LGPro Submission on Local Government Rates Capping & Variation Framework Review

Executive Summary

In January 2015 the Minister for Finance, Robin Scott asked the Essential Services Commission to establish a framework for the Government's Fair Rates Policy.

In response, LGPro has prepared the following submission that seeks to address the complex issues arising from the application of rate capping.

LGPro believes that the public discussion so far has lacked context. We recognise that Rate Capping is now government policy and our responses to the questions raised in the consultation paper have been designed to provide constructive feedback while highlighting the consequences, some of them unintended, of a "blunt instrument" policy that is unable to address the nuances that are unique to the Local Government budgetary model in Victoria.

As all communities are different, so are all councils. They have different pressure points around service delivery, which increase and decrease according to the circumstances of that particular community at a particular point in time.

In the Terms of Reference for the Essential Services Commission, Minister Scott stated that: "The State Government's objective is to contain the cost of living in Victoria while supporting council autonomy and ensuring greater accountability and transparency in Local Government budgeting and service delivery. The Government intends to promote rates and charges that are efficient, stable and reflective of services that the community needs and demands, and set at a level that ensures the sustainability of councils' financial capacity and council infrastructure, thereby promoting the best outcomes for all Victorians."

As an independent Local Government officer member organisation we believe in the value of evidence based public policy, and we believe there is insufficient evidence to support the argument for the introduction of rate capping. Rates comprise only 1.4 per cent of the cost of living for Victorians so any cap on rates will have minimal impact on containing cost of living. With regard to budgeting, Local Government is far and away the most transparent level of government as budgets, prior to them being able to be adopted are currently subject to a community submission process that spans a mandatory four weeks which is widely publicised.

In addition, the methodology of the Local Government rating model is widely misunderstood by the broader community. This misunderstanding has resulted in a false simplicity in the community debate around the rate capping policy, which will only be further exacerbated if the policy is introduced, particularly if this done in a re-valuation year.

LGPro submits that the central issue that needs to be addressed prior to establishing a rate-capping model is to define Local Government's role and establish a mechanism to allocate functions and associated revenue raising powers to support that role. A focus on one revenue stream without examining the broader revenue framework has the potential to result in poor outcomes for Victorian communities.

Any revenue framework needs to recognise Local Government's role as the third level of government. It can only function effectively if a mechanism is in place to appropriately share public functions and correspondingly allocate funding or revenue raising powers between Local Government and other levels of government. Any 'capping' mechanism needs to be established with the capacity to introduce other revenue streams to meet agreed functions.

Additionally, the model needs to incorporate into its formulae the impact of cost shifting [estimated at about 6% of Local Government budgets] in the current revenue framework for Local Government. One simple example is Local Government's part funding of rate rebates for pensioners. Addressing social impact issues through welfare and income support is the responsibility of other levels of government, which are able to spread the cost of such assistance more equitably and efficiently over a broader revenue base. In light of the issues faced as a result of cost shifting, it is concerning that there is consideration of making Local Government pay the cost of the implementation of rate capping.

Finally, LGPro is concerned that increased financial pressure on councils will come at the cost of on-going learning and innovation, as officers are forced to focus solely on the cost containment of the task in front of them. LGPro provides valuable learning and development to the sector that keeps it up to date and potentially increases productivity and innovation. If funding was to be cut at councils then LGPro membership and capacity to provide high quality, low cost learning and development may be jeopardised at a substantial cost to the productivity of the sector.

Key recommendations

The fundamental recommendations contained in this submission include:

- The development of a more appropriate Local Government Index against which to measure rate capping that includes an adjustment factor that recognises the different impacts on different councils and an infrastructure renewal factor that recognises the different asset renewal liabilities carried by councils.

- That the cap be fixed for two years with indicative caps for a further two years providing guidance for the balance of the four year Council Plan/Strategic Resource Plan horizon.

- That the cap should apply only to general rates and the municipal charge (for those Councils that still have a municipal charge) and not to those fees and charges, such as waste, which are operated on a fee for service or contracting basis.

- That the cap should start in the 2017/18 financial year to avoid the reduced benefits of introducing it in a revaluation year and allow adequate time for community consultation and to align it with council elections in 2016.

- That the Variation framework allow for a less arduous application for those seeking variations of up to two percent and a more detailed hurdle for those seeking higher variations to reduce the cost of administration for both Local Government and the State.

- That the Essential Services Commission, rather than the Minister, be the sole arbiter of whether a council has made its case for a variation.

- That the framework, if accepted, after consultation with the sector, should provide a best practice framework for community engagement up front in order to set clear expectations and provide clarity around the process required to achieve a variation.

- That the cost of funding the ongoing administration of the Framework be funded solely by the State.

- That the Framework be regularly reviewed taking into account the impact on the financial sustainability of Councils.

LGPro Draft Submission to Essential Services Commission

FORM OF THE CAP

1. While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?

LGPro shares the MAV's view, as expressed in the Consultation Paper, that while CPI is simple and easy to understand; it is not the appropriate indicator for Local Government cost escalation. While the CPI is a weighted basket of household goods, council services are predominantly made up of salaries, materials, contracts and utilities, all of which generally exceed other cost increases in the economy. This, along with the common need for Local Government to top up grants from other levels of government that are not indexed against inflation, renders CPI an inadequate and inaccurate benchmark for Local Government cost escalation.

Research and analysis undertaken by the MAV indicates that, as a result of these issues, Local Government costs typically increase by around one per cent above the consumer price index (CPI). In rural, regional and remote areas, transportation costs and reduced supplier competition means this cost can be much higher. These councils are also constrained by the inability to charge higher levels of user fees given the low and fixed income base of many communities.

The impact of using CPI alone as the cap would mean that, in real terms, Council revenue available to fund services and capital infrastructure would go backwards year on year. This would likely result in nearly all Councils needing to make a business case for a variation to the framework, creating unnecessary levels of bureaucracy.

2. What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?

LGPro would support a proposal to develop an independently verified and validated Local Government cost index, which could form the basis for a more relevant starting point. The LG Cost Index would be determined through an independent assessment made by the Australian Bureau of Statistics or similar. LGPro would welcome further discussion on a model that uses this as a starting point.

LGPro recommends that any index should incorporate the following three components:

1. **Core Local Government Cost Index** (i.e. the LG equivalent to CPI),

2. **Adjustment Factor** – which would automatically account for industry-wide impacts, but be calculated specific to that Council – these adjustments would include cost impacts of items such as a Defined Benefits Superannuation Call; imposition of costs by State Government e.g. their wish for a Council to maintain a bike path or CCTV cameras; or new regulatory statutory costs imposed on Councils,

3. **Infrastructure Renewal Factor**- this would recognise the relative starting point for a council, whereby some councils have a low average rate – this focus on infrastructure renewal would ensure that Victorian Councils do not fall into the same financial non viability trap that has occurred in NSW.

3. Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative caps for the next two to three years to assist councils to adopt a longer term view in their budgeting and planning, particularly when maintaining and investing in infrastructure often takes a longer term perspective? How should such a multi-year cap work in practice?

LGPro believes there is merit in providing an annual cap plus indicative caps and that this would both minimise bureaucracy and give greater medium-term clarity to a Council's financial planning. Major capital works projects normally have a multi-year horizon and therefore a long-term outlook on Council's anticipated income would be beneficial.

Councils are required, under legislation, to develop a four-year Strategic Resource Plan and four-year Council Plan in line with the elected Council's terms. This should be considered as part of any rate capping model.

LGPro recommends that the cap be fixed for two years with indicative caps for a further two years providing guidance for the balance of the four year Council Plan/Strategic Resource Plan horizon.

4. Should the cap be based on historical movements or forecasts of CPI?

As outlined in responses to Questions 1 and 2 above, LGPro advocates that CPI is not used as an indicator and that a more appropriate indicator is developed.

5. Should a single cap apply equally to all councils?

This question needs to be considered taking into account the nexus between the rate capping and variation framework. Provided the "Variation" element of the framework is sufficiently flexible to meet the diverse needs and circumstances of member Councils, then a single framework that addresses the variability of a Local Government area's needs and its community's capacity to pay, would be the simplest to administer.

If, through consultation, the ESC determines that a multiple cap model should be introduced, then consideration should be given to determining appropriate caps based on the following categories:

- Inner city
- Middle suburbs
- Interface areas (Growth)
- Interface areas (Green wedge)
- Peri-urban areas
- Regional centres
- Rural

Alternatively, a more sophisticated multiple cap model would recognise the relative 'starting point' for each Council based on an assessment of financial sustainability indicators.

THE BASE TO WHICH THE CAP APPLIES

6. What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?

It is LGPro's view that the cap should apply only to general rates and the municipal charge (for those Councils that still have a municipal charge). It should not apply to those charges, such as waste, which are operated on a fee for service or contracting basis. These services are: a) market tested; b) subject to cost escalations as outlined in negotiated contracts; and c) often provided on an opt-in or out basis in those municipalities where population density is sufficient to provide economies of scale.

The Fire Services Levy should also be excluded from the cap as that is a tax that is merely collected by Local Government on State Government's behalf.

It is also important to note that there is no uniformity of the starting position across Councils. The average rates and charges per assessment varies widely across municipalities and is based on historical decisions from Council to Council. It would not be safe to assume that the current levels are an appropriate base on which to assess or cap future movements. Applying a percentage in such circumstances could disadvantage those who have kept rates and charges reasonably low.

7. Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?

The cap should apply to average rates and municipal charges per assessment and not to total revenue. Applying the cap to total revenue would be grossly disadvantageous to those Councils experiencing growth or significant change. .

8. How should we treat supplementary rates? How do they vary from council to council?

Supplementary rates should be excluded from the rate cap. Supplementary rates are an indicator of growth, which leads to increased service delivery and infrastructure requirements. Councils need to respond to these increased requirements often, in the case of service delivery, as population or participation meets certain triggers. Supplementary rates become part of the base for the following financial year. The response to this question should be read in conjunction with that to question 7 above.

9. What are the challenges arising from the re-valuation of properties every 2 years?

The challenge will be more significant in the first year of implementation and the perception of benefit gained by the community. By implementing the framework in a revaluation year, the natural shift in relative values, and therefore rates, will mask the real benefit for the average ratepayer.

A comprehensive community information campaign will be necessary to ensure that the benefit is understood.

LGPro recommends a better option would be to introduce three-yearly cycle for valuation. This would provide three years of clarity for the community and result in a significant cost reduction to both Councils and the State Government who pay councils for their valuation data.

10. What should the base year be?

LGPro recommends the base year should be the 2017/18 financial year.

This is on the basis that 2016/17 is a revaluation year and therefore, as discussed previously, the perception of benefit from the wider community will be diluted by the shifts in rates associated with the revaluation.

In addition, 2016 is a council election year and commencement of rate capping in 2017/18 will sit alongside a new council planning cycle, which is preferable.

As previously discussed, it is vital that a comprehensive community information campaign (similar to that used for the Fire Services Levy) be undertaken to ensure that the community actually understand how rates are applied to property to cut through the extensive misinformation generated by groups such as Ratepayers Victoria. If this process is aimed in part at increasing transparency, then a comprehensive community information campaign is vital.

THE VARIATION PROCESS

11. How should the variation process work?

It is important that the variation process does not create unnecessary levels of bureaucracy for already financially constrained Councils.

LGPro proposes that:

- The cap should form the **maximum** rate increase that could be struck without mandatory referral to the Essential Services Commission for review and authorisation. Councils proposing increases to rates and charges at or below the cap should be exempt from the ESC process.

- Councils proposing to apply rate increases in excess of the cap would need to prepare a Business Case for the Essential Services Commission to consider. A standard template, that sets out in detail the information necessary to inform any review, should be issued to minimise the cost and administrative burden of production for councils.

- A two-tier Business Case process should be adopted. For those Councils who are seeking to apply a rating increase of the cap, plus up to 2%, a 'light touch' Business Case should be required. For those Councils seeking to apply a rating increase in excess of the Cap, plus 2%, a more comprehensive Business Case and Financial Assessment would be required. This should reduce the number of Business Cases requiring substantial review effort, minimising the cost of implementation to Councils and the ESC.

- In reviewing each Council's Business Case, the Essential Services Commission would give consideration to the following factors:
    - The Council has a robust 10 year Long Term Financial Plan and 4 year Strategic Resourcing Plan in place;
    - The Council has a clear plan to bring rating increases back in line with the appropriate cap within a reasonable timeframe;

- The Council can demonstrate clear and transparent communication and consultation with their community in the development of their annual budget and/or 4 year SRP;
- AND: The Council is subject to extraordinary financial drivers that are outside of their control. These may include the following factors:
  - Implications of State or Federal Government policy changes;
  - Recovery from emergency or other disaster;
  - Legacy asset management concerns;
  - Shifts in global money markets affecting superannuation calls or other linked investments.
- OR, where rate increases are in direct relationship to increased service provision (e.g. the introduction of a new Green Waste Service) the Council can demonstrate community consultation and preparedness to pay.

12. Under what circumstances should councils be able to seek a variation?

Councils should be able to seek a variation where, following a robust assessment of their financial circumstance; community ambition; and consultation; it is determined that a rate rise in excess of the cap is warranted /required.

13. Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, changes in funding levels from the Commonwealth Government, changes in State Government taxes and levies, increased responsibilities, and unexpected incidents such as natural disasters), are there any other circumstances that would justify a case for above cap increases?

- Overall financial position at the commencement of the framework’s implementation (i.e. some Councils are already experiencing financial challenge);
- State Government cuts to grants;
- Cost shifting by other statutory agencies;
- Prevention, mitigation and response to natural disasters;
- Inability to generate self-sourced revenue;
- Community asset stewardship (including lack of viable alternatives to Council ownership and management);
- Proportion of rate base that is exempt from rates in accordance with Section 154 of the Local Government Act;
- Stewardship of green wedges;
- Growth;
- Other extraordinary circumstances outside of Local Government’s control.

14. What should councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation? A possible set of requirements could include:
□ the council has effectively engaged with its community
□ there is a legitimate case for additional funds by the council
□ the proposed increase in rates and charges is reasonable to meet the need
□ the proposed increase in rates and charges fits into its longer term plan for funding and services
□ the council has made continuous efforts to keep costs down.
We would like stakeholders’ views on whether the above requirements are adequate.

LGPro believes that, in addition to the above requirements, reference should be made to Council's history of financial stewardship as measured by VAGO financial sustainability measures. A history of improved financial position should be viewed as a positive indicator of responsible financial management rather than a negative in relation to a Councils application for rates variation.

COMMUNITY ENGAGEMENT

15. What does best practice in community engagement, process and information look like? Are there examples that we can draw from?

LGPro recommends that the framework, if adopted, should present, after consultation with the sector, a best practice framework for community engagement up front. This set clear expectations and provide clarity around the process required to achieve a variation.

LGPro is confident that member Councils will be able to provide best practice examples to assist in the development of a standard community engagement framework.

INCENTIVES

16. How should the framework be designed to provide councils with incentives to pursue ongoing efficiencies and respond to community needs? How could any unintended consequences be minimised?

Pursuing ongoing efficiencies and responding to community needs could, for some Councils, be mutually exclusive under a rate capping framework. The language needs to shift to one of financial sustainability and value for money, rather than the current economic rationalist focus, which is at odds with other government messaging regarding local employment protection.

Rate capping should not be seen as a punitive tool, yet unfortunately recent press reporting from the Minister for Local Government's office is represented as if rate capping is to be the Government's tool to 'bring Local Government under control'. The sector welcomes measures to enhance transparency, accountability and community engagement and ownership. However those same principles should apply equally to the State Government and their own financial processes. It is important that the sector perceives that there is a level playing field.

Unintended consequences can be minimised by ensuring a planned and staged implementation in partnership with the sector. A fast-tracked process will undoubtedly result in unintended consequences, which may reflect badly on not only Local Government but also the State. An appropriately comprehensive risk assessment should be commissioned before implementation.

TIMING AND PROCESS

17. A rates capping and variation process should ensure there is enough time for councils to consult with their ratepayers and for ratepayers to provide feedback, and for us to review councils' applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with councils' budget processes. We are interested in stakeholders' views on how this can be achieved.

The timing and timeliness of the Variation application consideration will be important to ensure the continuity of a Council's budget preparation and consultation process, with time frames that are prescribed in the Local Government Act, is maintained. Authorisation of Variations would need to be complete by 30th March to enable statutory consultation of four weeks to occur during April/May, consideration of submissions, and endorsement by 30th June.

LGPro recommends that the specific cap and forecast guidance should be available to Councils by December of the previous financial year to allow council assessment and planning of non-capped income and setting of capital and operational priorities to form a draft budget by April for community review and comment. This is allows time to genuinely engage with the community around any proposed variation.

TRANSITIONAL ARRANGEMENTS

18. What transitional arrangements are necessary to move to the new rates capping and variation framework? Is there merit in phasing in implementation over a two year period to allow for a smooth transition?

LGPro recommends that the framework should commence from the 2017/18 financial year. This recommendation considers the following:

- Councils will have already commenced the development of their 2016/17 budgets by the time that the ESC has had the opportunity to finalise its review;
- 2015/16 is a revaluation year and therefore the perception of benefit from the wider community will be diluted by the shifts in rates associated with the re-valuation;
- 2016 is a Council election year and the commencement of a new Council 4 year budgeting and planning cycle. It makes sense to coordinate the introduction of a new cost containment framework with the wider council planning and budgeting cycle.

If deferred implementation until 2017/18 is not possible, then LGPro would welcome further discussion on what a phased implementation would look like so that it could assess the implications for our members.

ROLES

19. What are stakeholders' views on the respective roles of the key participants? Should the Commission's assessment of rates variations be advisory or determinative?

LGPro agrees that there is benefit in an independent arbiter, such as the Essential Services Commission, overseeing the implementation of any rate-capping framework. The role of the Essential Services Commission would be to:

- Review Council Budgets and variation submissions for those where mandatory referral is required;
- Authorise rate increases in excess of the baseline where Business Cases have sufficient merit in accordance with the established criteria;
- Provide advice to the Minister for Local Government in circumstances where Business Cases are seen to have insufficient merit and other intervention may be required.
- Monitor the success of the implementation of the Rate Capping and Variation Framework and provide advice to the Minister on any review, taking into consideration feedback from the Sector.

Importantly, LGPro recommends that the ESC be the final arbiter regarding rate variations to remove any perceptions of political interference.

Local Government Victoria's role should be to provide direct support to Councils in reconsidering their financial strategy where Business Cases are deemed by the ESC to have insufficient merit.

It will be important to ensure that over time the policy parameters to support rate capping are integrated across VAGO, LGV and the Essential Services Commission to ensure maximum public transparency for Councils and for Government. This should also be reflected in the Local Government Performance Reporting Framework.

OTHER MATTERS

20. Is there a need for the framework to be reviewed to assess its effectiveness within three years?

Yes. A regular review cycle is imperative and should take into consideration not only feedback from the Sector and the community, but also include a full assessment of the economic impact on Councils' financial sustainability and ability to meet asset renewal requirements pre and post rate capping implementation.

21. How should the costs of administrating an ongoing framework be recovered?

Under no circumstances should the cost of applying the framework be applied to Local Governments. As a State Government policy position, it should be fully funded by State Government. Any attempt to operate the framework on a cost recovery basis from the sector would ironically further disadvantage those councils who have the most pressing financial need. It is nonsensical that councils would have to levy their community to pay the State to administer a process that is supposed to relieve financial pressure on the community.

The cost of administering the framework to the State can be minimised through ensuring that the process is non-bureaucratic, simple to navigate and based on appropriate templates etc.

OTHER MATTERS RAISED IN EARLIER CHAPTERS

22. We are interested in hearing from stakeholders on:
whether we have developed appropriate principles for this review
whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important
supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.

LGPro is generally in agreement with the principles for the review set out in Section 4 of the Consultation Paper. The exceptions to this are outlined below:

- Principle 4 – LGPro agrees with this principle, however suggest that the burden of proof should be variable, depending on the level of increase that is sought above the cap. There would be benefit in establishing a framework that required a less onerous burden of proof where the level of increase sought above the cap is, for example, up to 2% above the cap. This would also reduce the expectation on the ESC and reduce the costs of implementation.
- Principle 5 – should be re-worded to reflect Rate increases **above the cap** should be considered only after all other viable options have been explored. Rate increases that keep pace with reasonable levels of cost escalation are responsible financial management. The current wording infers that any rate increase, even at CPI, is a last resort.
- Principle 7 – suggest that a further dot point is added under this principle to reflect that the framework should not apply unnecessary levels of bureaucracy or administrative burden on either the ESC or Councils.

Other factors for the consideration of the Commission that have an impact on the overall financial sustainability of the sector and have put upwards pressure on rates include:

a) Responsible stewardship of local assets

Local Government has a key role in establishing and maintaining local assets that make a very real contribution to delivering economic, social and environmental outcomes at local, state, and regional levels. A 2014 report by the Auditor General identified that Local Government is responsible for $73 billion of community assets.

It is well understood that investment in these important assets has not been able to be sustained at required levels, even with current income and revenue strategies. While some good progress has been made, there is still a pressing need for many councils to address growing asset renewal gaps. The same 2014 Auditor General Report found that Councils were generally budgeting less than was required to renew their assets. Consequently, the funding needed for asset renewal continues to grow each year. The Auditor General went on to assert that without appropriate and concerted corrective action, the provision of council services to communities is likely to be put at risk, and that while this may require some hard financial decisions and trade-offs, failure to address this problem now will only lead to more difficult decisions in the future.

An assessment of rate capping outcomes in NSW undertaken by NSW Treasury Corporation in 2013 (as reported by VLGA) identified that the rate-capping regime in that State had resulted in critical under investment in asset maintenance and deteriorating financial sustainability. The report found that revenue needed to grow to cover not only annual cost increases but the underlying cost of service delivery including progressive elimination of deficits and infrastructure funding needs. This meant that in most cases rates need to rise by substantially more than the current annual peg if councils were to achieve sustainability.

As a general concept, initiatives that enhance transparency, accountability and efficiency of Local Government are welcomed. It is important however that a policy shift such as rate capping is not implemented without consideration to the wider macro-economic issues impacting Local Government financial sustainability. Key to this are the following considerations:

- **Growth**

  Accommodating Melbourne's and Victoria's growth creates enormous financial strain on Council resources. Multiple, concurrent growth fronts and lack of existing infrastructure in greenfield growth areas make it difficult to achieve unit cost efficiencies, meaning that growth costs more in some areas than in others. Government funding has traditionally not necessarily followed growth. By way of example, a 2013 report by Essential Economics assessed that significant infrastructure and resources – totalling the equivalent of $9.8 billion by 2026 (expressed in 2011 constant prices) – will be required to ensure that interface councils can provide their communities with facilities and services that match, or at least reduce the inequity with Melbourne's inner and middle suburbs, and to ensure improved economic, social and liveability outcomes are achieved.

  Growth comes at a cost and these costs need to be funded – if not through rates, through some other means. It should be noted that currently, developer contributions only cover approximately 25 per cent of the infrastructure costs incurred for new residents. An unintended consequence of the foreshadowed changes to the Development Contributions legislation will be a further reduction of the share of infrastructure costs paid for by Development Contributions with a greater share to be funded by ratepayers in general.

- **Defined benefit superannuation liabilities that are not equally applied to State and Commonwealth government schemes**

  Since 1998 Victorian Local Government has paid $1.162b in calls into a defined benefit superannuation scheme. All levels of government operated Defined Benefit Superannuation Schemes. The benefits were defined and as a result employer governments need to fund them. The Local Government scheme was established by State legislation and closed to new members in 1993. Although new members were not able to access the scheme after that time, the liabilities to existing members continue to grow.

  The structure of the Local Government fund is such that it has to be kept fully funded for future liabilities at all times. This is in distinct contrast to the funds operated by the Victorian State Government and Commonwealth Government, each of which currently have substantial unfunded liabilities. If the same rules of operation were applied to the Local Government fund, $1,162b in calls and contributions tax would not have needed to be funded across the 17 years since 1998. This requirement, that is unique to Local Government, places significant and often unplanned upwards pressure on rates.

It could be stated that the State and Federal governments are not transparent around this issue, as most taxpayers would have no idea they are paying for these schemes through state and federal taxes.

- **Lack of escalation of Local Government fees regulated by the State Government**

  Many fees, which fund Council services, are set by State agencies. While State agencies have over the years applied regular escalation to fees that benefit the State, they have not applied the same level of rigour to fees that benefit Local Government. Despite advocacy on this matter, Local Government has been unable to directly influence these fees and charges that are set on its behalf. A lack of annual indexation on these charges puts pressure on other areas of council budgets. Between 2000 and 2013 successive State governments have increased fees by less than half the CPI. Examples of charges that fall into this category include: planning permits, development plan permits, applications to re-zone land. Less and less of the real costs of delivering the service are therefore met by the applicant, shifting the burden to fund the gap to rates, and therefore all ratepayers. The result is that residents across the wider municipality are subsidising developers through increases in the general rate.

- **Changing State or Federal Government policy positions which have flow on cost impacts for Local Government and increases in government charges that are in excess of CPI**

  From time to time State and Federal Governments introduce changed policy objectives that have flow-on implications for Local Government. A recent example is the 4-year-old preschool universal access policy, which has involved considerable expenditure by councils. Revised emergency management arrangements following the Bushfires Royal Commission have also resulted in substantial additional costs for many rural and interface municipalities.

  Over the past five years there have also been a number of increases in government charges paid by councils, which have increased by more than CPI. Recent examples include the landfill levy and the fire services levy (which had a much higher impact in CFA councils, including Interface, than it did in MFB areas).

- **Services that councils deliver on behalf of the State Government which are not fully funded through grants**

  The successful implementation of a rate capping framework must recognise the interdependent financial relationship between all levels of Government, but in particular that of State and Local Governments. A cut or a restriction in one area can have flow on implications for others.

  Local Governments typically provide a number of services on behalf of, or in partnership with, State and or Federal Governments, which are funded through grant programs. There is evidence that over time grants have not kept pace with the true cost of service delivery. Restricting the ability of Councils to generate revenue through rates will bring increased focus and scrutiny on those areas where Local

Government receives less funding than the cost of delivery of such services. The most significant example of this is HACC services, where it is estimated that Victorian Councils currently contribute approximately $115m per annum above grant funding levels. Other examples include School Crossing Supervisors, Library Services and Youth Services, immunisation, maternal child health services. An unintended consequence of rate capping may be a reduction in Local Government's ability to subsidise declining real contributions from other levels of government for these services. In this scenario, Councils would deliver services to the level of funding provided, rather than to the true cost of the service.