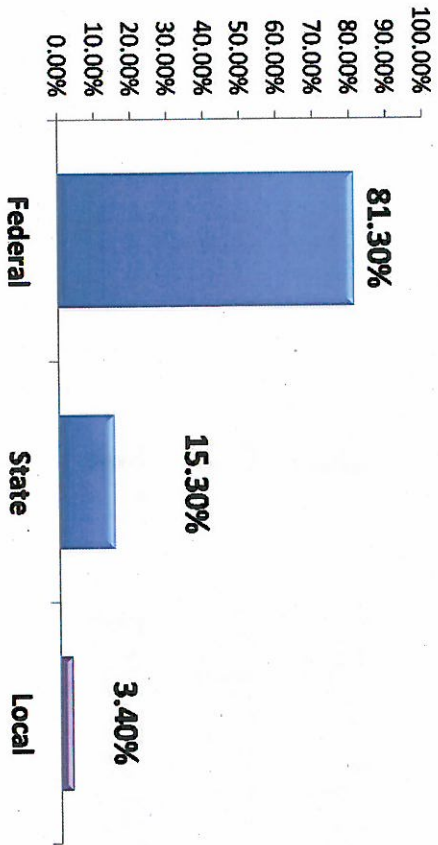
Tim Frederico

19 February 2015



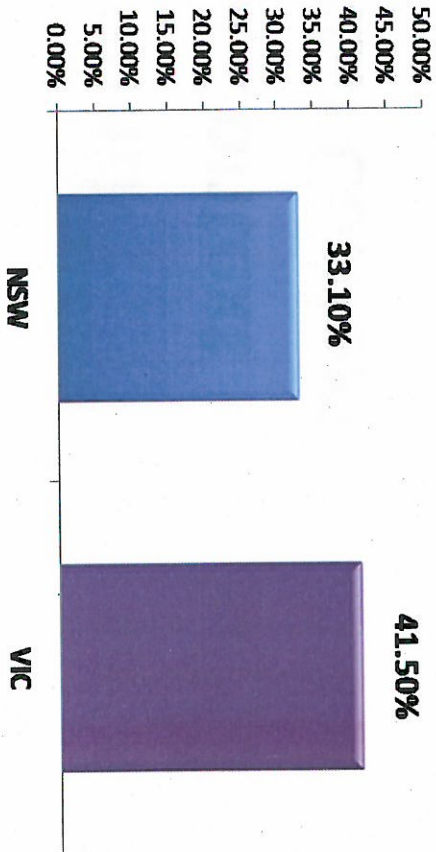
Background

% of Tax Revenue



* 2011/2012 Local Government National Report

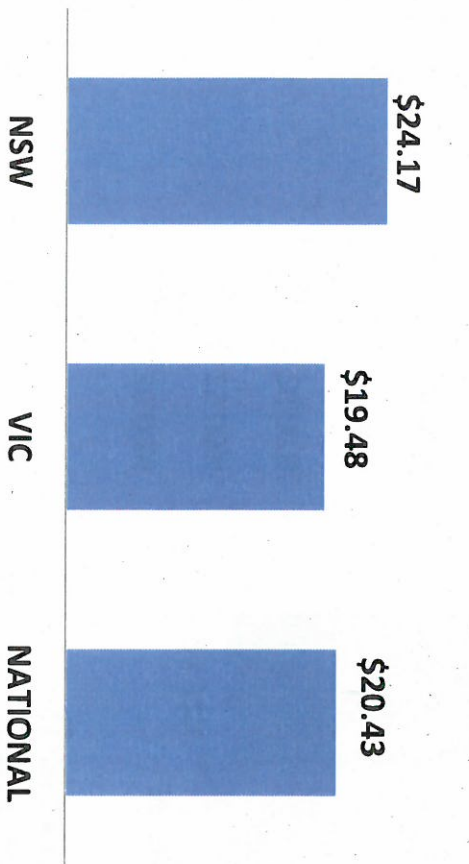
Local Government Taxes as % of Revenue



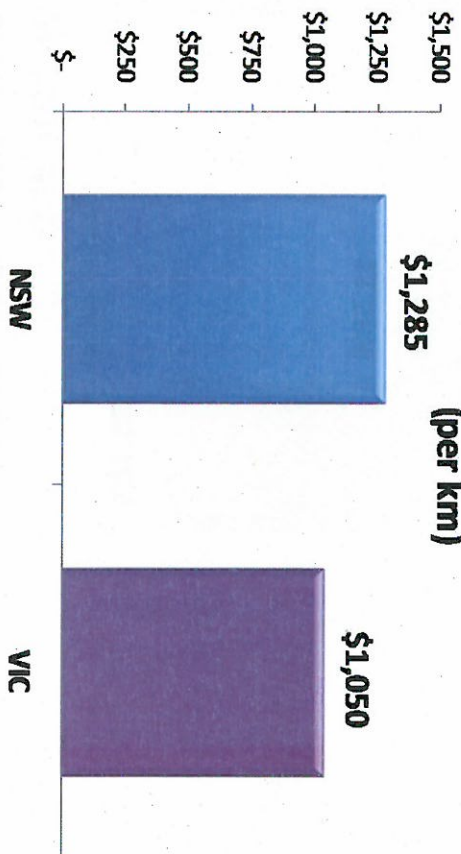
* 2011/2012 Local Government National Report



**Average General Purpose
Commonwealth Grant Per Capita**



**Local Road Grants
(per km)**

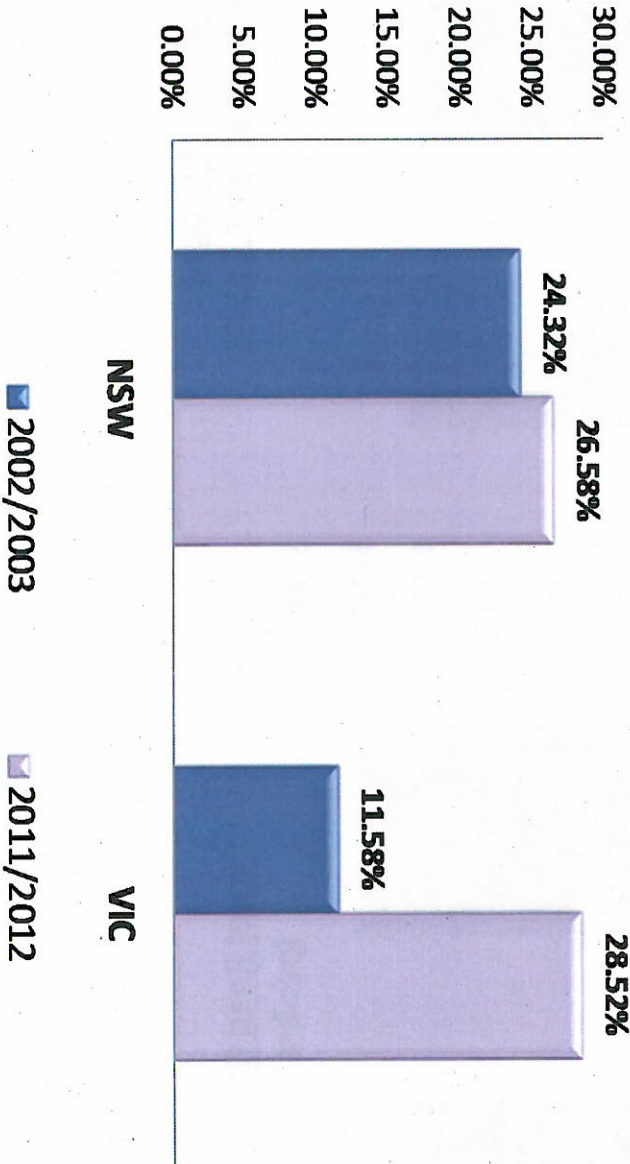


* 2011/2012 Local Government National Report



Background

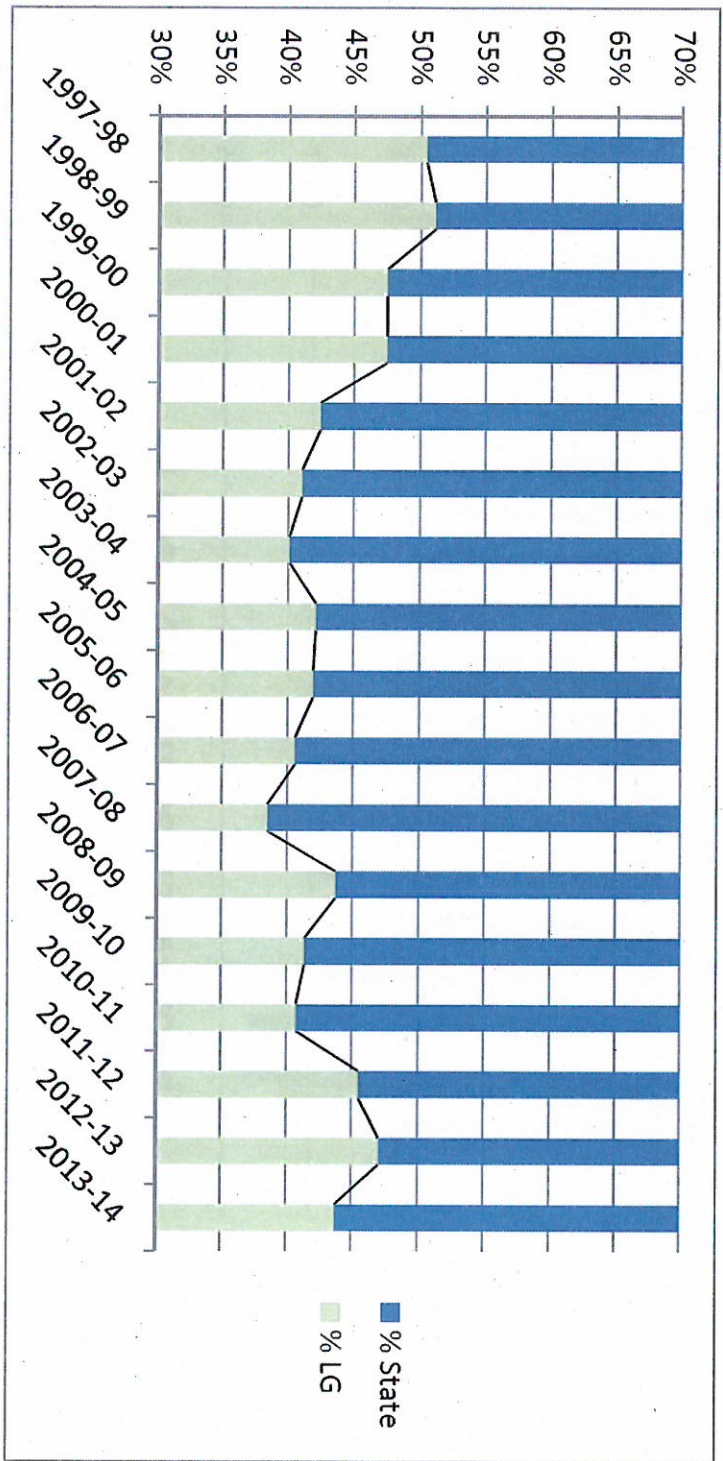
Local Authorities on Minimum Grant (percent of population)



* 2011/2012 Local Government National Report

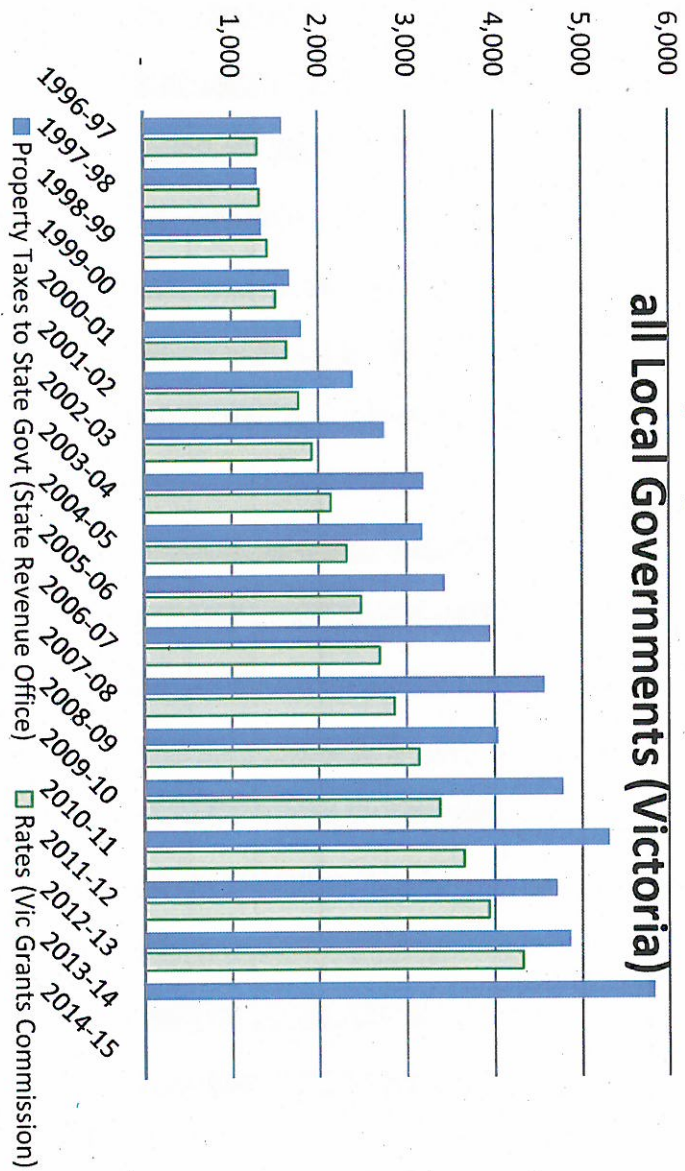


Property Taxation State and all Local Governments (Victoria)





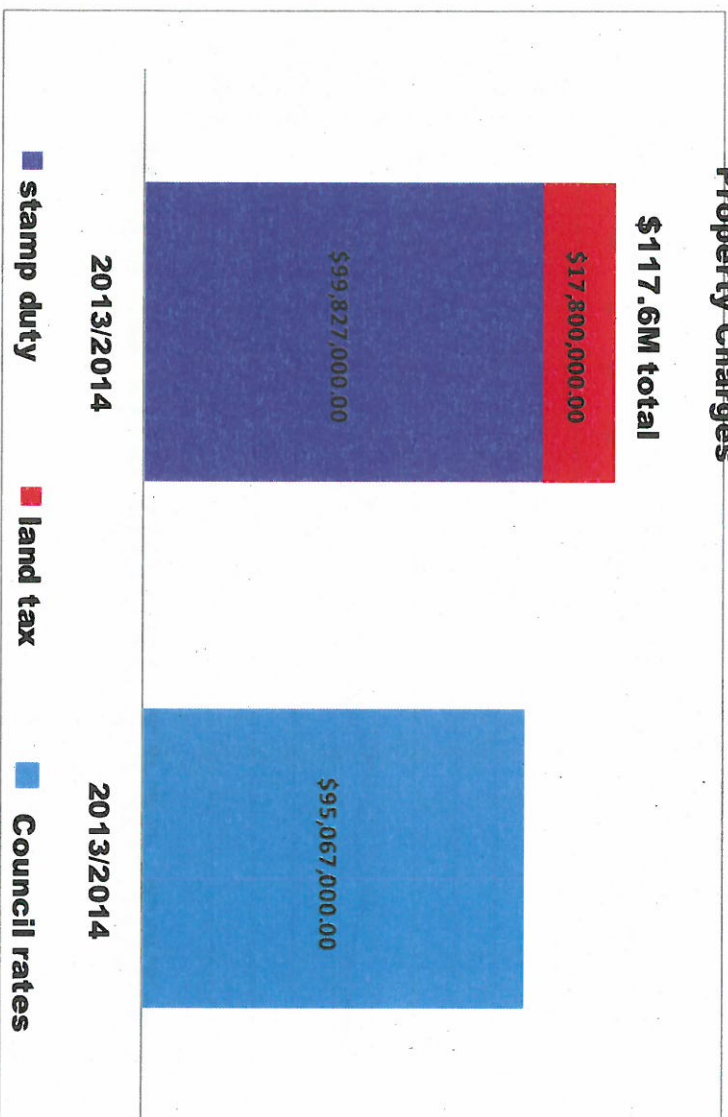
Property Taxation: State and all Local Governments (Victoria)



PROPERTY TAXATION

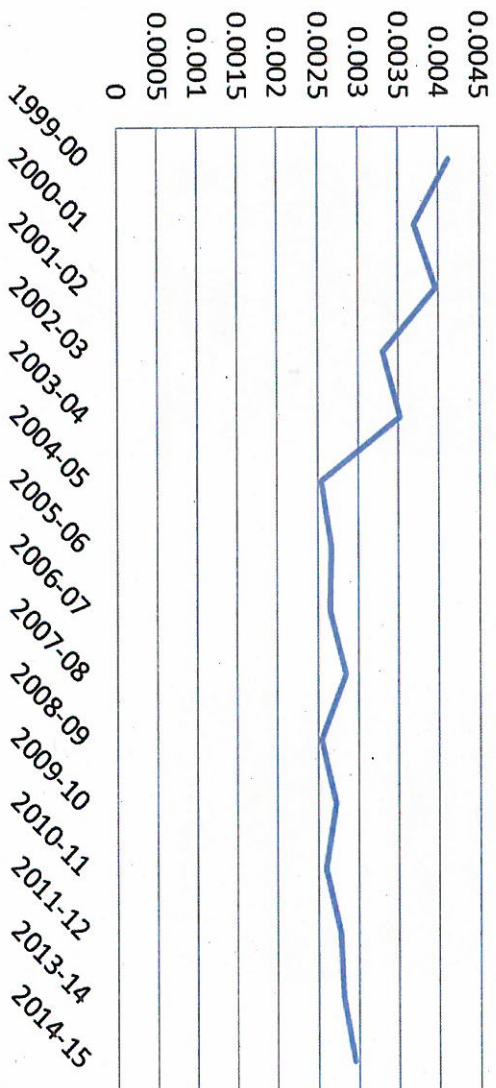
State Government
Property Charges

Council Rates

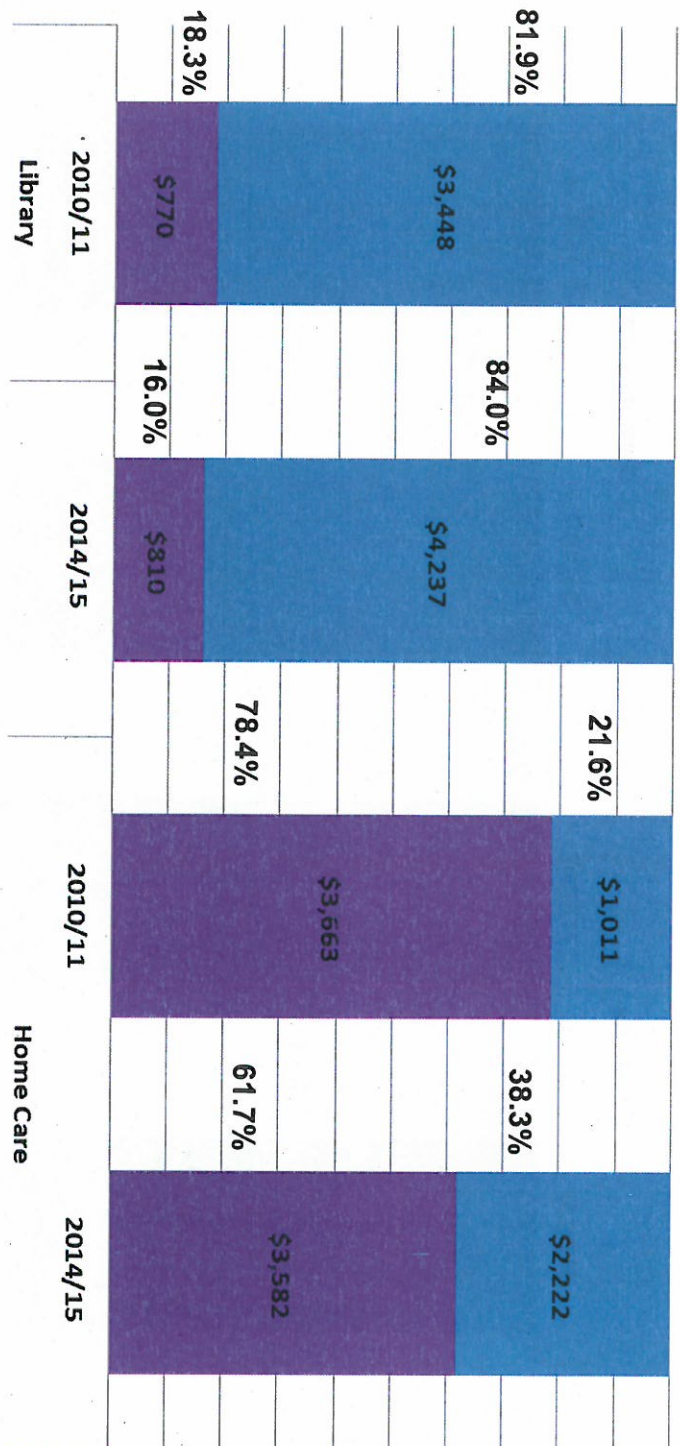




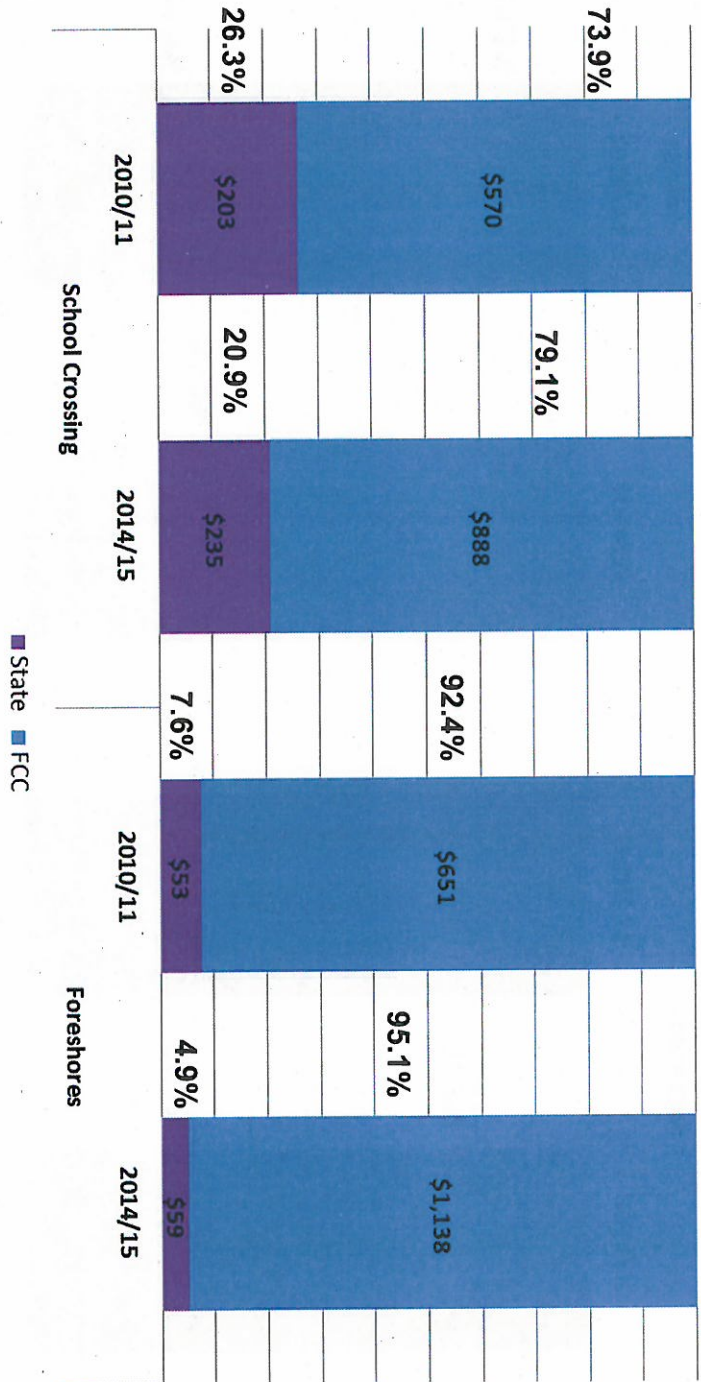
Rate in the dollar 1999-2014



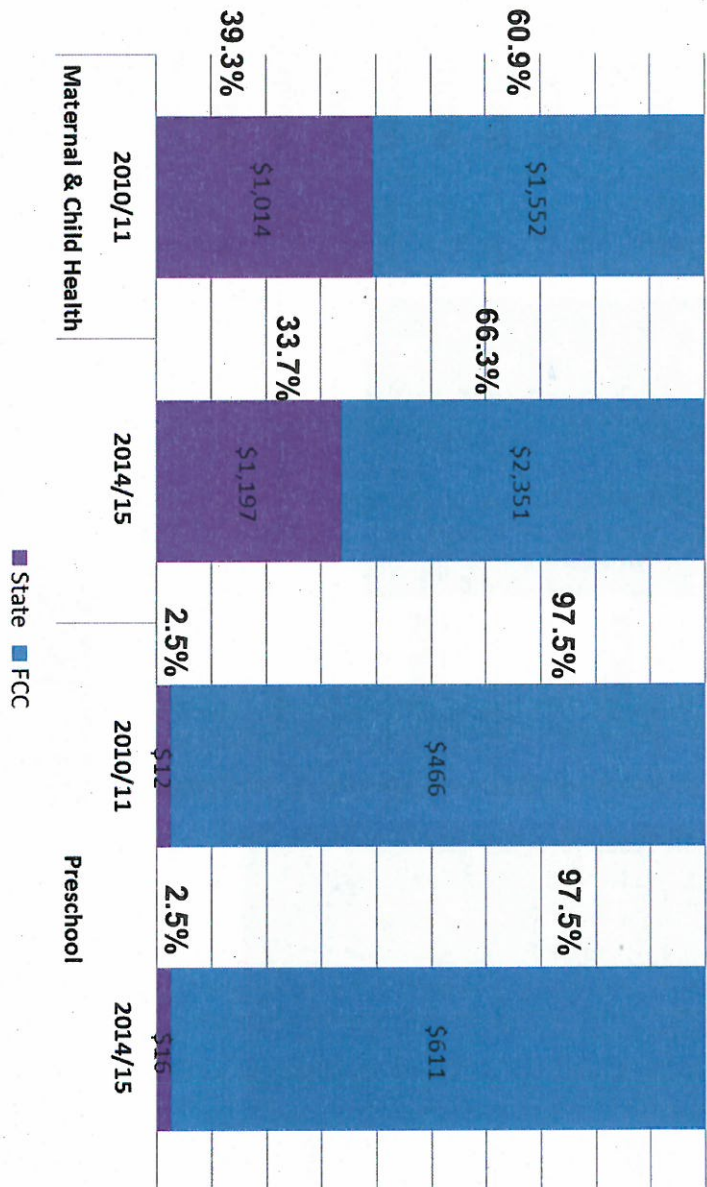
Shared costs of service delivery



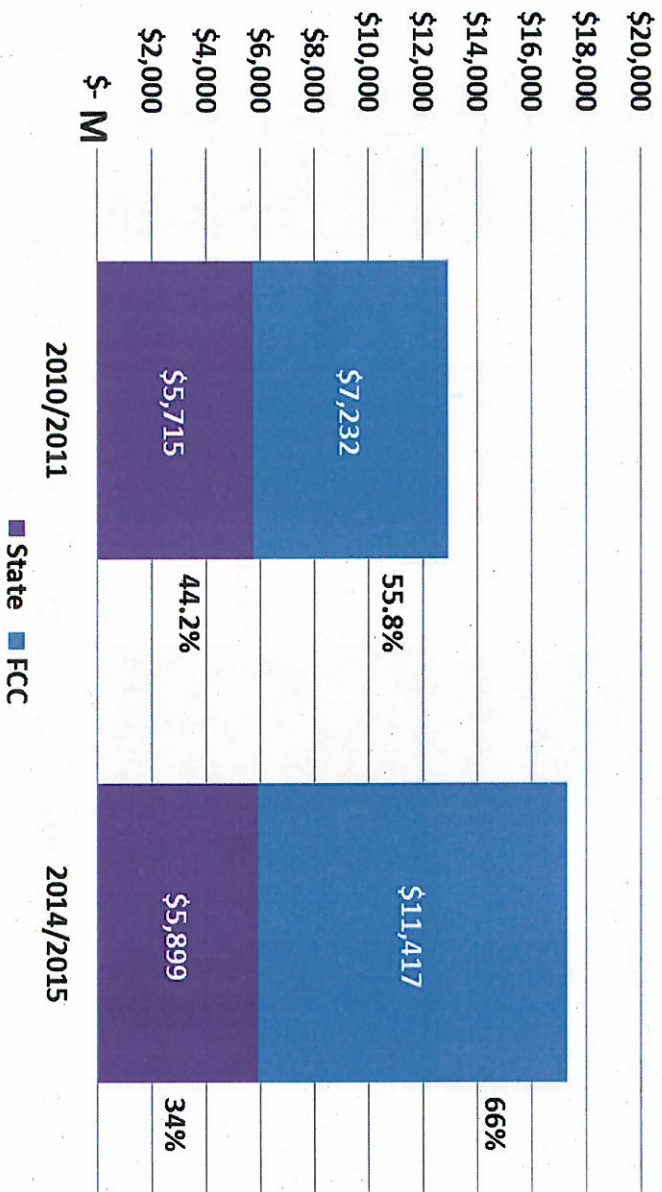
Shared costs of service delivery



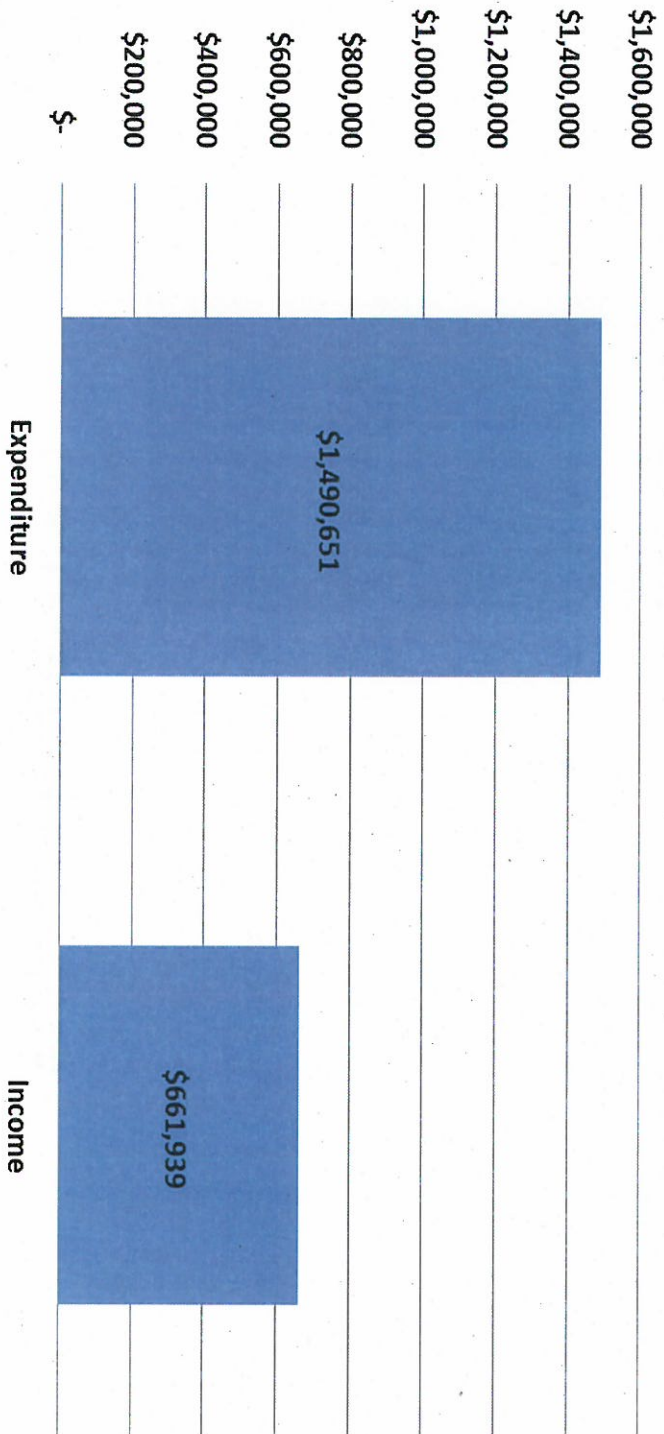
Shared costs of service delivery



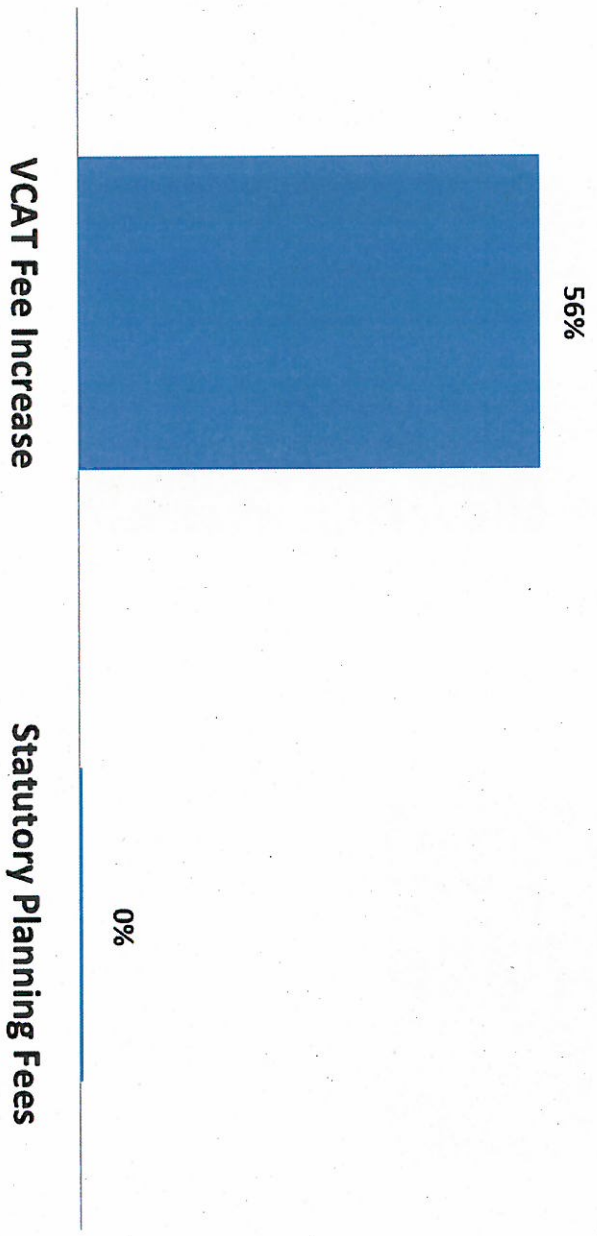
Totals



Statutory Planning Services Proposed Budget

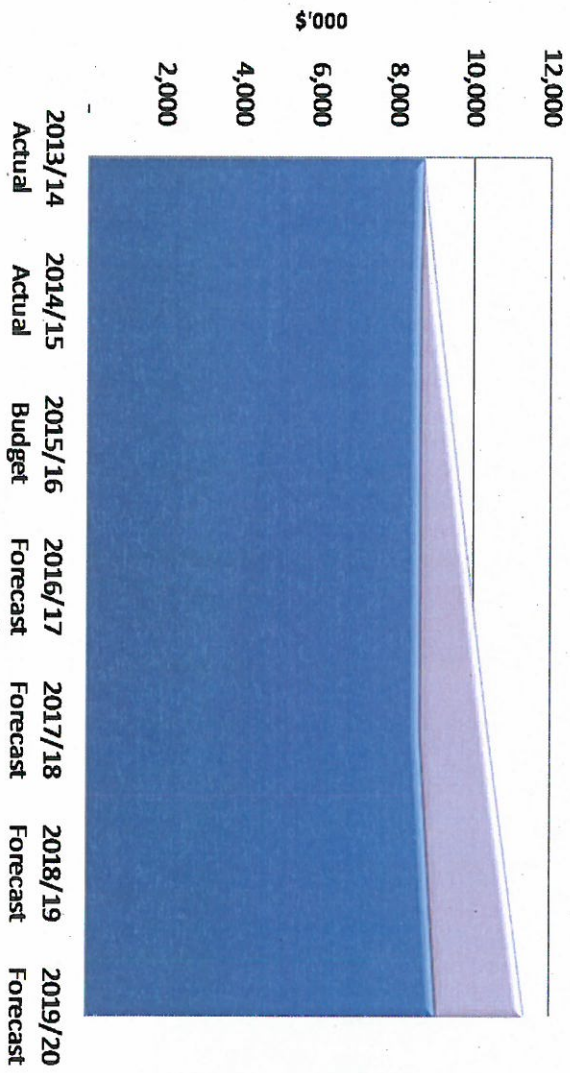


Town Planning Fees 2014



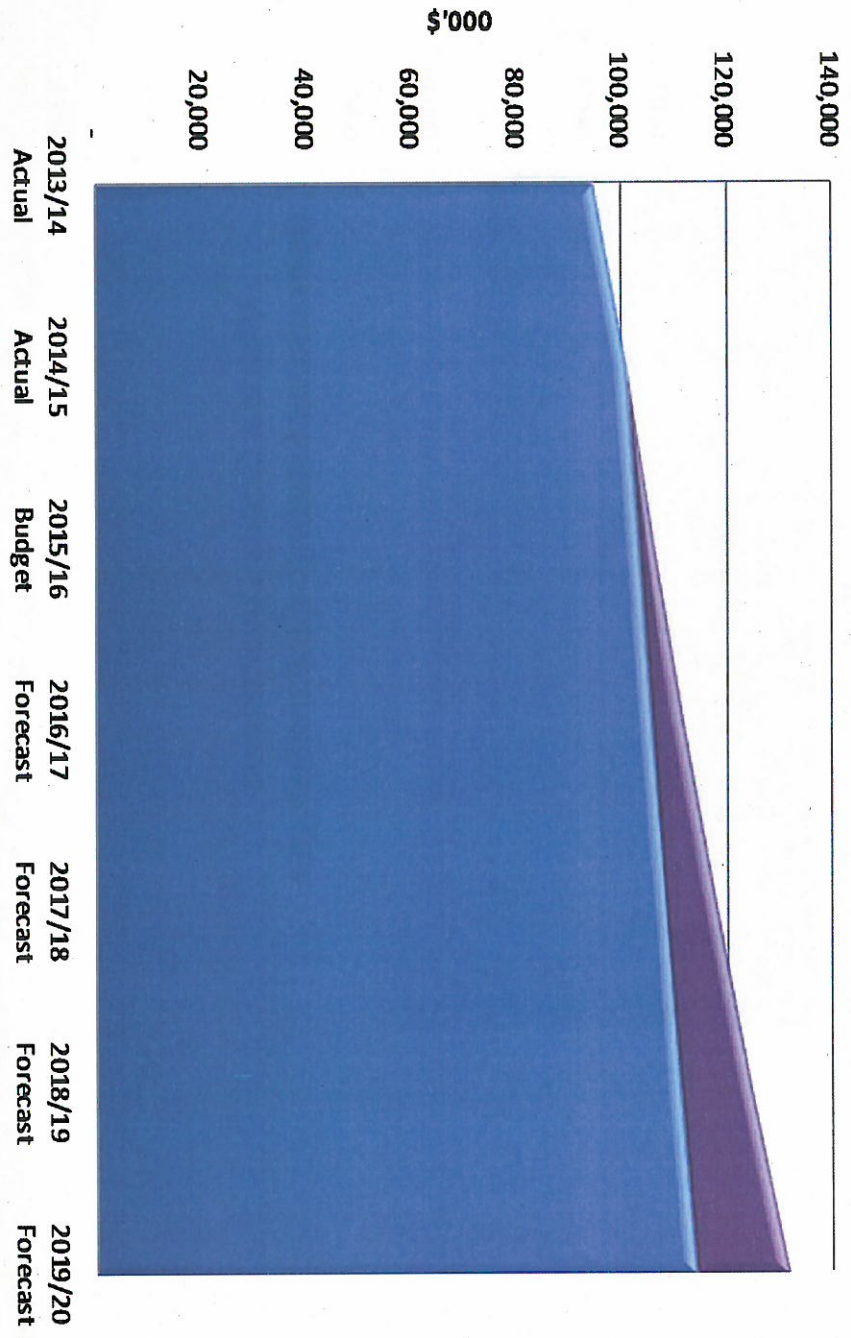


Victoria Grants Commission Operational Funding - \$8.8 million gap

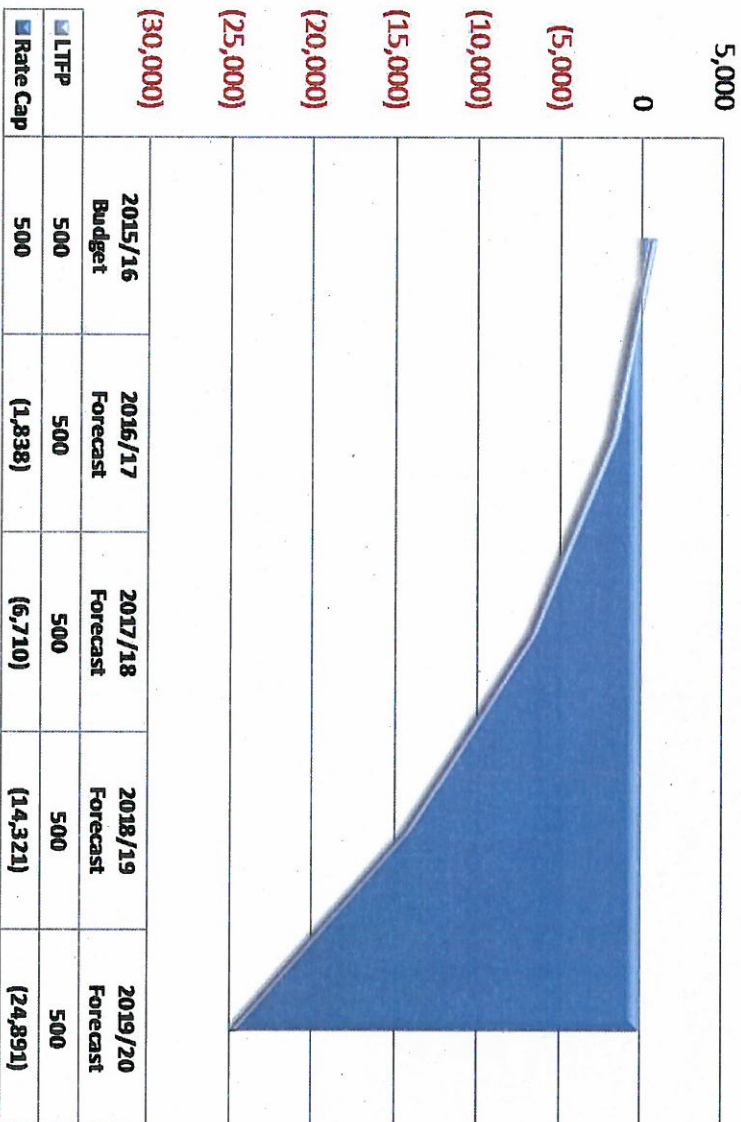




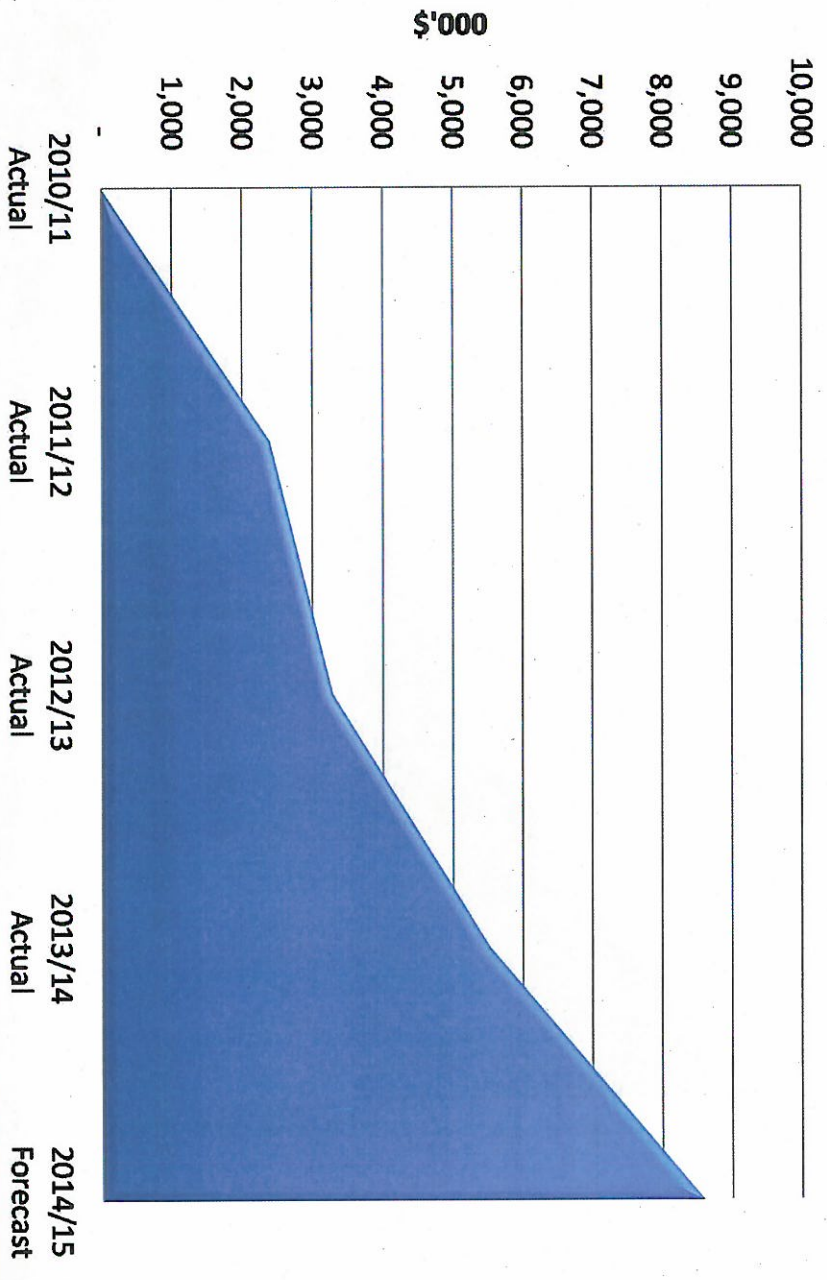
Rate Revenue \$50 million gap



Term Financial Plan vs Rate Capping Cash Gap - \$25 million gap



**Operational Cuts over past 5 years
\$20 million savings**



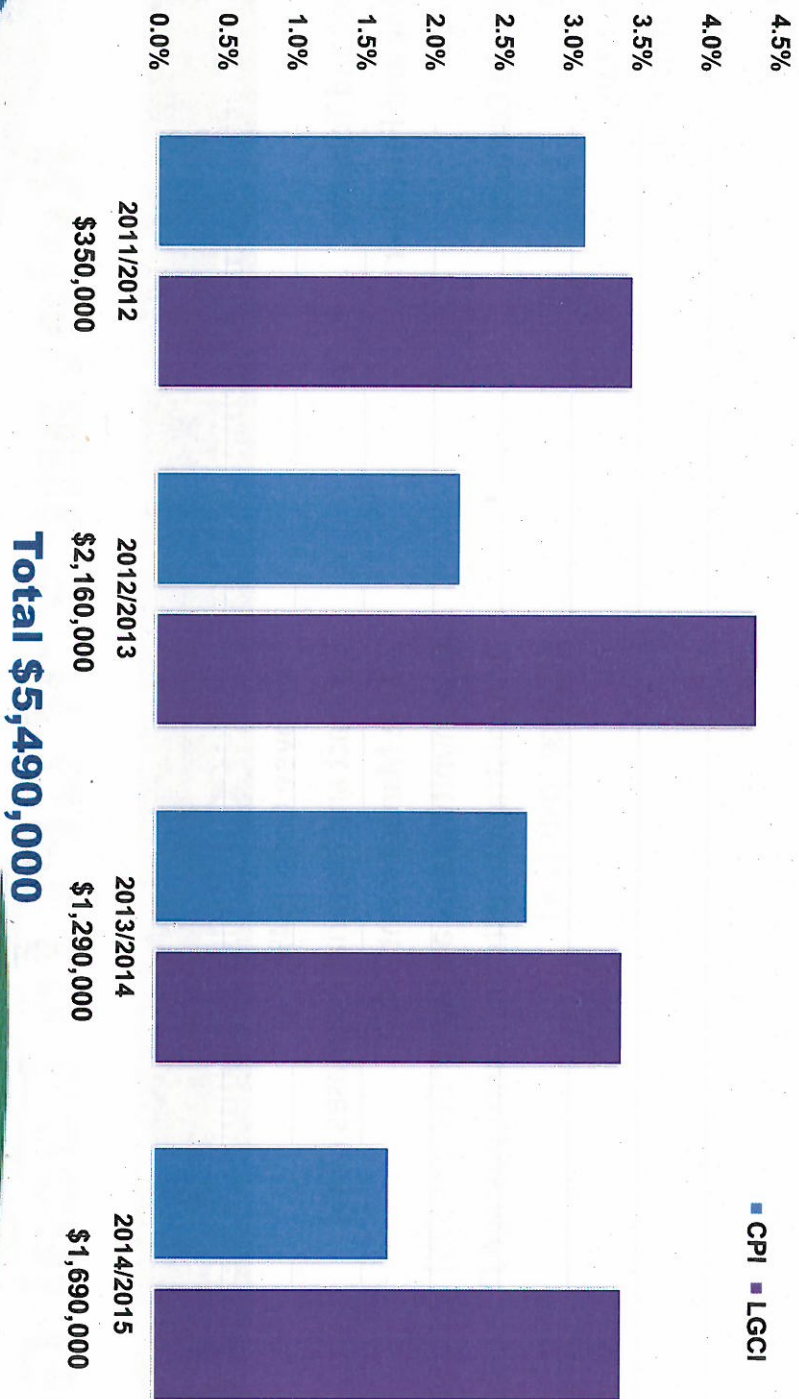
Relevance of CPI to Local Govt.

Consumer Price Index Components	Drivers of Local Government Costs
Food	Employee Costs (54%)
Alcohol and Tobacco	Contract and Material Purchases (20%)
Clothing and Footwear	Waste Management (14%)
Housing	Community grants and contributions (3%)
Household Contents	Administration costs (Insurance, postage, IT, legal, other (7%))
Health	Finance costs (2%)
Transportation	
Communication	
Recreation	
Education	
Financial and Insurance Services	



CPI V LOCAL GOVERNMENT COST INDEX

(1% = \$1,000,000)



SUGGESTIONS.....

- Rather than CPI, apply a universally agreed and supported cost index that reflects the true costs of providing Local Government services
- Government Grants to match cost increases of providing services.
- Cut discretionary services to the Frankston community:
 - Tourism
 - Events
 - Economic Development



SUGGESTIONS.....

- Cut “core services” and/or match service levels to available funding.
- Cut new capital works projects that will add to lifecycle costs. Examples of projects that cannot be delivered:
 - Regional Tennis Facility
 - Woodlands Kindergarten
 - Basketball Facility
 - Netball Courts(PARC could not have been built)





Questions?

SECTION 2 – Wages and Related Matters

11 PAY INCREASES

11.1 The following pay increases will apply as follows:

Operative date <i>(from the first pay period commencing on or after the date below)</i>	Amount per week \$ <i>(Whichever is greater amount below)</i>
1 July 2014	3.5% or \$35.00
1 July 2015	3.3% or \$33.00
1 July 2016	3.3 % or \$33.00
1 July 2017*	2.4% or \$24.00

*This is increase is for an 8month period 1 July 2017 – 28 February 2018.

- 11.2 The wage increases specified in this clause shall be payable in addition to the current agreed rates of pay at the enterprise and shall be paid for all purposes.
- 11.3 The pay rate tables in Section 11 provide the detailed pay rates that apply as a result of the implementation of this Agreement.
- 11.4 Employees that are still paid in accordance with the City of Sunshine classification structure shall continue to do so whilst they remain in their existing position, and will be paid in accordance with Pay Table 3 or Pay Table 4 as set out in Section 11 of this Agreement.

11.5 Quantum Restriction

- 11.4.1 In the event Council is restricted in determining wage increases due to regulation or legislation (such as rate capping) Council will pay increases in accordance with CPI or wage increases in clause 11.1, whichever is less.
- 11.4.2 In the event CPI is paid, from effect of such regulation or legislation, after certification, increases will be paid from the first full pay period after 1 July each year until 28 February 2018, based on the Consumer Price Index (CPI) as measured in the March Quarter for the preceding 12months, as defined in clause 10.4.

12 ALLOWANCES

Allowances contained in Part A, Part B or Part C of this Agreement shall be increased annually from the first full pay period in July each year based on the Consumer Price Index as measured in the March quarter for the preceding 12 months.

13 SUPERANNUATION

- 13.1 Employees may choose the superannuation fund that they want their employer and employee superannuation contribution paid into, in accordance with the funds' requirements and relevant legislation. Employees should seek their own independent financial advice prior to choosing a superannuation fund.
- 13.2 Where an employee does not choose a superannuation fund the default fund for employer contributions will be Vision Super.

14 SALARY SACRIFICE ARRANGEMENTS

- 14.1 On a voluntary basis, employees are entitled to engage in arrangements with Council to salary sacrifice part of their base salary for items of benefit which do not incur any Fringe Benefits Tax (FBT) liability to Council as allowed by the Australian Taxation Office (ATO).
- 14.2 All salary sacrifice non cash benefit items are fully convertible back to the base salary cash equivalent for the purpose of calculating all entitlements including superannuation, redundancy and termination payments.
- 14.3 The parties and persons bound accept that salary packaging will be made available on the basis that employees will be encouraged to get independent financial advice in relation to salary packaging, to be arranged by the employee and at