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

Dear Sir / Madam,

RESPONSE TO DRAFT REPORT – “A BLUEPRINT FOR CHANGE”

At its meeting on 24 August 2015 Frankston City Council considered a report on the recommendations contained in this report.

I do take this opportunity to reiterate Council’s position that it does not support the implementation of a rate capping regime, and that it is considered that the community has significant input into the development of Council’s financial decisions through both significant consultation processes and elected representatives. Accordingly, this Council’s comments on your report should in no way be seen as being supportive of rate capping.

You may be aware that Council recently completed building a \$50million aquatic and recreation facility – “PARC”. PARC is a regional facility catering for not just the Frankston community, but also the broader population of South East Melbourne. It has attracted over 600,000 visits since opening in September 2014, as well as employing over 300 local people. However, there is no doubt that Council would NOT have committed to the \$25million debt needed to fund the project if a rate capping regime had been in place at that time.

This is one aspect of rate capping that is so concerning – Council’s capacity to provide new and improved facilities and infrastructure for its community.

The other aspect, which is partially referred to your report, is that of cost shifting from other levels of government. While we welcome your comments around statutory fees and charges – this does not go far enough. Cost shifting has imposed on this Council an additional financial cost of \$4.5million in 2014/2015 compared to 2010/2011. This is equivalent to a 5% increase in rates. It is therefore imperative that any rate capping framework takes into account this cost shifting.



I now turn to Council's response to the specific recommendations

A. The cap

Recommendation 1. *That there should be one rate cap that applies equally to all councils in Victoria;*

The recommendation to have only one cap is appropriate.

However, given the varying needs of individual councils, a "one cap fits all" approach will only be effective if a simple, accessible and easily understood variation framework is put in place. It should not be an onerous burden for a council to apply for a variation.

Recommendation 2. *That revenue from general rate 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, and that service rates and charges not be included but be monitored and benchmarked.*

This is considered appropriate. To cap service and special rates and charges income, which is determined by the cost of delivering the service and/or benefit, would completely remove the reason for councils having the capacity to raise these charges.

Recommendation 3. *That the cap should be applied to average rates and charges paid by the average ratepayer.*

Using either average rates or total rate revenue is appropriate, however the matter of supplementary rate revenue must be addressed.

Supplementary income is raised at varying stages through the year, and this should be annualised before the cap is applied.

It is also recommended that reverting to a four yearly valuation cycle be considered. A cap to rate income removes one of the key reasons for more regular general revaluations, and reverting to a four year cycle, possibly aligned with the council election cycle, would give ratepayers a greater degree of certainty of rate payments over an extended period of time. It will also reduce councils' valuation costs.

Recommendation 4. *That the cap be set based on a 60% weighting on the consumer price index (CPI) and 40% on the Wage Price Index (WPI).*

This is not supported, although it is an improvement on a cap being set wholly on CPI.

Councils deliver broad suite of services and it is recognised that the cost base is affected by many different factors. While wage costs are a large part of the cost base, they are not the only cost driver. Councils spend a large part of their income on capital works – construction materials, fuel, longer terms contracts and other factors contribute to cost increases outside wages growth and CPI.

Further, assuming that wages represent 40% of the cost base of a council is incorrect. Frankston City's wages actually represent 47% of the cost base, as shown in the table below:

Description	Amount \$'000
Total Operating costs	124,856
Less asset adjustments (non cash)	(238)
Total Adjusted Operating costs	124,618
Total Employee costs	58,781
% Employee Costs	47%

Also, councils have their own individual Enterprise Bargaining Agreement (EBA), with varying annual wage increases. The Agreements also allow for banding increases which add approximately 0.5% over and above the agreed annual increase in the EBA. This is not recognised in any WPI.

It is also concerning that the relevant CPI and WPI information will only be available in December / January prior. This Council commences its budget and business planning process in October of each year. This timing will have a severe impact on the budget process.

The report also suggests imposing an efficiency dividend, initially set at 0.0%, but increasing by 0.05% from 2017/2018. This is not supported for reasons outlined elsewhere in this report.

Recommendation 5. *That the 2015/2016 rates be adopted as the starting point.*

If adopted, this starting point will see the first year of rate capping being imposed on newly elected councils.

It is strongly recommended that the first year of the cap be set on 2016/2017 rates, allowing the newly elected councils much greater say in determining their future.

B. The variation framework

Recommendation 6. *The discretion to apply for a variation should remain with councils.*

It is imperative that a variation framework be put in place. The framework must be readily understood, transparent to all parties and not costly or time consuming – so that scarce resources are not diverted from service delivery.

Recommendation 7. *The following five matters be addressed in an application for a variation:*

The reason a variation from the cap is required,

Ratepayer and community views,

Value for money and efficiency,

Service priorities and funding options,

Integration with council's long term strategy.

This is agreed. This Council already takes all these factors into account through its planning and budgetary processes.

It is also imperative that one-off factors, such as implementation of major capital works projects and/or programmes are considered valid reasons for a variation.

Recommendation 8. *Length of variations*

The move to allow variations to apply for a four year period from 2019/2020 and beyond is supported. This will fit with the local government planning and election cycle.

Consideration should be given to introducing four year variations at a much earlier date (ie: from the commencement of the scheme).

Recommendation 9. *That the Commission should make the decision on an application for a variation.*

This is partially supported. While it is considered appropriate that the Commission process and deal with applications for a variation from an administrative sense, any decision should rest with the Minister for Local Government, in consultation with the Treasurer, and upon the advice of the Commission. Further, a council should have a legislated right to appeal any decision.

C. Monitoring

Recommendation 10. *The Commission recommends that it monitor and publish an annual rates report on councils' adherence to the cap and any approved variation conditions.*

Recommendation 11. *The Commission recommends that it monitor and publish an annual monitoring report on the overall outcomes for ratepayers and communities.*

A monitoring and reporting regime is supported.

However, the recommendation only covers rate income. Given the significant cost pressures in excess of CPI and WPI that councils face, it is strongly recommended that the Commission also monitor cost pressures and increases to ensure that the cap is not having unintended consequences upon councils longer term financial sustainability.

D. Matters for further consideration

Consideration: *The Commission recommends that the Government considers initiating a specific review to ensure that statutory fees continue to reflect councils' efficient cost of providing statutory services.*

This is strongly supported. In the area of Statutory Planning alone this Council subsidises the service by over \$800,000 per annum – the equivalent of 1% of rates. This is a “user pays” service and fees and charges should reflect the full cost of the service.

However, this review needs to be broader than just statutory fees and charges. Councils provide a myriad of services on behalf of State and Federal Government, yet are funded at less than the cost of service provision. Cost shifting to local government has grown over recent years, and councils will not be able to continue to deliver these services (statutory and non - statutory) without increases in grants and fees and charges.

It has been suggested, in regard to cost shifting, that councils have already met these increased costs through increased rates. While this may be the case in some instances, councils have also reduced services to their communities in other areas to meet these increased costs.

In Frankston alone, ratepayers are now paying \$4.5 million per annum more to provide State and Commonwealth services and programmes.

Examples include:

Libraries	\$800,000
Home care:	\$1,100,000
School crossing supervision:	\$320,000
Foreshore cleaning and management:	\$500,000
Maternal and Child Health:	\$800,000
Preschool:	\$150,000
Statutory Planning:	\$830,000

This equates to an additional 5% of rates being paid in each and every year to provide services on behalf of other levels of government. Any monitoring regime needs to take this into account.

In conclusion, I do thank you for the opportunity to make comment on your recommendations, and for making recommendations which may, if adopted by the Minister, go some way to lessening the damaging effects of such a regressive policy.

Attached is a copy of the full Council report and minutes.

Yours sincerely,

A handwritten signature in black ink that reads "S. Mayer". The signature is written in a cursive style with a large initial "S" and a clear "Mayer" following.

Cr Sandra Mayer, BA, GAICD
MAYOR – FRANKSTON CITY