



Our Ref: K Tori/mh



13 August 2015

Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

Dear Commissioner,

I enclose Melton City Council's submission in response to the Local Government Rates Capping and Variation Framework Review Draft Report, for your consideration.

Yours sincerely

A handwritten signature in black ink, appearing to be "K. Tori".

KELVIN TORI
CHIEF EXECUTIVE OFFICER

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Submission to the Local Government Rates Capping and Variation Framework Review to the Essential Services Commission

Submission by Melton City Council in response to the Local Government Rates Capping and Variation Framework Review Draft Report

Introduction

Melton City Council has reviewed the contents of the Draft Report titled "A Blueprint for Change" Local Government Rates Capping and Variation Framework Review released the Essential Services Commission in July 2015. While the Draft Recommendations in some respects vary considerably from what Council proposed in its submission, Council is of the view that it is important that all stakeholders respond to the contents of the Draft Report to ensure that the Commission and subsequently the Minister, are fully aware of the impact of the proposed system on the operation of Local Government.

Key Issues for Council

1. Index to apply

It is noted that the Index proposed is a significant shift away from a straight Consumer Price Index (CPI) based cap to one that is based 60% on forecast CPI and 40% on forecast wage price index. This shift goes some way towards meeting Council's preference of having a cap based on a Local Government Index which recognises the impact of wage movements, which is such a significant element of Council's expenditure. It does not however, fully recognise that the balance of Council costs are primarily related to contract and construction expenditure, and as such, Council submits that the Australian Bureau of Statistics Roads and Bridges Construction Index would be a more appropriate measure than the CPI as proposed.

2. Efficiency Measure

The proposed introduction of an Efficiency Measure, which from year 2 of the Rate Capping regime would discount the calculated cap each year, with the Essential Services Commission to conduct further work on what the medium to long term appropriate Efficiency Measure might be. Council submits that the cap itself will impose significant efficiency requirements on Council operations and the proposition for an added efficiency discount is both ill founded and ill directed. It will in the medium to long term, impair significantly Local Government's ability to maintain the substantial asset base that it has stewardship of. Importantly, the introduction of an efficiency factor does appear to Council to be outside of the Terms of Reference for the review established by the Minister. Local Government provides an extremely broad range of services and are very different organisations to water boards or utility companies where such measures are applied.

3. Approval Authority

The draft report proposes that the Commission will only have authority to approve or reject an application for variation by a Council. Council suggests that this is an unsatisfactory situation and that the adjudicating body, which Council believes ought most appropriately be the Minister for Local Government, should also have the authority to modify a request for variation in circumstances that such action is identified as being appropriate.

Council is also very strongly of the view that it should be the Minister that is responsible for determining on an application for variation. While it is acknowledged that the Essential Services Commission would appropriately perform an advisory role to the Minister, it is Council's view that the elected politician and not the appointed bureaucrat, that most appropriately perform the role of adjudicator in these matters.

4. Cost of Administration

Whilst there is commentary within the report in relation to the cost of administering the Rate Capping and Variation system, there is no recommendation as to how the costs are to be accommodated. In its initial submission Council proposed that as the Rate Capping regime is being imposed by the State Government, all costs should fall to the State Government, however from the report it is unclear as to what the situation will be. Council again submits that as this matter is a State Government policy position, the framework should be fully funded by the State Government. Under no circumstances is it appropriate for the cost of administering the framework to be passed down to Local Government.

5. Supplementary Rates

In the body of the report it clearly spells out that the Essential Services Commission believes that supplementary rates in the year in which they are raised will be excluded from the cap, however this is not reflected in the draft recommendations and Council believes the final report should contain a specific recommendation in this regard.

6. Single Rate Cap

The report has recommended at Recommendation 1 that there should be one rate cap applying equally to all Councils in Victoria, and this single measure controlling Local Government revenue raising from rates has no regard to the extremely variable capacity of Local Governments, in differing categories of Councils, to generate own source revenue such as that from parking. This single rate cap will act to the detriment of certain groups of Councils, most notably Rural Councils and Growth Area/Interface Councils. It is clearly recognised that Inner Urban municipalities through parking revenue, have a significantly greater capacity to generate alternate income, and as such the rate capping structure proposed is seen as being somewhat discriminatory to other categories of Council.

7. Other Matters

Council notes that the report comments on the importance of State Government maintaining pace with fee setting for those statutory services that they are responsible for determining, such as planning fees, however no recommendation on this is contained within the draft report. Fee revenue is an important part of a Council's overall financial capacity and it is extremely significant for Councils for those fees to reflect the efficient cost of providing the associated services. We believe the final report should include a strong recommendation to Government in this regard.

Council notes that imposed levies such as the Fire Services Levy and the Landfill Levy are proposed to be excluded from the rate cap. It would appear from the report that there is no provision within the draft framework to ensure that any cost capping rigour applies to those levies that are set by the State Government for the State benefit but collected by Local Government. For example the Fire Services Levy increased by between 7 and 12% in 2015. Council is of the view that such increases reflected on Council Rate Notices will lead ratepayers to the conclusion that rate capping is not effective and not been applied by their local Council when in fact it is the impact of levies collected for the benefit of the State that will be causing a significant amount of the increase shown on their rate notice.