



Reference: A1893778
Enquiries: Tim Frederico
Telephone: 9293 7150

15th May 2015

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

Dear Sir/Madam,

RATE CAPPING CONSULTATION PAPER

I refer to the above paper released on 17 April 2015. I do note, that while I recognise your timelines are tight, less than one month's consultation does not give Frankston City Council the time to fully consider all issues contained within the paper. Accordingly, I reserve the right to provide further comment should it be required.

In general I believe your paper has touched upon key questions and areas of concern, and I respond as follows:

1. Autonomy of Councils should not be compromised.

It is noted that the ESC is "not seeking to interfere with Council's consultations with their communities. Notwithstanding your comments, a cap on a Council's main source of revenue will, by definition, have an impact on service delivery.

2. CPI is not the appropriate Index of Council Costs.

It is well recognised that the basket of goods that make up the CPI calculations is far different from the cost drives in Local Government. Any cap based upon CPI will, in effect, erode a Council's capacity to deliver services, as the cost of these services increases at a higher rate.

For example, the current annualised CPI has recently been published at 1.7%. Salary costs represent 50% of Councils expenditure. Frankston City has recently paid our EBA increase of 3.25% - by simple calculations this would result in 1.55% less of rate income available for service delivery. If the annual banding increment paid to many staff is included, this would increase to 2.05% less rate increase available for frontline service delivery.

I also note your response to the issue does not include a response to the issue of cost shifting. Our initial analysis reveals that for a basket of 6 services, partly funded by either the Commonwealth or State Governments (Libraries, Home Care, School



Crossing Supervision, Foreshore management, Maternal and Child Health and Pre-school service. Frankston City's total share of funding has risen from 55.8% in 2010 / 2011 to 66% in 2014 / 2015. This equates to additional rates funding for these services of \$4.2million, or the equivalent of 4% of rates.

No investigation would be complete without a detailed examination in of this high level of cost shifting.

3. Quality and level of service will deteriorate and infrastructure will run down.

I find the initial response to this question completely inadequate. With less money available to invest in services and infrastructure, it is inevitable that service levels and infrastructure standards will drop.

Any cap that does not recognise the importance and high priority of infrastructure renewal will be to the detriment of local government and the community it serves.

4. Rate capping may create perverse incentives.

It is critical that any cap does allow for Council to respond to Community needs and demand for services and facilities.

All Councils are in varying stages of an asset development cycle. In Frankston City, we face not only the Asset Renewal Challenge, but an asset upgrade and improvement challenge. Many facilities are not meeting service requirement and standards, and require much higher levels of expenditure.

Other Councils will be at different points in the asset cycle, creating different financial demands.

5. Lessons from New South Wales.

It is respectfully suggested that not only do we need to heed the lessons of the rate capping impacts in New South Wales, but also the very relevant lessons from the rate capping imposed on Victoria Local Government in the mid 1990's and, critically, the reasons for its removal.

This period showed us that while, in the initial period it did drive efficiencies, the cumulative effect over the period caused major infrastructure funding issues which, in many cases, are still being addressed today.

I would urge you to look very closely at the Victorian experience, and the reasons for lifting of the rate cap.



6. Additional layer added to the budgetary and planning cycle.

Councils already work under an onerous and time consuming budget and planning process. Any additions to the current processes will only serve to cause delay and associated costs increases.

7. Ratepayers are concerned with high rates and waste.

This is anecdotal and I believe self-serving.

Ratepayers need to be given a better understanding of the value proposition, however, this is a communication issues, not a rate capping issue.

Unlike other levels of Government, Local Government rates arrive as a "bill" in the mail. As such, it is understandable that there is a much greater level of awareness of the cost.

As for waste, I would be pleased to see any empirical evidence to support this statement.

8. Rating practices.

I noted that this report was about rating practices, not rate levels. Further, given the different drivers involved, comparability between Councils is, fraught with difficulty.

I believe it is critical that the financial impact of any cap is measured, monitored and reviewed to ensure ongoing Council financial sustainability. Too often, the impact of decisions taken today is not seen for sometime, often too late.

Overall, I regard the consultation paper as a first step to the consultative process, and look forward to further, more detailed and extended engagement in the development of any framework.

Also, I have included a copy of a presentation given recently to the Minister for Local Government which provides further information on the impact of rate capping.

Yours sincerely

Dennis Hovenden
CHIEF EXECUTIVE OFFICER

Rate Capping

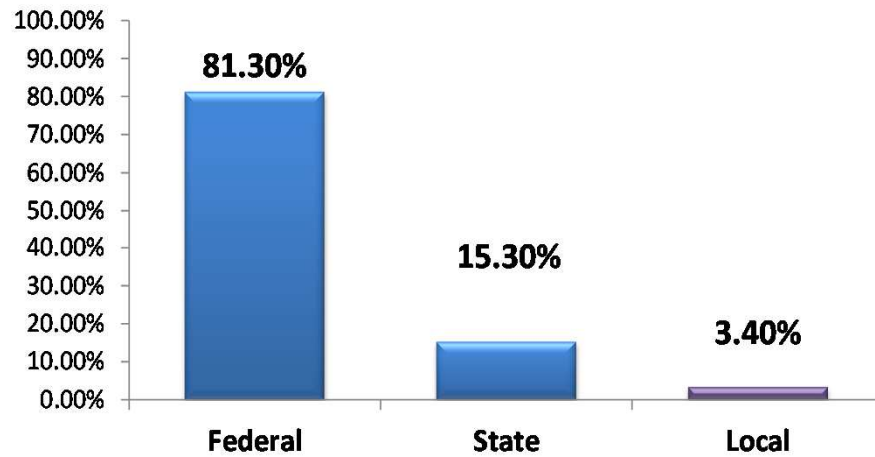
- 1. Background**
- 2. Victoria Context**
- 3. Frankston Context**

Tim Frederico
19 February 2015



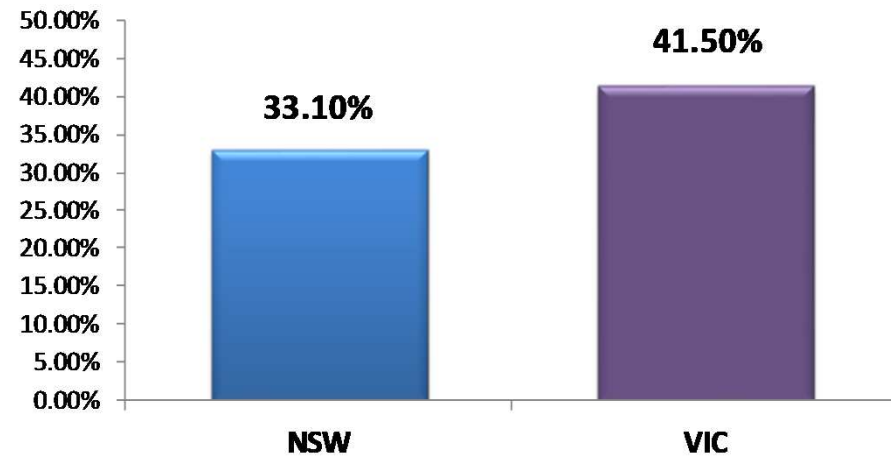
Background

% of Tax Revenue



* 2011/2012 Local Government National Report

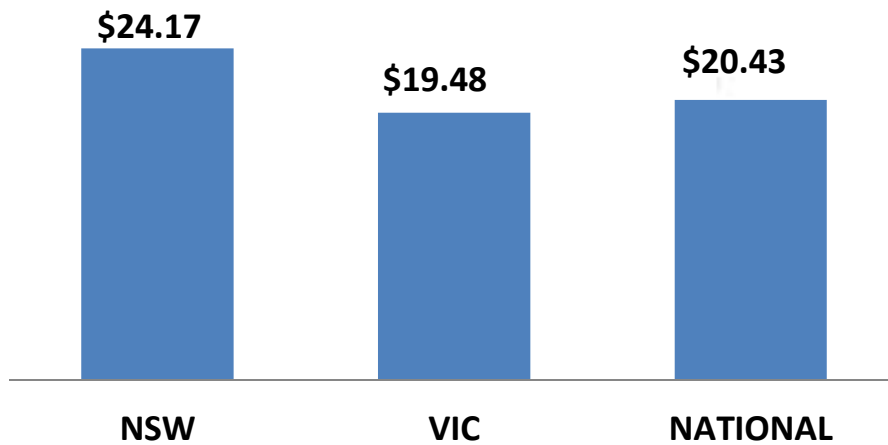
Local Government Taxes as % of Revenue



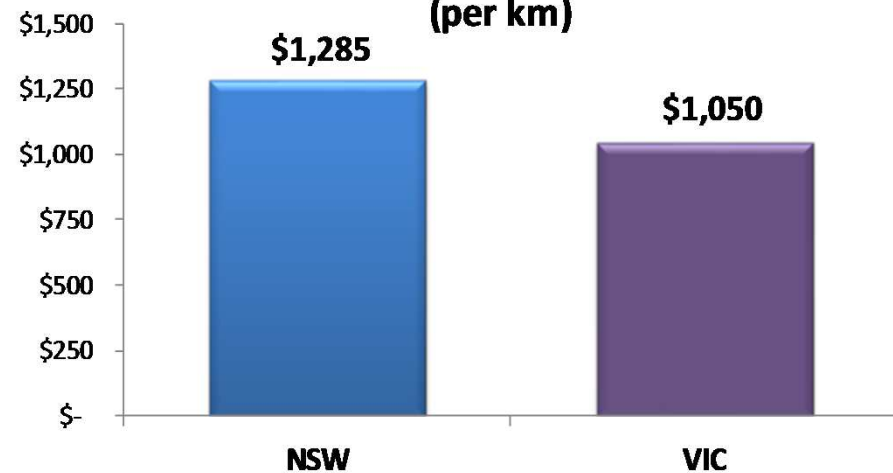
* 2011/2012 Local Government National Report



**Average General Purpose
Commonwealth Grant Per Capita**



**Local Road Grants
(per km)**

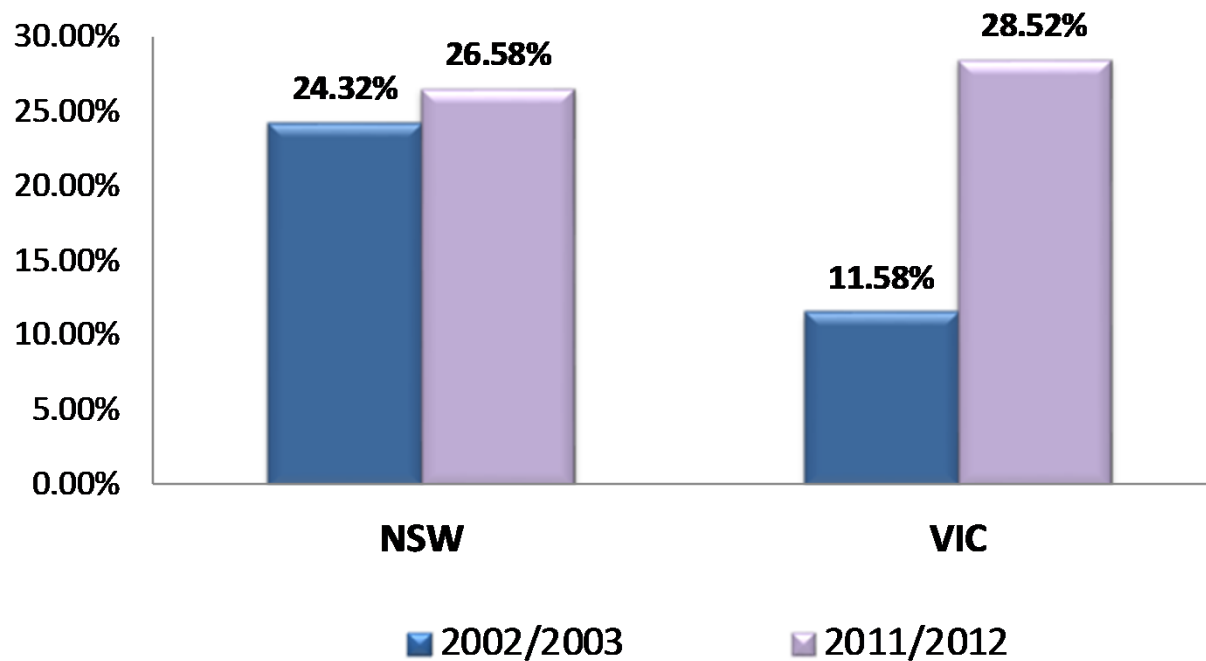


* 2011/2012 Local Government National Report



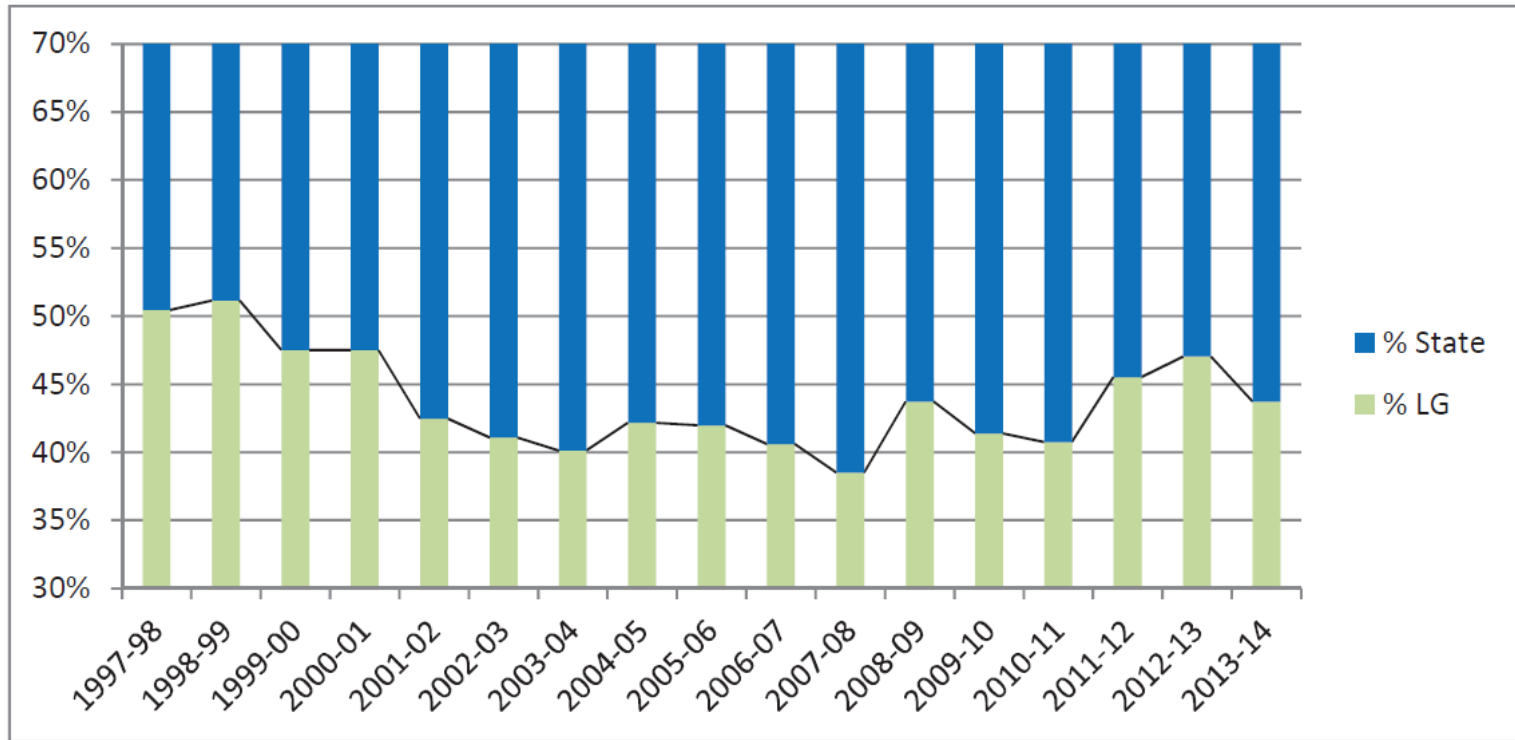
Background

Local Authorities on Minimum Grant (percent of population)

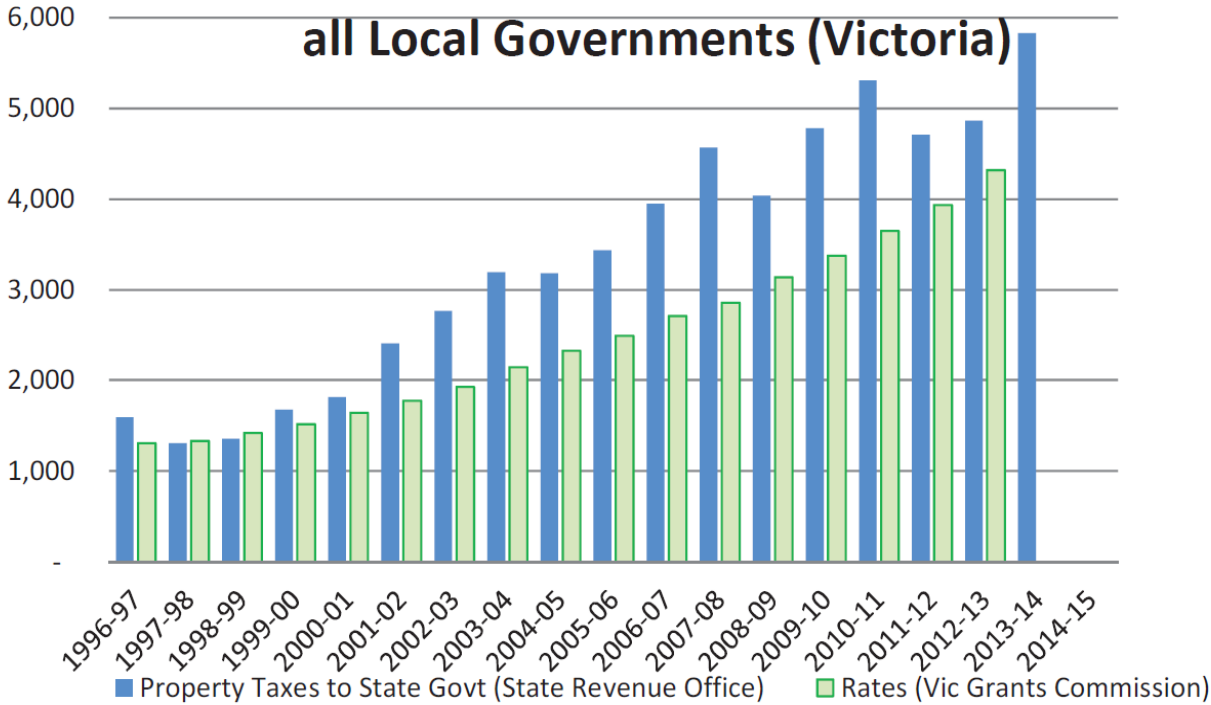


* 2011/2012 Local Government National Report

Property Taxation State and all Local Governments (Victoria)



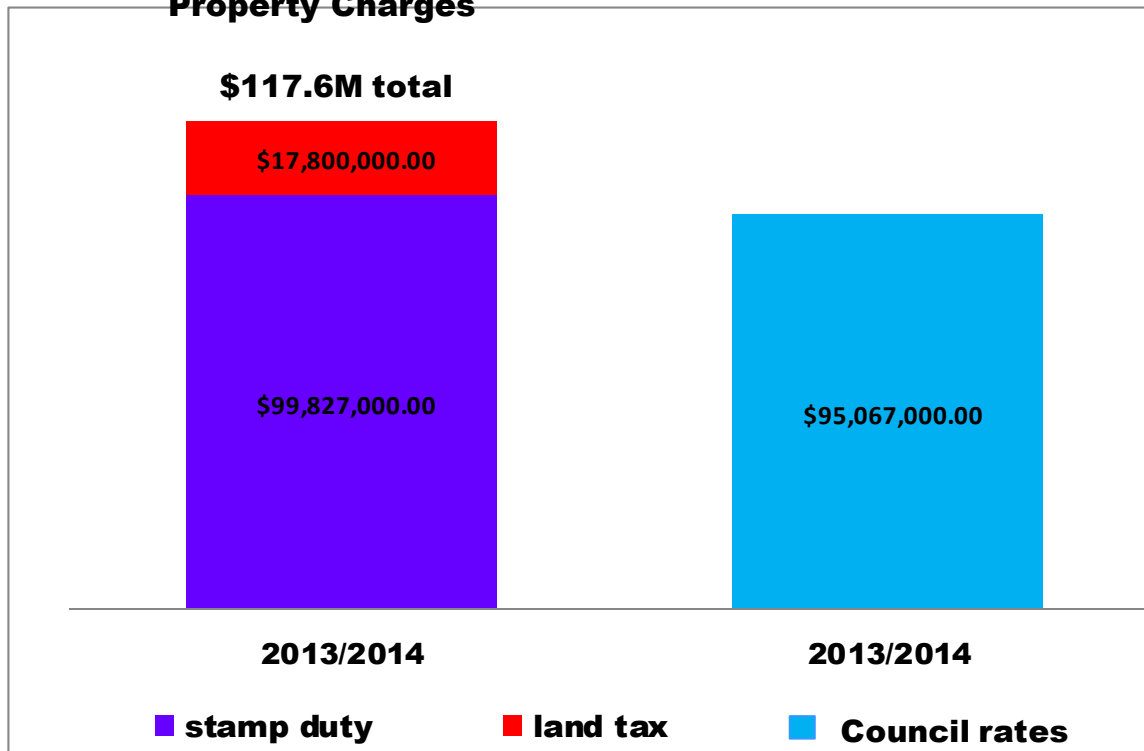
Property Taxation: State and all Local Governments (Victoria)



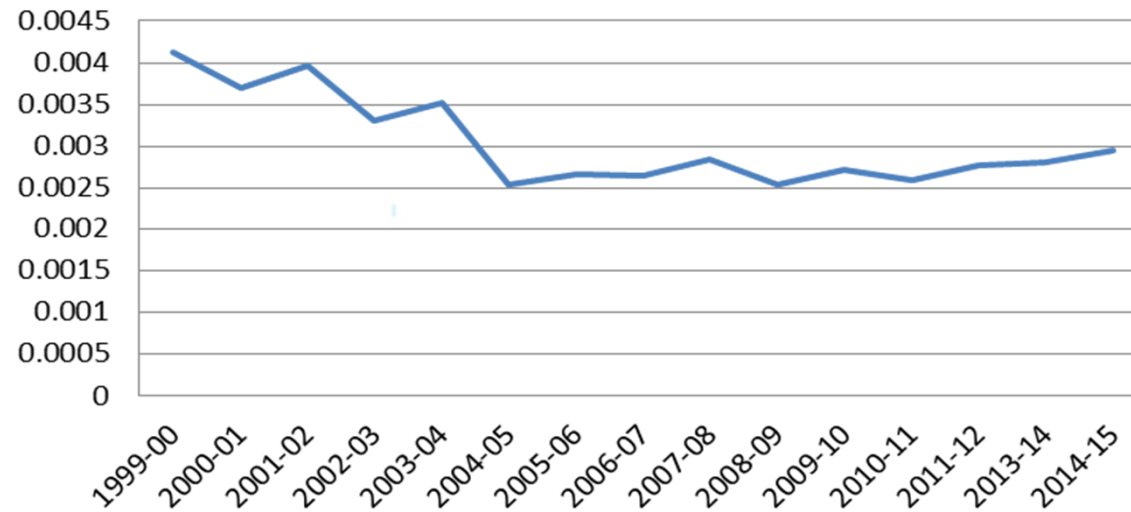
PROPERTY TAXATION

State Government Property Charges

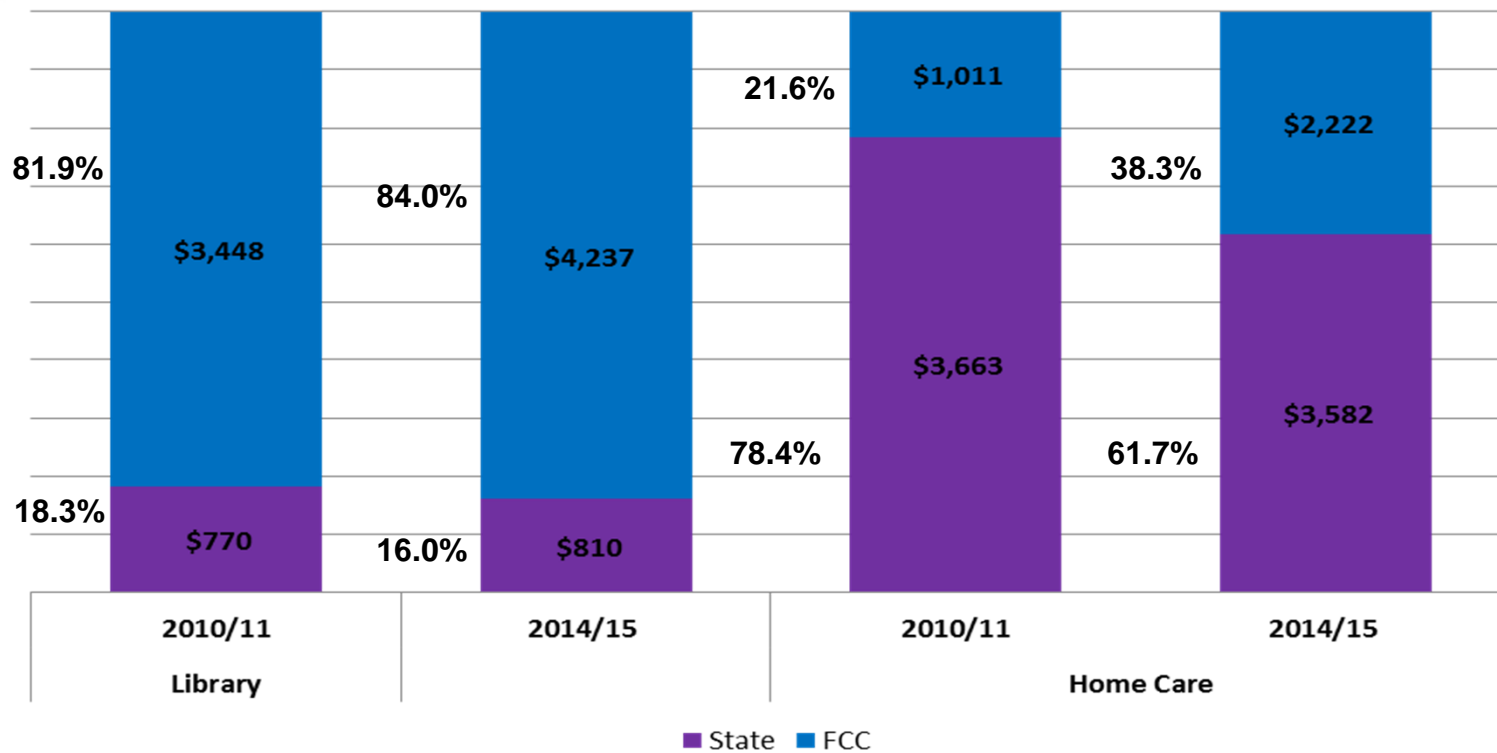
Council Rates



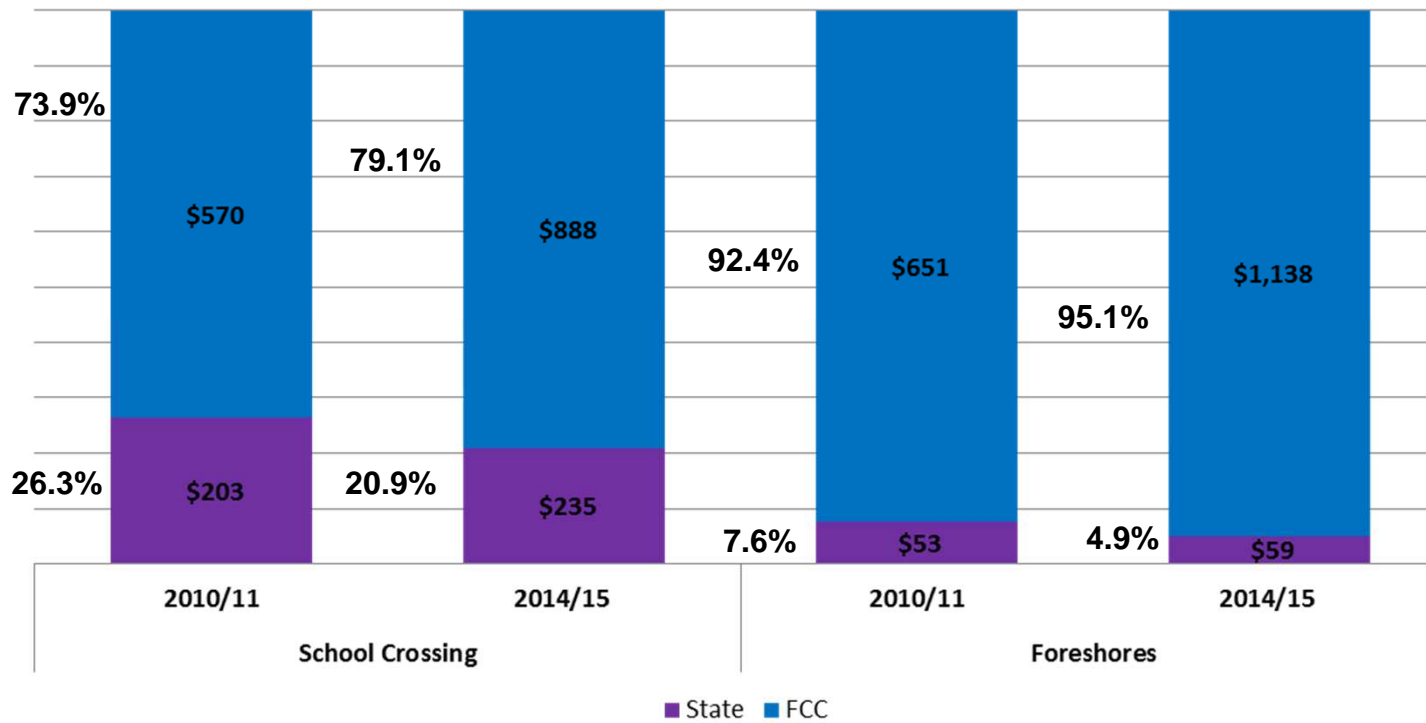
Rate in the dollar 1999-2014



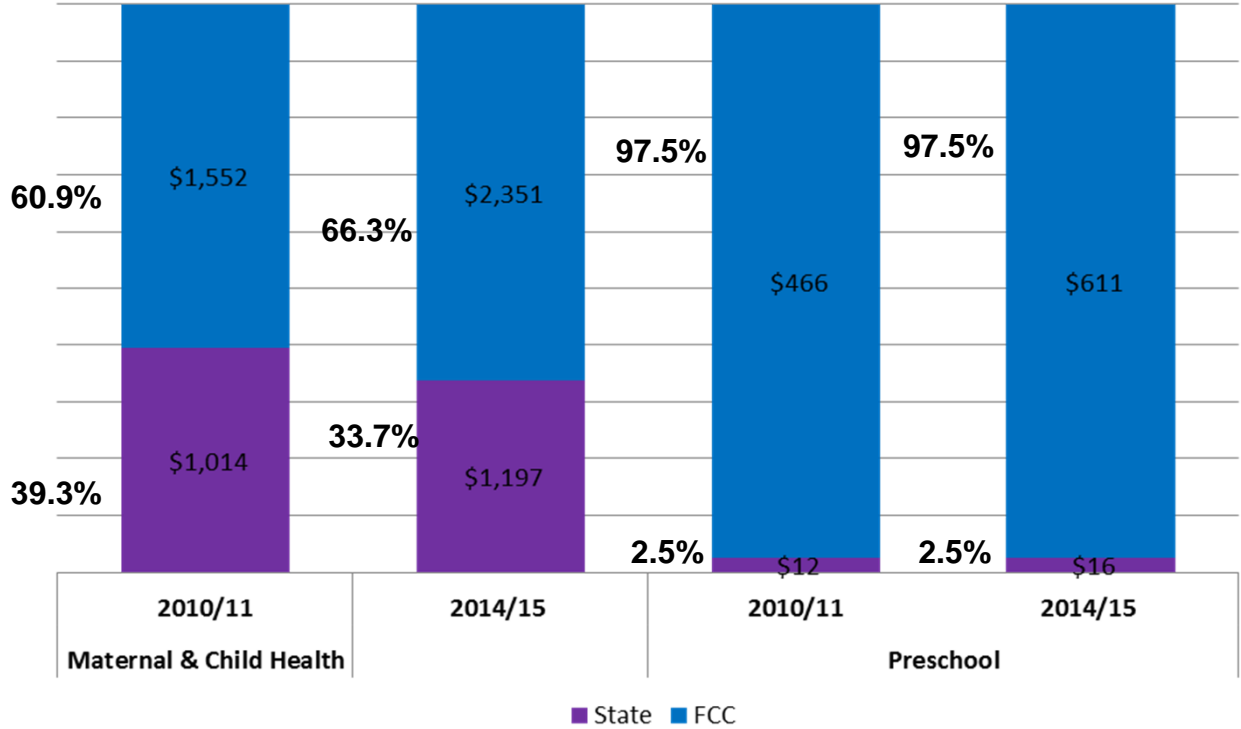
Shared costs of service delivery



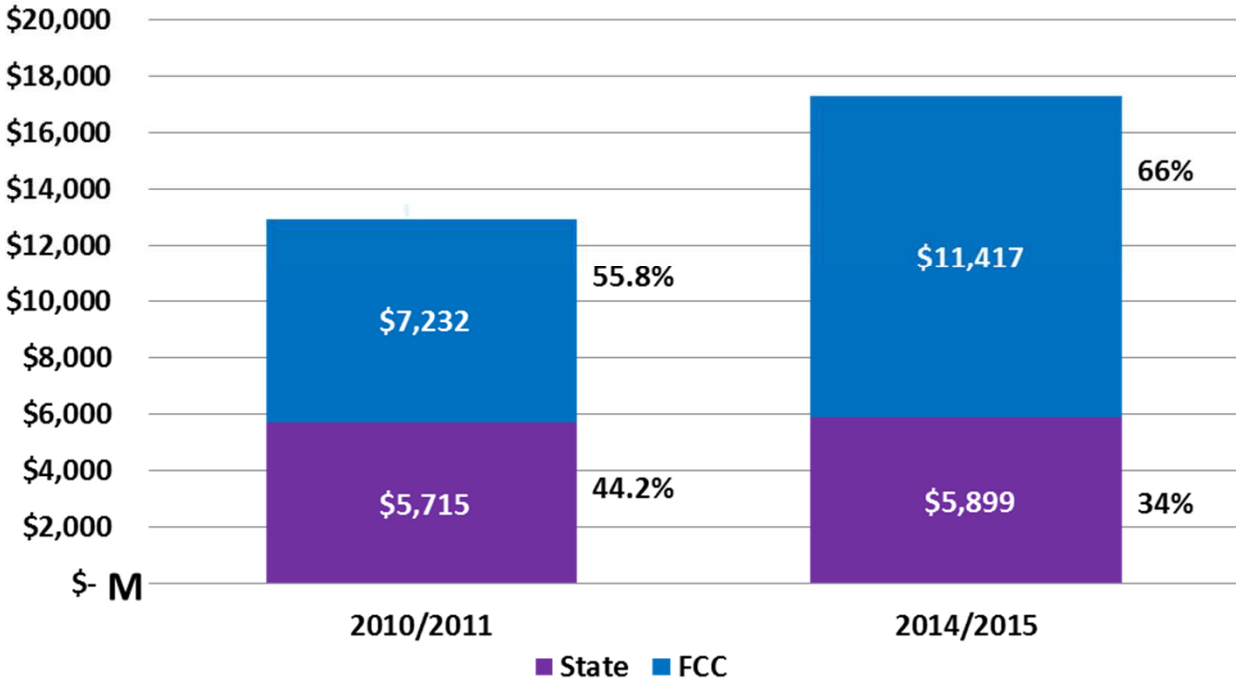
Shared costs of service delivery



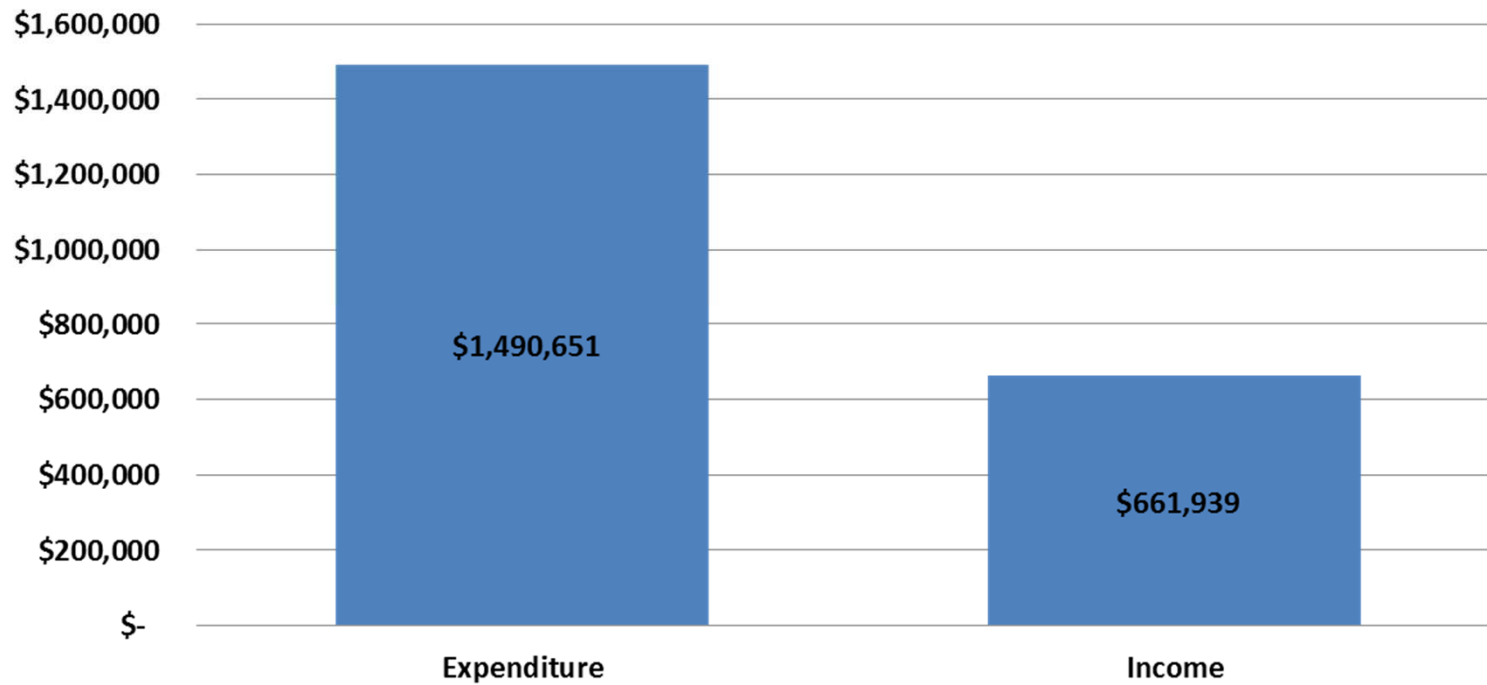
Shared costs of service delivery



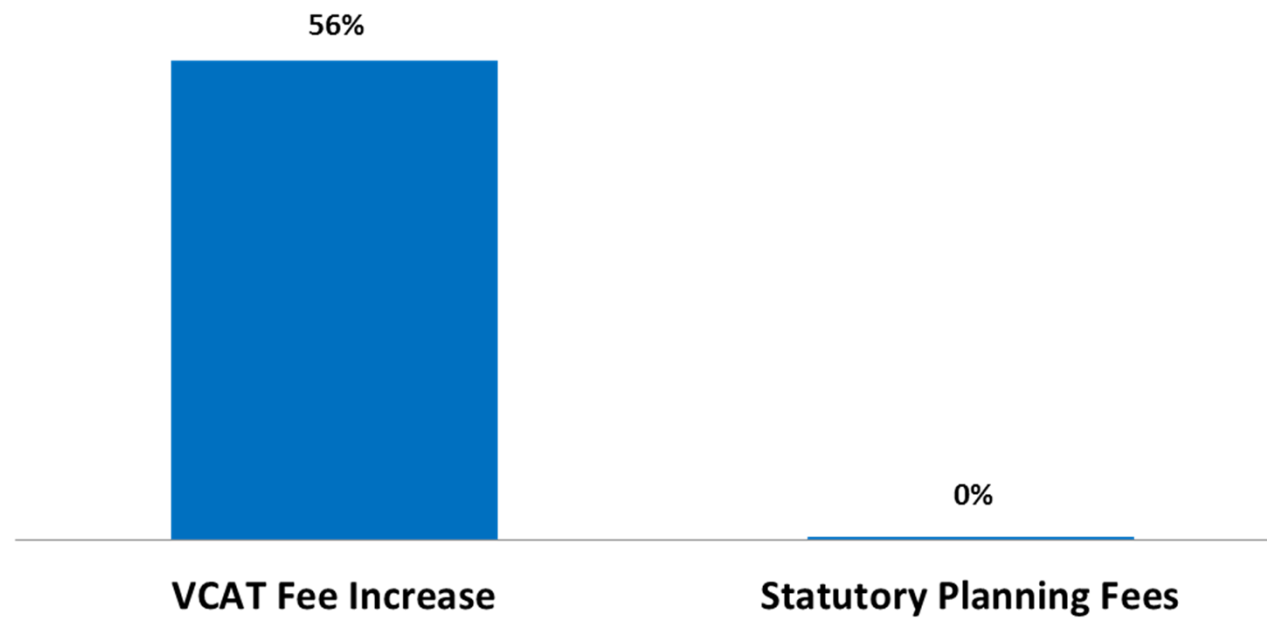
Totals



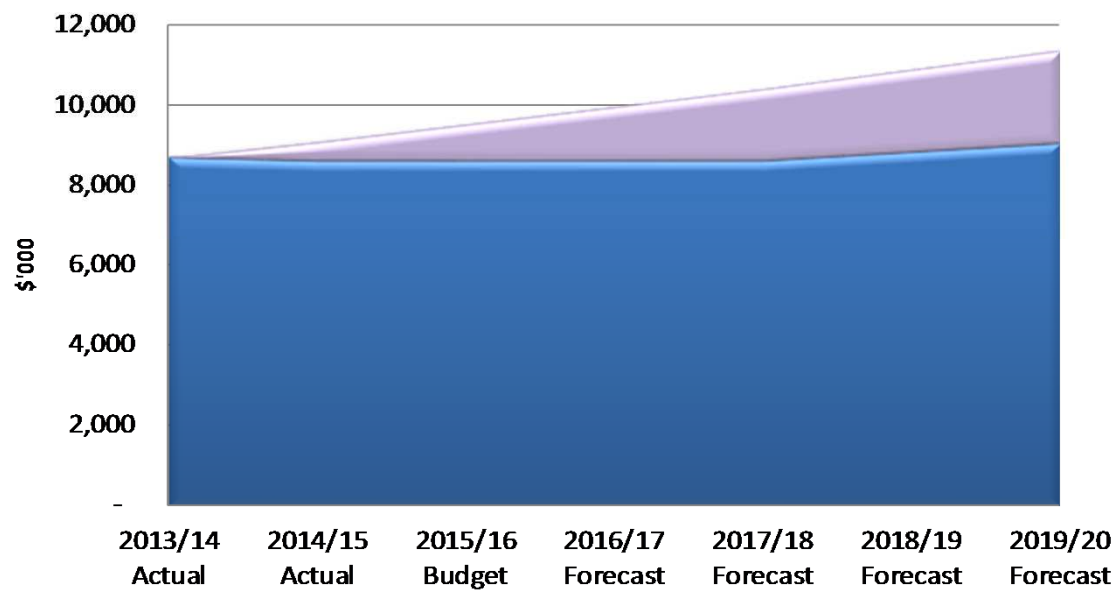
Statutory Planning Services Proposed Budget



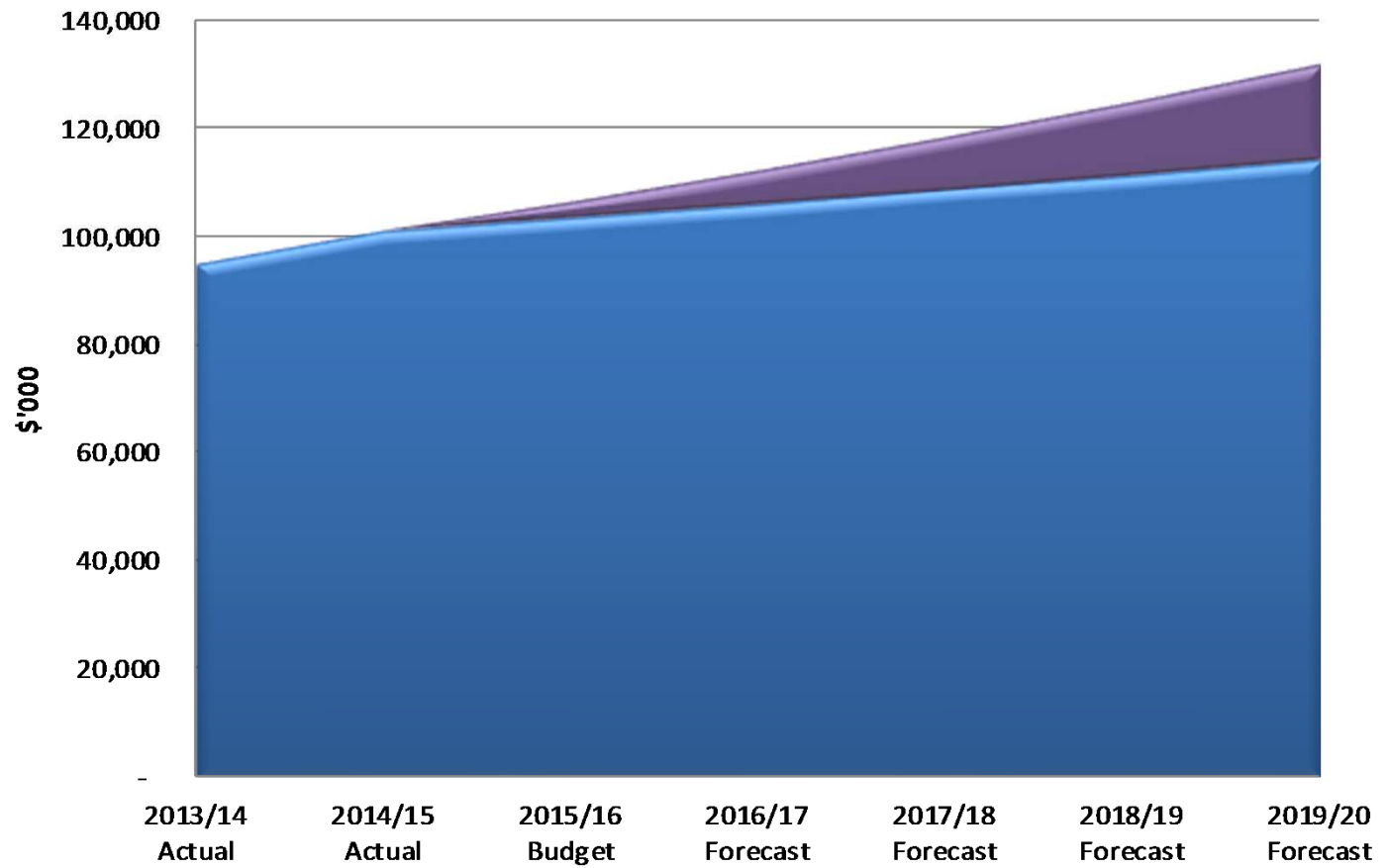
Town Planning Fees 2014



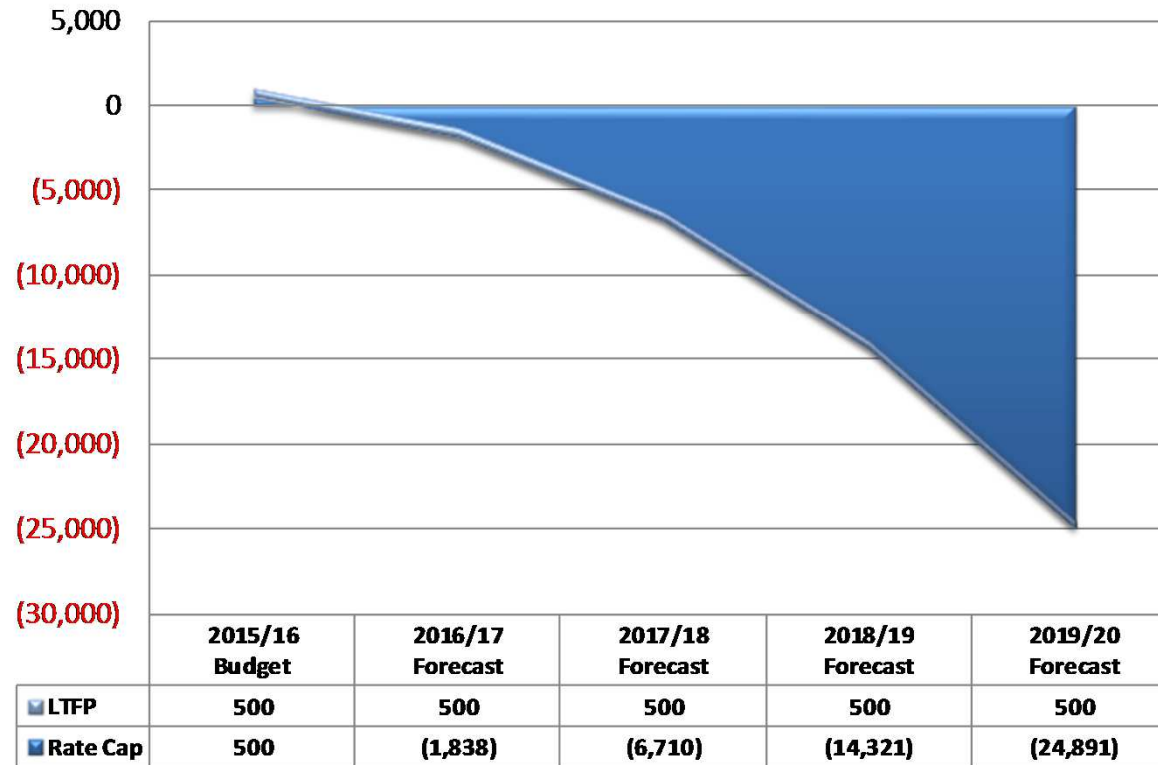
Victoria Grants Commission Operational Funding - \$8.8 million gap



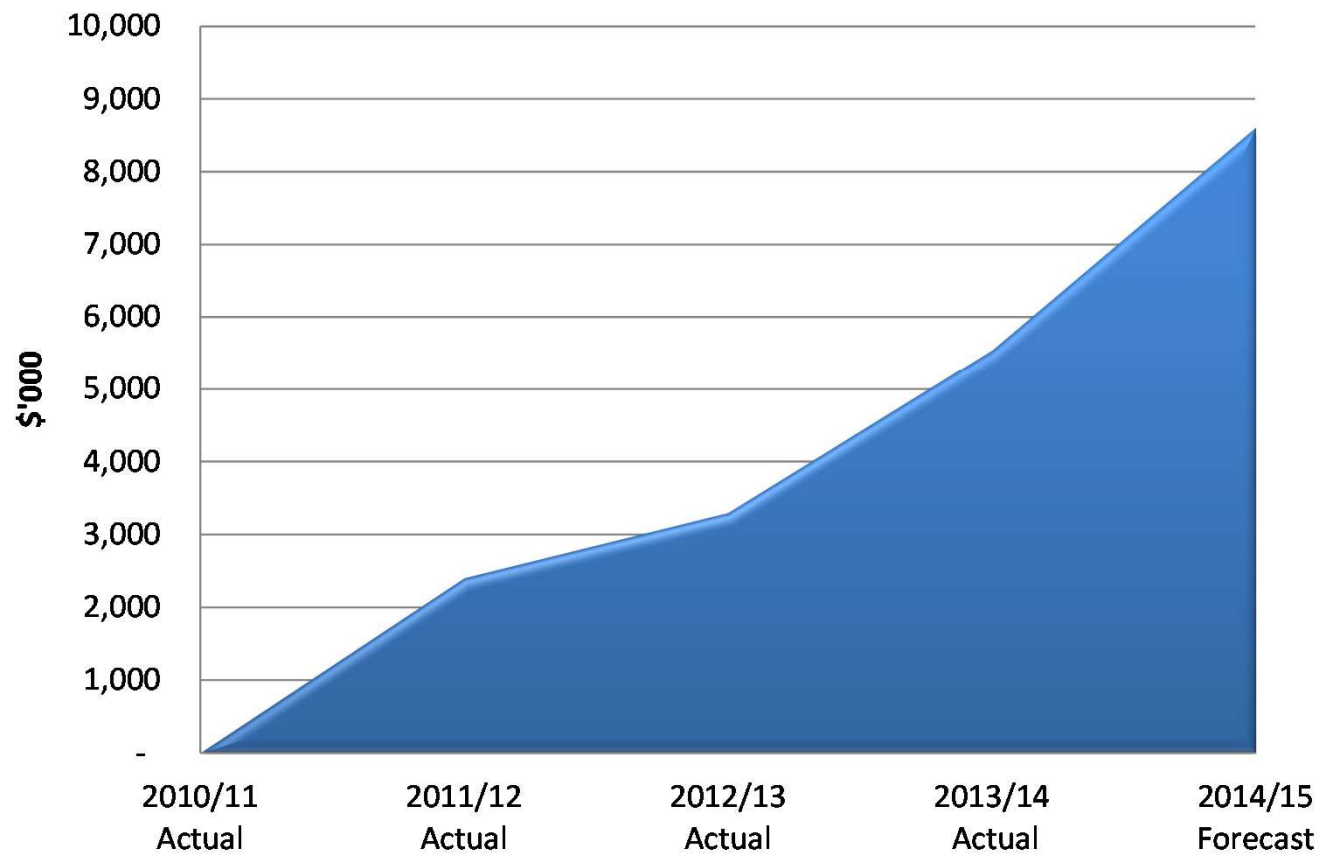
Rate Revenue \$50 million gap



Term Financial Plan vs Rate Capping Cash Gap - \$25 million gap



Operational Cuts over past 5 years \$20 million savings



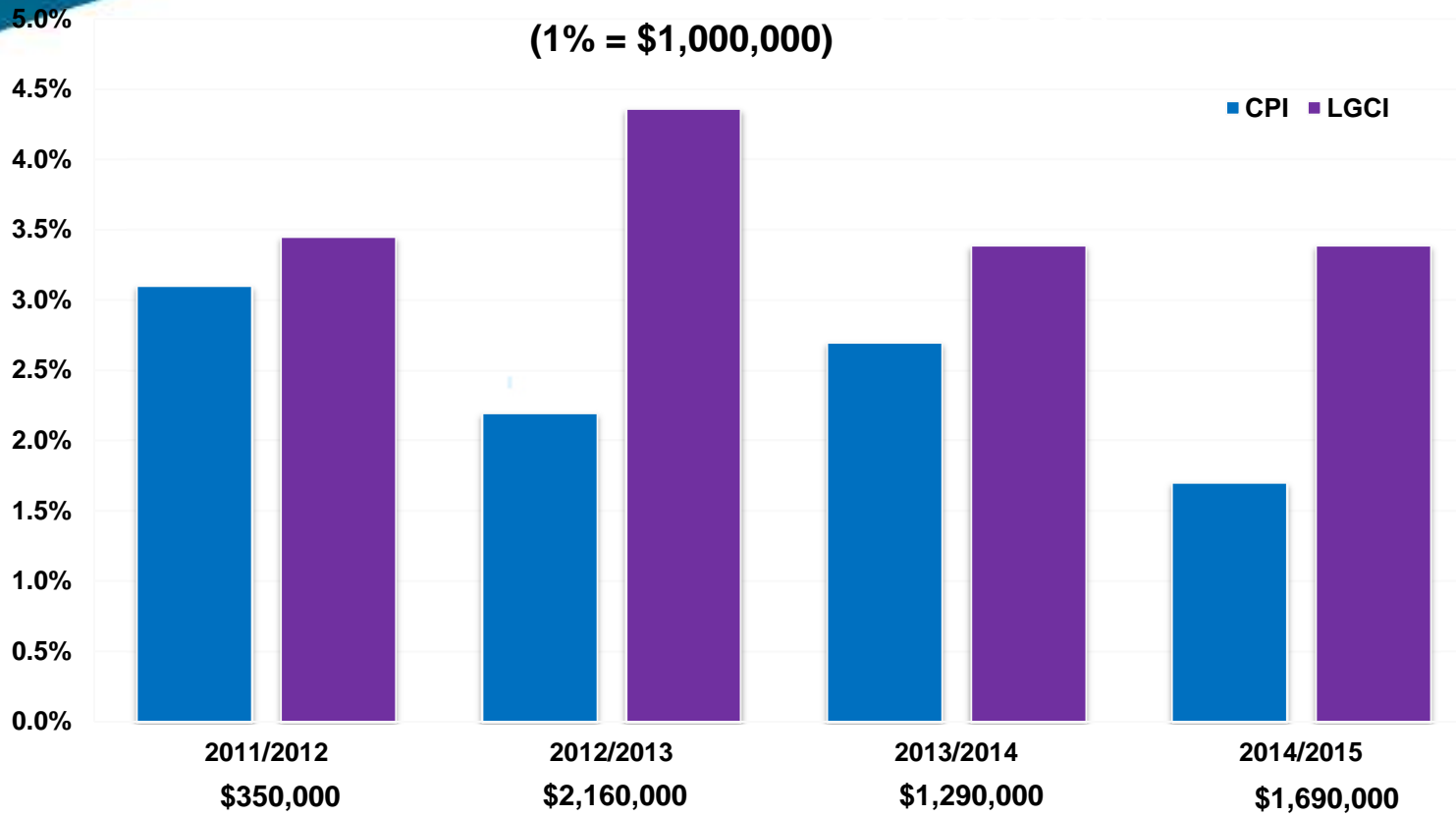
Relevance of CPI to Local Govt.

Consumer Price Index Components	Drivers of Local Government Costs
Food	Employee Costs (54%)
Alcohol and Tobacco	Contract and Material Purchases (20%)
Clothing and Footwear	Waste Management (14%)
Housing	Community grants and contributions (3%)
Household Contents	Administration costs (Insurance, postage, IT, legal, other (7%))
Health	Finance costs (2%)
Transportation	
Communication	
Recreation	
Education	
Financial and Insurance Services	



CPI V LOCAL GOVERNMENT COST INDEX

(1% = \$1,000,000)



Total \$5,490,000



SUGGESTIONS.....

- Rather than CPI, apply a universally agreed and supported cost index that reflects the true costs of providing Local Government services
- Government Grants to match cost increases of providing services.
- Cut discretionary services to the Frankston community:
 - Tourism
 - Events
 - Economic Development



SUGGESTIONS.....

- Cut “core services” and/or match service levels to available funding.
- Cut new capital works projects that will add to lifecycle costs. Examples of projects that cannot be delivered:
 - Regional Tennis Facility
 - Woodlands Kindergarten
 - Basketball Facility
 - Netball Courts(PARC could not have been built)





Questions?

