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28 August 2015

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

Dear Sir

RE: A Blueprint for Change - Local Government Rates Capping and Variation Framework Review Draft Report

Thank you for the opportunity for Southern Grampians Shire Council to provide comments in regards to the Local Government Rates Capping and Variation Framework Review Draft Report.

Please do not hesitate to contact me should you have any queries in relation to Council's submission.

Yours faithfully

BRONWYN HERBERT
DIRECTOR SHIRE SERVICES

Local Government Rates Capping and Variation Framework Draft Report

Submission

The Rate Cap

Recommendation 1:

The Commission recommends that there should be one rate cap that applies equally to all Councils in Victoria

Council Comment:

Whilst Council does not agree with the concept of rate capping, it does concur with this approach in preference to other methods such as different caps for rural/metro, large/small or growth/declining council groupings on the basis that it would be extremely difficult to implement a cap that takes these factors into consideration in an equitable and fair manner.

Evidence:

It should be noted that in the context of a rate capping environment, Council is now only in control of approximately 15% of its revenue, with other remaining 85% being subject to capping, State and Federal Government allocations or grants and Statutorily imposed fees.

Recommendation 2:

The Commission recommends that:

- ***Revenue from general rates and municipal charges should be subject to the rate cap,***
- ***Revenue from special rates and charges, "revenue in lieu of rates" and the fire services levy should not be included in the rate cap, and***
- ***Service rates and charges should not be included in the rate cap, but be monitored and benchmarked.***

Council Comment:

Council generally agrees with this principle however believes that care needs to be taken with part 3 of the recommendation regarding monitoring and benchmarking of services rates and charges.

Fire Services levy is a state imposed collection which councils have no control over, but already increases "the bottom line" of the ratepayers notice.

Revenue in lieu of rates – wind farms – is also governed by formula which includes an indexing figure based on CPI.

While waste management charges should not be used as a lever to offset rate capping (i.e. increasing excessively to compensate for lost rating revenue), many Council's – including

Southern Grampians – are still coming to grips with the complex and constantly escalating costs of waste collection and more importantly waste disposal and future management costs surrounding the rehabilitation for landfills.

These charges also need to be considered in the context of Council's Pricing Policy and the setting of user fees.

Evidence:

Southern Grampians benchmarks its services charges with other councils in surrounding areas, however has not excessively increased its charges until the full cost of collection, disposal and rehabilitation are able to be accurately calculated.

Recommendation 3:

The Commission recommends that the cap should be applied to the rates and charges paid by the average ratepayer.

This is calculated by dividing a council's total revenue required from rates in a given year by the number of rateable properties in that council area at the start of the rate year.

Council Comment:

In Council's initial submission (14 May 2015), concern was expressed about the use of the average rate and whether this was fair or not, particularly in the context of considering the impact of valuation changes/movements and growth/high value supplementary councils.

Council remains concerned with the use of the "average ratepayer" model.

Evidence:

Not Applicable

Recommendation 4:

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

Annual Rate Cap = (0.6 X increase in CPI)
+ (0.4 x increase in WPI)
- (efficiency factor)

CPI=DTF's 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.

Council Comment:

Whilst Council still does not necessarily agree with using CPI as the annual rate cap, the move to include at least a component of the cap utilising a more appropriate measure, such as the WPI, is some acknowledgement of the cost escalation factors councils are facing.

Evidence:

The MAV Cost index is a more accurate indicator of the increasing costs being faced by local government authorities.

Recommendation 5:

The Commission recommends that the 2015/16 rates (general rates and municipal charges) levied on an average property should be adopted as the starting base for 2016/17.

Council Comment:

The commencement of the cap from 2016/17 means that many councils will need to make decisions about reducing service levels ***outside*** the service planning framework which may result in poor long term impacts.

Evidence:

Making informed and consultative decisions about service levels takes time to ensure all parties understand what the new level of service is. These types of decisions need to take into consideration public consultation, short term impact, asset management impact and at times reduction/reallocation in staff – none of which can be achieved in short time frames. It must also be recognised that in some cases, to provide long term service reductions, short term expenditure increases are necessary such as asset/building reconfiguration or purchase.

This Council has spent significant time and effort into finding efficiencies with minimal operational impact and has now embarked on a Service Planning Framework to deliver the longer term “sustainable” efficiencies and cost savings.

The Variation Process

Recommendation 6:

The Commission recommends that the framework should not specify individual events that would qualify for a variation. The discretion to apply for a variation should remain with councils.

Council Comment:

Council is best placed to decide whether a combination of factors is significant enough to warrant a variation, rather than the Commission providing a "tick list" of acceptable circumstances.

However, Council is deeply concerned with the additional resources required to prepare a detailed submission for a variation.

Whilst Council believes it has many good practices in place for budget preparation and indeed financial management, the resources required to prepare a dual set of outcomes (one without the variation impact and one with) to justify the variation will be onerous. This is also impacted by the ability to only be able to do this for short terms in the initial implementation – see notes on Recommendation 8.

Evidence:

Not Applicable

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 values***
- ***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***

Council Comment:

The matters requiring addressing in the application for variation generally represent good practice and are similar to processes councils go through when preparing annual budgets.

Evidence:

Council carries out public consultation in regard to its Pricing Register, Strategic Resource Plan and Annual Budget.

Council's Service Planning Framework also has a community engagement focus to deliver public value within **all** constraints local government is experiencing or facing.

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.

First Year of variation	Length of permissible variation
2016/17	One Year *(i.e.2016/17 only)*
2017/18	Up to 2 years *(i.e. 2017/18 only or 2017/18 & 2018/19)*
2018/19	Up to 3 years *(i.e. up to 30 June 2021)*
2019/20 >	Up to 4 years *(i.e. up to 30 June 2023)*

Council Comment:

Council believes that they should reserve the right from the start of the rate capping framework to be able to request variations for up to four years.

Evidence:

Many Councils already have long term financial plans as part of their suite of planning documents. These plans include assumptions about investment levels and asset management challenges over the coming years.

Imposing a restriction on a council to have to do a variation request in 2016/17 and then another for 2017/18 & 2018/19 etc means that long term financial plans may need to be substantially re-cast.

Recommendation 9:

The Commission recommends that it should be the decision-maker under the framework, but only be empowered to accept or reject (and not to vary) an application for variation.

Council Comment:

Notwithstanding who the decision maker is, it is suggested that feedback is required in case of rejection of a variation request and the ability to negotiate an outcome.

Other options for approval include:

- The Minister for LG being responsible with advice from Department
- The Minister for LG being responsible with advice from ESC

The ESC is an independent body and therefore it could be "seen" to be more independent. This approach means the ESC is only evaluating whether the weight of evidence is enough to warrant a variation – not the **volume** in $ terms of the variation, which is an individual council's decision.

Evidence:

Not applicable

Monitoring

Recommendation 10:

The Commission recommends that it monitors and publishes an annual rates report on councils adherence to the cap and any approved variation conditions.

Council Comment:

It seems logical that the commission would report this information to gain public understanding and acceptance of the framework.

Evidence:

Not Applicable

Recommendation 11:

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

Council Comment:

This is an area of considerable concern. The baseline information referred to in Appendix D of the supporting documentation of the report sounds like it is almost another “data set” similar to the LGPRF; however the ESC data is forward looking whilst the LGPRF is reflective.

The concern is that the data will be used to benchmark Council’s service delivery standards without the appropriate commentary and definition behind the services. Many councils deliver services in many different ways and in different groupings.

Evidence:

We have not yet seen the outcome of the 1st mandatory round of LGRF to gauge how the community will use this type of information to make value judgements about Council’s abilities to deliver services.

Financial Calculations

Predicted Rate Cap compared to Council SRP

	2015/16	2016/17	2017/18	2018/19
Published SRP Calculations				
Increase Factor %		4.00%	4.00%	4.00%
Total Rates & Charges $	17,669	18,389	19,138	19,919
Remove Service Charges $	(1,321)	(1,387)	(1,456)	(1,529)
Rates & Municipal Charge $	16,348	17,002	17,682	18,389
Rate Capping Modelling				
Forecast Rate Cap %		3.05%	2.85%	2.80%
Rates & Municipal Charge $	16,348	16,847	17,327	17,812
Difference $		(155)	(355)	(577)
Cumulative Difference $		(155)	(511)	(1,088)

In general, the following comments about SGSC's Strategic Resource Plan should also be taken into consideration:

- Low rate increases forecast for the life of its SRP (and LTFP),
- An efficiency factor of 0.5% of employee costs (approximately 1 EFT) each and every year of the LTFP
- User fees and charges (only real revenue Council will now control) will need to increase by 4%
- Grants are only predicted to increase by 2.5%. This is optimistic at best with many grants not increasing at this level, putting further pressure on service levels
- Council has had to model other expenses (including utilities) at 3%. Which increasing costs of water services and electricity prices, this is also impacting on service levels.
- Council has built in the use of loan funds for major capital works where the assets for which they are borrowing are intergenerational assets.

This Council has been consistently working towards prudent financial management through;

- Developing and improving systems and data,
- Promoting a service planning culture,
- Driving asset management practices,
- Advocating for investment attraction and economic growth.

All these actions have been taken to make informed and consultative decisions about the services Council offer and in particular the rating increases required to fund these programs.

The notion of imposed State imposed rate capping is seen as disbelief that Council can responsibly and adequately govern their own community and municipality.