

25 August 2015

Ms Angelina Garces  
Local Government Rates Capping & Variation Framework Review  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
MELBOURNE VIC 3000  
[localgovernment@esc.vic.gov.au](mailto:localgovernment@esc.vic.gov.au)

Dear Ms Garces

**Re: City of Greater Geelong Submission**

The City of Greater Geelong provide the following submission to the Essential Services Commission (ESC) in response to the Local Government Rates Capping & Variation Framework Review 'A Blueprint for Change'

Council requests the following changes be made to the Rate Capping framework as part of this submission.

1. The efficiency factor to commence from 2017-2018 should be removed.
2. An appeal process should be open to council if a variation request has been rejected by the ESC.
3. Minor Variation applications should be considered differently to major variations with reference to existing Strategic Resource plan
4. Assessment of Variation requests according to the 5 subject matter should be scored in order to substantiate the decision and demonstrate a transparent process.
5. It should be possible for Variation requests after (year 1) 2016-2017 to be up to four years aligned to councils City Plan development and Strategic Resource plan.
6. Applications for Variations to the Cap should be published on the ESC website and available for public viewing
7. Timetable for variation requests needs to align with Councils budget process with the outcome of variation requests advised by end of March each year.
8. Council does not support a 'user pays' system with ESC costs being passed onto council. Costs in preparing variation requests should be council costs and costs incurred in processing variation requests should be the responsibility of ESC.

The following commentary and observations are provided in response to the framework.

### **Element 1: The Cap**

Council support recommendations 1, 2, 3 and 5.

Recommendation 4

*The Commission recommends that the annual rate cap should be calculated as:*

$$\begin{aligned} \text{Annual Rate Cap} &= (0.6 \times \text{increase in Consumer Price Index}) \\ &+ (0.4 \times \text{increase in Wage Price Index}) \\ &- \text{Efficiency factor} \end{aligned}$$

*With CPI = Department of Treasury & Finance (DTF) forecast published in December each year*

*WPI = DTF's forecast published in December each year*

*The efficiency factor will initially be set at zero in 2016-17 but increasing by 0.05 percentage points each year from 2017-18. The Commission will undertake a detailed productivity analysis of the sector to assess the appropriate long-term rate for the efficiency factor.*

The inclusion of an efficiency factor is not supported. The criteria for assessing variation requests includes efficiency factors such as good value-for-money. The variation request would demonstrate council has considered the budgeting need, service priorities and funding options. Applying a further efficiency factor as proposed is an arbitrary approach to apply a task on councils that is not realistic.

Councils are required to adhere to Section 208 of the Local Government Act 1989, on Best Value Principles. Council's best value policy is to cement a continuous improvement culture across the organisation beyond purely complying with the Best Value legislation. The specific outcomes of Best Value will guide Council decisions regarding the future direction of Council services. This is reported in the Annual Report.

The 2015-2016 budget and Strategic Resource plan recognised the commencement of rate capping in 2016-2017 with future planned rate increases reduced to a necessary 3.5%.

Given the tight time constraints of the current review, perhaps consideration should be given to investigating other cost pressures on councils in the next 12 months on items such as cost shifting, potential for defined superannuation benefit shortfalls, reduction to government grants and infrastructure renewal.

The draft report says (Vol 2, page 52), 'We would propose to undertake a detailed productivity analysis of the sector to assess the appropriate long term rate for the efficiency factor'. This is an appropriate review and a timeline from the ESC is required as councils drive towards greater efficiencies should be rewarded and not further penalised.

The inclusion of a weighting factor for WPI is supported as it takes into account the high proportion of employee costs in Councils operating cost base. The ESC has used 40% which is rounded up from 37% (taken from the VGC data) whilst Geelong's labour cost is 43% in the 2015/2016 budget. It should be noted that in the short term with existing Enterprise agreements that if the WPI index reduces, council employee costs may not reduce in line with the index. We believe in the initial years this will be an influencing factor in variation applications.



The WPI index does not take into account changes to workcover premiums or the super guarantee percentage which will also be influencing factors in variation requests..

Other cost factors have not been included in the cap, for example the costs of materials of construction or the broader range of costs identified in the MAV Local Government cost index.

## **Element 2: Variation**

Council support recommendation 6 and 9

Recommendation 7

*The Commission recommends that the following five matters be addressed in each application for a variation –*

- *The reason a variation from the cap is required*
- *The application takes account of ratepayers' and communities' views*
- *The variation represents good value-for-money and is an efficient response to the budgeting need*
- *Service priorities and funding options have been considered*
- *The proposal is Integrated into the council's long-term strategy*

This recommendation is supported; however the process requires more detail.

Applications for variations to the cap should be published on the ESC website and made available for public viewing.

There is no appeal process if a rate cap variation is not approved, nor can approval be given for a lower increase. It has been proposed that the ESC is not given the power to substitute an alternative rate increase to the one proposed. An appeal process based on certain grounds is considered necessary. An independent appeal process to the Minister is required in circumstances where Councils believe it appropriate.

There is no difference in process when applying for a minor variation to the rate cap compared to a major variation to the rate cap increase. A tiered approach to recognise minor & major variations above the cap is suggested.

Appendix E – Summary of Consultation page 177 states 'A tiered variation process with increasing levels of scrutiny was suggested by many submitters.' We would hope that this suggestion is revisited and included in the final report as this should reduce the number of variation applications requiring substantial review effort and minimise the cost of implementation.

It is considered that a scoring or weighting system needs to apply to the five criteria to provide transparency in the assessment process.

The ESC propose to consider submissions from the public on variation applications (Vol 2 page 79). There are already processes in place for interested parties to comment on the annual budget process to councils directly.

Recommendation 8

*The Commission recommends that in 2016-17, variations for only one year be permitted. Thereafter, councils should be permitted to submit and the Commission approve, variations of the length set out below.*

<i>First Year of Variation</i>	<i>Length of Permissible Variation</i>
2016-17	one year (ie 2016-17 only)
2017-18	up to two years (ie 2017-18 only or 2017-18 and 2018-19)
2018-19	up to three years (ie up to 30 June 2021)
2019-20 and beyond	up to four years (ie up to 30 June 2023)

This recommendation for 2016-2017 is supported, however variation requests from 2017-2018 should be up to four years. The 2017-2018 year will be the first year of the Council Plan where a four year Strategic Resource plan will be developed. Therefore the 2017-2018 year should provide for a variation request up to four years in order to deliver on the Council Plan commitments.

The existing assumptions included in the 2015-2016 Strategic Resource Plan should be considered relevant and be accepted as prima facie grounds for lodging a variation request for 2016-2017. The City of Greater Geelong's 2015-2016 budget and Strategic Resource plan recognised the commencement of rate capping in 2016-2017 with future planned rate increases reduced to a necessary 3.5%. This plan should be recognised by ESC as justification when there are minor variations to the rate cap.

There needs to be capacity to review a longer term decision if significant variations occur, e.g. natural disasters or defined benefit superannuation call.

### **Element 3: Monitoring**

Council support recommendation 10

Recommendation 11

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

Pages 86 and 87 of Vol 2 list a summary of unintended outcomes from rate capping. The monitoring and reporting needs to include these unintended outcomes to ensure that the framework is delivering benefits to the community.

As per Table 4.5 Framework Reporting, one off reports into the matters pertaining to the operation of the framework would be appreciated. For example the effects of rate capping on the renewal gap.

Each councils variation application needs to be published as part of the Commissions report to enable all councils to compare applications to outcomes.

### **2016-2017 Implementation timetable of Rate Capping**

The proposed timeline is considered inappropriate and fails to take into account Councils budget process and rate setting timetable.

<b>ESC Timeline</b>	<b>2015-16</b>
ESC announces cap	December 2015
All Councils submit baseline data (budget)	January 2016
Councils notify ESC intention to seek variation	January 2016
Council applies for variation, submits baseline data (budget)	March 2016
ESC assesses council variation applications	March-May 2016
ESC notifies councils of decisions	May 2016
Councils consult on draft budget	May 2016
Councils formally adopt budget	June 2016



Appendix E – Summary of Consultation page 192 states ‘Most councils requested either the end of February or the end of March as the date by which the ESC should decide on variation applications (this assumed that there are not changes to the current budgetary timelines and statutory obligations).’ The current Local Government Act 1989 requires consultation with the community prior to adoption of the budget by 30 June.

We would hope that this suggestion is revisited and included in the final report.

The following amended timetable takes into account the budget process.

Councils to notify ESC and submit variation requests by 31 January. ESC assesses council variation requests and advises outcome by 1 April to enable the budget process to be completed by the end of June each year.

Suggested Timeline	2015-16
ESC announces cap	December 2015
All Councils submit baseline data (budget)	January 2016
Councils notify ESC intention to seek variation & Council applies for variation	31 January 2016
ESC assesses council variation applications	1 February- 31 March 2016
ESC notifies councils of decisions	1 April 2016
Councils consult on draft budget	May 2016
Councils formally adopt budget	June 2016

Delaying the adoption of the budget will impact on issuing the annual rate notice in July/August each year.

### Other comments

1. ESC should expect that in the first year most council's will lodge a variation request in response to assumptions made in the Strategic Resource plan.

Both Volumes say ‘we do not expect a large number of applications each year’ (Vol 2, page 78).

We are concerned that the variation process may have undue political influence to avoid the granting of variation applications. For example, if 50 councils made applications that all had valid reasons for increasing above the cap, would all applications be approved?

2. The report discusses the costs of administering the framework. It mentions an application fee for considering variation applications, but this has not been substantiated at this time. The fee is aimed to recover ESC costs and could be a fixed, variable or a combination of both (Vol 1, page 39). Further guidance must be provided as to what fee Councils can expect when lodging a variation.

Appendix E – Summary of Consultation page 202 states ‘The majority of the submissions responding to question 21 were of the view that the Victorian State Government should bear the costs of administering an ongoing framework.’ And ‘would be perverse for councils to incur additional costs as part of a framework to reduce rates – further cost shifting.’

Council will incur costs in preparing variation applications such as additional staff resources, external expertise (if required) and additional community consultation if our current engagement program is considered lacking. Therefore it is reasonable that either party should bear their own costs.

3. Geelong agrees with the ESC that a periodic review of statutory fees is warranted to reflect council's costs providing statutory services.

Thank you for the opportunity to lodge a submission in response to the release of Rate capping and Variation framework review.

Yours sincerely



**DEAN FROST**  
GENERAL MANAGER  
STRATEGY & PERFORMANCE

CC Michael Kelly – Financial Services Manager