

P: (03) 5220 7111
F: (03) 5220 7100
Local call: 1300 363 036
E: enquiries@gplains.vic.gov.au



Golden Plains Shire Council
2 Pope Street, PO Box 111
Bannockburn, Victoria, 3331
W: www.goldenplains.vic.gov.au

14 May 2015

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

GPS Ref: OUT15/98D6AD8
GPS File: 36-02-023

Email: localgovernment@esc.vic.gov.au

Dear Sir

Golden Plains Shire Council - Response to Esc Consultation Paper

Golden Plains Shire has responded to the twenty-two questions posed in the Consultation Paper and these are attached.

The Shire is grouped in the Small Rural Shire category, however some agencies classify it as Large Rural, which is the case in Appendix C of the Paper.

As recently as 2004, Golden Plains was the lowest rating Council in Victoria and by 2015, has climbed to only 36th position despite larger percentage rate increases. This demonstrates the misconception that arises through focusing on a percentage value, and highlights the important interaction between the level of the rate base and the percentage increase, in determining sustainability.

Only 50.3% of revenue is raised from rates and charges against a State average of 61%. This would be typical for rural Councils where there are no additional sources of revenue, such as parking meter income to increase own source income without the need to increase property rates.

The population growth in the Shire is one of the highest at 3.5%, compared to the State average of 1.6%. This places enormous pressure on infrastructure spending, together with the community demand for increased services, adding to operating costs.

With only about 20,000 residents covering 2,705 sq kms in 56 communities, Council's ability to meet the community's demand for a higher standard of service delivery is limited without increasing rates.

Golden Plains Shire is already a "lean employer", with 36 staff below the rural Shires average per 1,000 residents. Any reduction in staffing would translate into a reduction in community services.

Although the twenty-two questions in the Paper may give some consistency in responses, the above highlights the uniqueness of the local government sector and the diversity that exists across Victoria. This will make it very difficult to overlay a rate capping system in an equitable manner, where the percentage increase becomes the focus.

The ESC is encouraged to propose a system that is simple to implement, allows effective delivery of important services to the community and does not increase the administrative burden on local government, particularly rural Councils.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Trigg', followed by a period.

Richard Trigg
Director Corporate Services

Local Government - Rates Capping & Variation Framework

Response – GOLDEN PLAINS SHIRE COUNCIL

THE FORM OF THE CAP

1. While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?

As we know the majority of Council costs relate to labour, construction, etc rather than a selection of household goods. These costs have increased by more than CPI over recent history and are expected to continue.

Issues to be considered include:

- Managing existing Enterprise Agreements or allowing concessions based on existing EA's.
- Understanding by employees and relevant Unions in negotiating new enterprise agreements

By introducing a percentage based cap to all Council's is problematic due to the fact they will all have differing base figures. Those that are already 'ahead of the game' will not be impacted as greatly as those who have already been keeping rates to a minimum, possibly to their own detriment.

Where there is a low base, utilizing a percentage can distort the actual dollar increase. I.e. Percentage increase may seem large in order to maintain existing service levels.

Golden Plains was the lowest rating Council in 2004 and is now only 36th despite larger percentage increases which do not translate into larger dollar increases.

2. What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?
 - CPI does not seem to be the most appropriate index, given Local Government is a 'Service Provider'
 - Possibly the Local Government Cost Index produced by the MAV or the underlying CPI figure could be used as a base.
 - The figure that is established must be flexible due to the diversity of the 79 Victorian Councils, their differing financial sustainability issues and their differing capacities to raise revenue.
 - A tiered approach should be considered for small, large, rural or metro councils to

take into consideration the varying challenges faced.

- The State and Federal Governments talk in terms of projected growth percentages. Perhaps this concept could be used to enable Councils to prepare forecasts in the Strategic Resource Plan.

3. Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative caps for the next two to three years to assist councils to adopt a longer term view in their budgeting and planning, particularly when maintaining and investing in infrastructure often takes a longer term perspective? How should such a multi-year cap work in practice?

The cap must be set on a multiple year basis in order for Council to prepare and adopt a Strategic Resource Plan (SRP). This supports the reporting and accountability framework Local Government is required to operate within and also allows Council's to implement the principles of sound financial management within the Local Government Act (LGA).

Four years would be the ideal term.

4. Should the cap be based on historical movements or forecasts of CPI?
The cap should not be based on CPI, but if it was to be linked to CPI in some way then it must be based on future forecasts.

The State and Federal Governments talk in terms of projected growth percentages. Perhaps this concept could be used to enable Councils to prepare forecasts in the Strategic Resource Plan and provide some certainty for future planning.

5. Should a single cap apply equally to all councils?

Definitely not, the figure that is established must be flexible due to the diversity of the 79 Victorian Councils, their differing financial sustainability issues and their capacity to raise revenue.

As noted in item 1, introducing a single percentage based cap to all Council's is problematic due to the fact they all have differing base figures. Those that are already 'ahead of the game' will not be impacted as greatly as those who have already been keeping rates to a minimum, possibly to their own detriment.

A tiered approach should be considered for small, large, rural or metro councils to
This will also be dependent upon what aspects of rate revenue a cap is applied to.

THE BASE TO WHICH THE CAP APPLIES

6. What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?

The rates base should apply to rates revenue and municipal charges only. Generally service and/or special charges are associated with a specific service or project that is operated on a full cost recovery basis.

In particular the costs associated with household waste collection have increased significantly over recent years due to the State Landfill Levy and other regulatory requirements. It is unreasonable to expect such charges to be capped when Council has no or very little control over the cost increases.

7. Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?

The cap must be applied to the average rates and charges per assessment, otherwise it will not account for the increased demand for Council services that growth will bring. I.e. Growth in the number of assessments must result in increased rate revenue as it will result in increased demand for service.

8. How should we treat supplementary rates? How do they vary from council to council?

Supplementary rates should be excluded from the cap. The cap should be applied at the time of setting the annual budget. Any new properties will have the relevant 'rate in the dollar' applied to its value and any relevant cap will be applied in subsequent budget years.

High growth Councils would be disadvantaged if supplementary rates were included in the cap.

Similarly, any revalued/improved property would have already had an initial 'rate in the dollar' applied to it at the beginning of the year; there would be no reason to alter this.

9. What are the challenges arising from the re-valuation of properties every 2 years? By utilising the average rates and charges per assessment to calculate the cap, the re-valuation would not have an impact.

I.e. any increase in property values would be counter-acted by a corresponding decrease in the 'rate in the dollar' to meet any determined cap.

10. What should the base year be?
If the framework was to be introduced in 2016-17,
then the base year should be 2015-16

THE VARIATION PROCESS

11. How should the variation process work?
The variation process must be a streamlined process to avoid adding a further layer of complexity to the setting of Council budgets and to limit costs.

It would be counter-productive to the State Governments goal of 'reducing the cost of living' if a significant number of Council's were required to submit a costly variance on a regular basis. This enforces the critical nature of ensuring the cap is flexible or set at an appropriate level.

One possible solution could be for the ESC to develop a standard template for Council's to complete or limiting variation submissions to a particular size. This will reduce the administrative costs for all parties involved and ultimately the community (cost of living).

Multiple thresholds (or ranges) could be implemented to lessen the administrative burden. I.e. the greater the variation being sought the greater the level of detail required.

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

Council does not believe there can be a defined list of circumstances that allow Council to seek a variation. As previously stated the diversity of the 79 Victorian Councils may lead to many different circumstances that impact financial sustainability.

Approval of variations must be focused on financial sustainability as Council's legislative requirement to implement the principles of sound financial management is paramount.

13. Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, changes in funding levels from the Commonwealth Government, changes in State Government taxes and levies, increased responsibilities, and unexpected incidents such as natural disasters), are there any other circumstances that would justify a case for above cap increases?

Some other examples that would justify a case for above cap increases may be:

Population growth and/or decline

Service Improvements in addition to growth (based on community consultation)

Reduction in State funding

New legislative or regulatory changes that may impact Council's financial position

14. What should councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation? A possible set of requirements could include:

- the council has effectively engaged with its community
- there is a legitimate case for additional funds by the council
- the proposed increase in rates and charges is reasonable to meet the need
- the proposed increase in rates and charges fits into its longer term plan for funding and services
- the council has made continuous efforts to keep costs down

We would like stakeholders' views on whether the above requirements are adequate.

the council has undertaken regular service reviews

the council has complied with other legislative and regulatory frameworks. E.g.

Requirements within the LGA, including Performance Reporting.

COMMUNITY ENGAGEMENT

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

Community engagement is about involving the community in decision making processes. Within the framework of rate capping it is essential that council has a

clear policy that addresses how council will engage, particularly around service provision that impacts on rates. Using the IAP2 model should be best practice for local government, from informing through to empowering. Councils are understanding more about the benefits of investing in community engagement models that strengthen a partnership with the community in making decisions; currently there is a number of Councils using these techniques to determine budget priorities.

INCENTIVES

16. How should the framework be designed to provide councils with incentives to pursue ongoing efficiencies and respond to community needs? How could any unintended consequences be minimised?

Refer to item 14

TIMING AND PROCESS

17. A rates capping and variation process should ensure there is enough time for councils to consult with their ratepayers and for ratepayers to provide feedback, and for us to review councils' applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with councils' budget processes. We are interested in stakeholders' views on how this can be achieved.

It must be noted that community engagement and consultation is an ongoing process and is not based around one single budget process. Council's longer term planning is based around the demands of the community.

As Council's are required to prepare a Strategic Resource Plan, we believe this should be the mechanism for applying any cap or identify any possible variation. This will then give Council's sufficient time to prepare and adopt a budget by the 30 June deadline. See below for possible timelines

Council Adopts SRP (This should be based on principles of sound financial management and apply any known multi-year cap)	30 June 2015
ESC assesses cap/variation	1 July 2015 – 30 Dec 2015
Council prepare 2016-17 budget	1 Jan 2016 – 30 June 2016

TRANSITIONAL ARRANGEMENTS

18. What transitional arrangements are necessary to move to the new rates capping and variation framework? Is there merit in phasing in implementation over a two year period to allow for a smooth transition?

As per Council's position in item 17 above this two year transition period would be essential. As Councils will begin their next budget process in January 2016, it would be necessary to undertake the following prior to this:

- a) 'best practice' community engagement;
- b) ESC to evaluate Council SRP's.

This will then allow Council to prepare a budget based on community expectations and known parameters.

As best practice community engagement will be a critical factor under this regime, Council's need to know what this looks like before the regime can be implemented. Hence, for the system to be implemented in 2016-17 Council's would need to begin 'best practice' engagement very shortly, before they know what the expectation is.

ROLES

19. What are stakeholders' views on the respective roles of the key participants? Should the Commission's assessment of rates variations be advisory or determinative?

To ensure Councils retain their autonomy the Commission's role should be advisory.

OTHER MATTERS

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

The framework must be reviewed to assess its effectiveness.

As the framework has been initiated from an election promise, seemingly without firstly assessing the impacts on the sector or the community, it is vital that a review be undertaken shortly after the framework has been implemented.

The framework could have the impact of either;

1. shifting the burden of service costs to those in our community who can least afford

- it, via increased user fees; or
2. reducing service levels to those in our community who require it the most.

Both these issues run contrary to the legislated rating system, which is essentially a wealth tax, based on property values.

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

These should be funded by the State Government. Any further shifting of costs to Council will again be counter-active to the State Governments goal of 'capping rates'.

OTHER MATTERS RAISED IN EARLIER CHAPTERS

22. We are interested in hearing from stakeholders on:
 - whether we have developed appropriate principles for this review
 - whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important
 - supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.