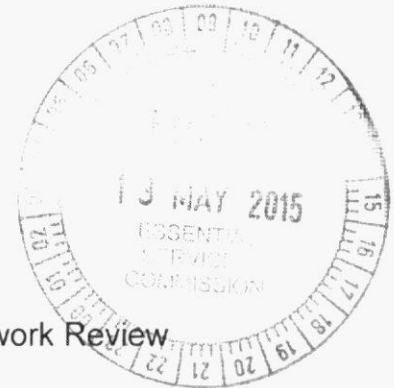




11 May 2015

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



Dear Dr Ben-David,


**Casey-Cardinia Library Corporation submission on "Local Government Rates Capping and Variation framework Consultation Paper"**

Thank you for an opportunity to provide a submission on the *Local Government Rates Capping and Variation Framework Consultation Paper*.

A copy of the Corporation's submission is attached for your consideration.

Please do not hesitate to contact me if you require any further information regarding this submission.

Yours sincerely,

  
Peter Carter  
Chief Executive Officer  
Encl.

## Local Government - Rates Capping & Variation Framework

### Response

#### Preamble:

This submission is a response to the Local Government – Rates Capping & Variation Framework Consultation Paper, released for comment by the Essential Services Commission in April 2015. The submission is on behalf of the Casey-Cardinia Library Corporation.

The Corporation appreciates the opportunity to prepare a submission on the Consultation Paper.

The Corporation believes that the Consultation Paper provides a useful guide document to the development of rate-capping principles. However the Corporation does have particular comments that it wishes to be considered as part of the development of any rate-capping framework.

#### About the Casey-Cardinia Library Corporation:

The Casey-Cardinia Library Corporation (CCLC) is a Regional Library Corporation formed under the provisions of Section 196 of the Local Government Act 1989. It provides public library services to the City of Casey and the Cardinia Shire Council. The Corporation exists as an independent Local Government entity, subject to most of the same requirements of a Council under the Local Government Act. The Corporation is governed by a Board of Councilors and Officers from the member councils, and is managed by a Chief Executive Officer.

It prepares a Library Plan; Annual Budget; Strategic Resource Plan; Annual Report and related documents, and is subject to audit by the Victorian Auditor-General's Department. Budgets and Strategic Resource Plans/Library Plans are approved by the Board and then by the member Councils.

CCLC incorporates five libraries within the City of Casey: Cranbourne, Doveton, Endeavour Hills, Hampton Park and Narre Warren, and another three libraries: Emerald and Pakenham and a Mobile Library in Cardinia Shire. CCLC's role in the community is to encourage literacy, creativity, self-discovery and lifelong learning. Since its establishment in 1996, CCLC has expanded with several new libraries and the renovation and expansion of existing buildings to accommodate rapidly increasing usage of the library's facilities and services.

CCLC provides public library services in the municipalities of Casey (283,415 pop.) and Cardinia (87,008 pop.) which have a combined population of 370,423 (ABS Estimated Residential Population June 2014). Casey's area is 409 sq. km, and Cardinia's is 1,281 sq. km, totalling 1,690 sq. km. Both municipalities have significant rural and semi-rural areas. As one of the fastest growing areas in Victoria, consistent population growth is a feature of the community, with an increase of 3.5% across the region. Casey is Victoria's most populous municipality with new residential development, particularly in the south, around Cranbourne and Clyde North. The northern part of the City has a particular focus around the regional shopping centre, and there has been significant

expansion in the Lyndhurst and Hampton Park areas.

Cardinia Shire is also part of the extension of the urban growth boundary into the south-east growth corridor stretching along the Princes Highway to Pakenham. Cardinia's population is centred along ribbon development on major roads around Pakenham, with another significant concentration in the northern hills district. There are a number of smaller townships in the south and east. There are major new residential developments in Officer and Pakenham.

The Corporation is funded primarily through the two member councils. It also receives (on behalf of the two councils) a State Government Public Library grant. Remaining funding is sourced from revenue raised or internal money management.

This table shows the split of Corporation income streams:

| Income 2014/15          | Amount      | %     |
|-------------------------|-------------|-------|
| Council contributions:  | \$6,572,850 | 70.3% |
| State Government grant: | \$2,274,610 | 24.4% |
| Other income:           | \$502,720   | 5.3%  |
| Total:                  | \$9,350,180 |       |

Both councils are also responsible for the provision of library buildings, which they maintain, and which the Corporation operates on their behalf.

## Specific comments on the Consultation Paper

The Corporation, as can be seen, is primarily dependent on funding from the two member councils. Reductions and limitations in their available funding through the imposition of rate-capping will almost certainly have implications for the funding of the Library Corporation. Both councils have supported the Library Corporation, particularly with the establishment of additional library branches, as demand has grown over time.

In theory rate-capping should not be a specific issue, since councils have the ability to choose to allocate their available funds; if the community wants library services supported, then the councils have the opportunity to respond within the overall funding constraints of any rate-cap. The Council Plans and strategic resource plans would in theory respond to known and identified public demand.

In reality, both member councils are in high growth areas with very significant service and infrastructure demand on their resources. For example in the past 10 years, the following library infrastructure works have taken place:

Casey: 1 new library building, 5 major refurbishments of existing libraries

Cardinia: 2 new library buildings, 1 major mobile library refurbishment

An artificial rate cap which does not take account of both natural cost increases for service provision, as well as the inflated service demand caused by high population growth will inevitably lead to compromises on service provision, such as public library services, regardless of willingness to support the services.

High growth councils, and 'interface' councils such as Cardinia Shire already have service compromises forced on them due to their growth and infrastructure/service demand. Any rate cap that does not allow for this will cause serious problems both in matching services to growth, but also in ensuring appropriate infrastructure

development and renewal. Although growth in population/dwellings leads to movement in the overall council rate base, both councils face accelerating demand for the services while they have a natural 'lag' in the development of services. Building a facility or expanding an existing service takes time, and additional funding also takes time to come on stream as new residents move in.

Public library funding issues have already been exacerbated by the state government's steady cost shifting of library funding onto to local government. This issue of cost shifting has been already noted in the Consultation Paper.

The Consultation Paper discusses the most appropriate form for the cap to take. The problem is establishing the relevance of any calculated CPI figure to real increases in business and operational costs for both councils and regional library corporations.

The Australian Bureau of Statistics CPI figure used in Australia is based on household expenditure on a range of retail goods and services. As has already been noted in the Consultation Paper, councils and regional library corporation expenditure and costs are based on a very different array of items: construction, contract services; materials outside of 'normal' retail supply; and wages. It must be noted that books and other library collection materials should not necessarily be regarded as normal 'household' items. Many items for library collections are specialized purchases, sourced from overseas, with additional processing and handling costs.

A further point is that the CPI figure is based on capital city household costs. Any extrapolations from these would not be accurate for costs associated with a range of rural and regional city councils. These local government authorities are affected by higher than average transport and energy costs associated with their distance from the capital cities.

Public library services, including regional library corporations, have costs driven primarily by wages, purchase of library materials (mostly published overseas and hence affected by the value of the Australian dollar), or IT and telecommunications costs. The use of the standard CPI figure would not adequately reflect real movement in costs for these items of expenditure.

Much of Local Government expenditure in general and public library service expenditure in particular, is driven by employment costs.

For a typical regional library corporation, such as Casey-Cardinia Library Corporation (with an annual operating budget of \$9.5million) expenditure breaks down as:  
68.2% staff expenditure  
14.5% library materials  
17.3% Operational expenditure (including IT and communications)

It would be preferable that if a rate cap is to be introduced then it should be based on more realistic indices to reflect real budgetary pressures.

Options include: real wage growth; local government cost indices (MAV or other sources).

A cap that recognized real wage growth would assist in addressing the high salary component in much local government and public library expenditure. The Victorian Budget 2015/16 Strategy and Outlook Budget Paper No. 2, in Table 2.1 forecasts that in 2017-18 the CPI will be 2.5%, while the Wage Price Index will be 3.5%. A cap based on CPI alone on that example would not allow for the State Government's own wage price predictions.

Using the Wage price index has its own problems, however. The 2015-16 Victorian Budget papers identify the Wage Price index as "total hourly rate excluding bonuses". Analysts such as BIS Shrapnel have noted that the Wage Price index acts only as a measure of underlying wage increases. This measure does not address changes in total labour costs across an organization caused by increased skills levels, promotion, band or classification increases.

Employees in local government in general, as well as regional library corporations are covered by Enterprise Bargaining (Collective) agreements (and subject in many cases to regular classification movement, hence salary increases). Typically an enterprise agreement in local government has a length of three or four years, with annual wage increases factored in during the life of the agreement.

One forecast of annual overall wage increases for all industries across Australia predicts a Labour Price only increase for employees governed by Collective Agreements at 4.3% in 2018. It is possible that real wage costs could actually be higher than this estimate.

It is apparent that using a CPI driven cap would leave local government authorities extremely vulnerable to budget pressures from real wage increases significantly higher than the cap.

Options to refine the cap include:

- Using a wage growth based cap
- Using a cap that averages CPI/Wage trends
- Using multiple caps, or allowing for longer term forecasting of the intended cap

The Library Corporation has no involvement in the setting or collection of rates. It has therefore not commented on the Consultation Paper specifically in relation to the details of such matters as:

- The base to which the cap should apply
- Supplementary rates
- Re-valuation processes

It believes that these matters should properly be the province of the member councils.

The following are some other general principles that the Corporation believes should be considered as part of any rate-capping framework:

- The rate-capping framework should consider long term commitments for councils and corporations, including Enterprise Bargaining Agreements, service contracts, Defined Benefits Superannuation liability payments, etc
- Any costs associated with administration of the framework, including any variation process, should be the responsibility of the State Government
- The development of the guidelines and other documents such as facts sheets should be released in a very timely manner, given the proposed implementation timeframe
- The timing of any rate-capping framework should consider the current Council/Library Plan cycle, the timing of council elections and the normal timings inherent in any council/library corporation budget planning cycle