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Dr Ron Ben-David
Local Government Rates Capping and
Variation Framework Review
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Dear Dr Ben-David

LOCAL GOVERNMENT – RATES CAPPING AND VARIATION FRAMEWORK

Thank you for the opportunity for Moonee Valley City Council to provide a submission to the Local Government Rates Capping and Variation Framework Consultation Paper.

The City of Moonee Valley is an inner north-western metropolitan council between 4 and 13 kilometres from the Melbourne CBD. 43 square kilometres in land area, it is home to 117,337 residents. The community is culturally and linguistically diverse, with more than a quarter of the population born overseas. With a forecast resident population of 149,311 in 2035, that represents an increase in population and service demand of some 27%.

Council is proud of its accountability and transparency in the establishment of its rating strategy, with extensive public consultation on the budget process. In developing annual budgets and longer-term strategic financial plans, Council keeps in mind its objectives 'to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of decisions'¹.

The Consultation Paper sought comment across 10 key issues to inform the development of the Framework. Both Councillors and officers have been consulted in the development of Council's responses as attached.

Yours sincerely



CR NARELLE SHARPE
Mayor



NEVILLE SMITH
Chief Executive

¹ Section 3C Local Government Act 1989

LOCAL GOVERNMENT - RATES CAPPING & VARIATION FRAMEWORK

RESPONSE – MOONEE VALLEY CITY COUNCIL

THE FORM OF THE CAP

The Consumer Price Index (CPI), whilst a simple and comparative measure of the overall economy, is ineffective when applied to a single sector as complex as local government. Whilst the Consultation Paper implies that metropolitan council rates and charges per assessment and the Local Government Cost Index (LGCI) have deviated from the measure of CPI by an accumulated 25% and 12% respectively, the assumption of a mutually equal starting point is flawed. It is noted publishing of LGCI data by the MAV ceased in 2013.

The cost of council services is not reflective of the volatility of the global market. In fact, demand for aged care; youth, family and children's services; and support for residents from culturally and linguistically diverse communities increase in times of economic instability. March 2015 CPI data indicates an annual increase of 1.3%², however this alarmingly masks two of the greatest cost groups for local government being health and education. These two groups alone demonstrated annual increases of 4.4% and 5.4% to March 2015³.

The 2015/16 Victorian State Budget forecasts average inflation at 2.6% per annum over the forward estimates. Expenditure is forecast to increase 3.0% per annum on average. This is despite the continued redirection of responsibility of service delivery to local government.

CPI does not take into account wage movements. Employee costs represents 50.4% of total operating expenses in Council's Proposed Budget 2015/16. Moonee Valley's Enterprise Agreement 2013 – 2017 provided for 14.4% increase in salaries and wages, an average of 3.6% per annum over four years.

A framework that places any cap on future rate rises must reflect and respect the inputs to service cost. Further to the shortcomings of the CPI outlined above, State Government policy is directly impacting population growth in municipalities like Moonee Valley.

Councils are required, by 30 June annually, to prepare a Strategic Resource Plan that in respect of at least the next four financial years, must include financial statements describing the financial and non-financial resources required to deliver the strategic objectives of the Council in accordance with the Council Plan⁴. Moonee Valley City Council is committed to strategic, fiscally responsible and prudent financial management. A framework that imposes any cap on rates must be established in the spirit of the *Local Government Act 1989* (Act) and must, as a minimum, provide guidance on such caps for at least the next four financial years.

² Consumer Price Index, Australia, March 2015. Source: www.abs.gov.au

³ Consumer Price Index, Australia, March 2015. Source: www.abs.gov.au

⁴ Sections 125 and 126 Local Government Act 1989

Moonee Valley City Council is custodian of \$1.236 billion in community infrastructure. This infrastructure is ageing and with limited financial resources for its renewal, would be subject to continued deterioration without clear direction given to the future of rate income. Whilst Council continues to advocate at all levels of government for vital funding for infrastructure, with real grant funding declining, capital investment comes at the expense of a heavy reliance on rates. In the 2014/15 budget, the Federal Government announced the freezing of indexation of the Local Government Financial Assistance Grants until 2016/17. Preliminary estimates by the Victoria Grants Commission indicate this would adversely affect councils to the tune of \$64 million⁵ by the time indexation resumes in 2017/18. It is therefore imperative that the basis for any cap is reflective of forecast movements in the LGCI with adjustment for population movements.

A one-size fits all approach to any cap is also not appropriate. Each council is unique, not only in location and demographics, but values, aspirations and challenges. The basis, however, of any cap on rates must apply equally. As identified, the most appropriate measure of cost across the sector is the LGCI. This measure, however, does not reflect movements in population, the relative deterioration of community infrastructure, the community's capacity to pay nor the council's ability to generate non-rate revenue. Council proposes a revised structure comprising:

- Forecast LGCI
- Forecast net population growth, compared with State average
- Level of socio-economic disadvantage
- Relative ability of council to generate non-rate income

Moonee Valley City Council is satisfied that a cap that incorporates all of the above would be in line with the parameters for the establishment of current budgets and plans.

After a period of transition, a productivity and efficiency measure would also be of benefit.

For the purposes of modelling, it was calculated that a cap on rates income at CPI would result in a loss of some \$200 million in rates income over ten years. Council currently invests an average of \$25 million per annum into capital works. Council does not take any rate rise decision lightly and only does so after exhausting all other avenues for non-rate revenue and service delivery efficiencies.

THE BASE TO WHICH THE CAP APPLIES

Moonee Valley City Council has in place differential rates, a municipal charge and garbage charge. A number of special charge schemes are also in operation. Council argues strongly that any cap on rates should only apply to general rates and any charge that is pegged against the general rate. Council has in place both a service charge and a number special rates and charges. In particular, a garbage charge in accordance with Section 162 of the Act and a number of economic development special rate and charge schemes in accordance with Section 163 of the Act.

⁵ Based on analysis by Victoria Grants Commission comparison of funding under a grant freeze.

The garbage charge is a declared annual service charge for the collection and disposal of refuse and reflects that actual cost to council for the provision of this service. The proposed annual garbage charge for 2015/16 is 9% lower than the declared charge for 2014/15.

The economic development special rate and charge schemes apply to non-residential properties within defined key retail precincts within the municipality to encourage growth and vitality. These special schemes are in place to defray the cost of programs that exclusively benefit these properties.

Applying a cap on service rates and charges and special rates and charges would not allow for the defraying of costs nor provide to the community benefits of contract and service efficiencies.

Council establishes its annual budgets and strategic resource plan estimates on total revenue and not on a per assessment basis. When adopting any rate rise, it is based on the required amount of rates and charges income required. The actual rate rise that applies per assessment can vary greatly as a result of a number of circumstances including, but not limited to, a general revaluation, supplementary valuations and changes in the property classification.

Council estimates supplementary rates and charges annually, however as a metropolitan council experiencing significant growth in population numbers and higher density living, this can be difficult to forecast accurately.

Council establishes its general and differential rates based on capital improved values prior to declaring rates and charges. This will fluctuate during the financial year. The treatment of supplementary rates and charges in application of any cap on rates must be well formulated as to not provide an incentive to under-estimate supplementary rates and charges income. Accordingly any cap on rates should be applied to the total forecast rates for the operational financial year when establishing future budgets.

The general revaluation of all properties every two years poses a number of challenges. Whilst the media promote revaluations as a grab for increased rates and charges income, the sector is acutely aware that this is not the case. The application of any rate cap will be difficult to communicate given the fluctuations in property values following a revaluation. Whilst the median house in Moonee Valley increased 7.78% in 2015 compared to 2014, ratepayers have seen fluctuations in capital improved values from falls of 4.4% to increases of 11.48% in the last general revaluation. The Essential Services Commission would have to ensure that a robust marketing campaign, funded at the expense of the Commission, to communicate to ratepayers how any cap on rates will not necessarily be mirrored in their total rates payable in any revaluation year.

Council advocates that the base year for any cap on rates should be the financial year in which a general revaluation applies. Consequently, this would be 2016/17, with application from 1 July 2017.

THE VARIATION PROCESS

Council proposes that any cap on rates should comprise a number of elements:

- Forecast LGCI
- Forecast net population growth, compared with State average
- Level of socio-economic disadvantage
- Relative ability of council to generate non-rate income

In the event that any cap on rates for any council is deemed insufficient to meet the needs of its residents a submission for endorsement should be made to the Commission.

Council should be able to seek a variation to any cap on rates for a number of the matters identified in this submission. These include:

- Interface councils with inadequate community infrastructure and higher and somewhat instantaneous demands for service.
- Council Plan obligations and commitments to be met, including the funding for the renewal and upgrade of ageing community infrastructure. Council does not endorse borrowings alone as a sustainable funding source.
- Levels of socio-economic disadvantage of residents.
- Capacity to generate non-rate revenue.

The variation framework should build on work undertaken by local government over a number of years through the National Asset Management and Assessment Framework. The framework encourages and supports councils in improving their asset management performance through a formalised and progressive process. Council proposes that achievement of core maturity in asset management performance should be a key requirement of the variation framework.

In line with Council's proposal that any cap on rates be established with estimates to provide for four financial years, the variation process should also be based on the same period of four financial years.

COMMUNITY ENGAGEMENT

Moonee Valley City Council commences the budget process in January each year with a Have Your Say campaign. This successful campaign that concludes with a consultation marquee at the Moonee Valley Festival, engages the community in an informal and transparent manner. Utilising alternate media channels including Facebook and Twitter, the community provides input into the budget. This is in addition to the statutory period of public consultation and Council's extensive community consultation program on a number of strategies, policies and master plans.

Each municipality is unique and residents engage with council at many levels. Council is proud of the contribution of its community which is reflected in the Council Plan as well as the Community Vision MV2035.

INCENTIVES

Moonee Valley City Council has commenced the process of Service Planning across its portfolio of programs, activities and services. Support for all Councils to commence and undertake Service Planning provides incentive to engage more closely with the community about levels of service and the scale of council services and facilitates the smooth implementation of any cap on rates.

TIMING AND PROCESS

Moonee Valley City Council currently endorses its proposed budget for public consultation in April each year. The budget process commences in January. Given that the Essential Services Commission would need to provide advice on any variation prior to Council endorsement as required under the Act, application to the Commission would be necessary in September each year to facilitate any adverse changes to budgets.

TRANSITIONAL ARRANGEMENTS

A phased implementation of any rates capping framework is essential. Moonee Valley City Council is currently delivering on its Council Plan 2013-17 and the Community Vision MV2035. There will be a need to review all obligations under the Council Plan and any other action plans adopted by Council to ensure viability. Moonee Valley City Council maintains a long-term financial plan, long exceeding the tenure of the current Council Plan. As the provider of more than 200 services to the community, it is imperative that an adequate transition period is provided to enable Council to review these services and investment in community infrastructure into the future.

There is great need to provide maximum flexibility in the implementation of any cap on rates, particularly in the initial stages to allow Council's systems and processes to adjust.

ROLES

Council considers that the role of the Commission is advisory only. The Minister for Local Government should issue a Ministerial Direction and Order in Council as appropriate.

OTHER MATTERS

Any framework imposing a cap on rates must be reviewed periodically for effectiveness. Given historical experiences across the country with similar impositions, the welfare of Moonee Valley residents relies upon it. A full review of the Framework after three years would be appropriate.

Moonee Valley City Council expects all costs associated with administration of a framework on rate capping would be borne by the Commission.

Moonee Valley City Council is committed to accountability and transparency, with the aim of meeting the needs and aspirations of its community. It is imperative that the sector continues to be involved in the development of the Framework to ensure adequate planning has been undertaken. Hasty implementation of a Framework will prove detrimental.

For further information regarding Council's submission, please contact

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