



**Professionals
Australia**

Respect, recognition and reward

Rate Capping: A response to the ESC's Draft Report

August 2015

**Submission to the Essential Services Commission
by Professionals Australia**



Background

Professionals Australia is the trading name of the Association of Professionals Engineers, Scientists and Managers, Australia (APESMA). Professionals Australia is a registered organisation of employees under the Fair Work (Registered Organisations) Act 2009.

Professionals Australia represents over 24,000 professionals, including over 1700 professional engineers working in Local Government. We welcome the opportunity to provide a submission in response to the Draft Report released by the Essential Services Commission (ESC).

Professionals Australia would like to reiterate its opposition to rate capping in Victorian Local Government. While Professionals Australia supports transparency and accountability in Council expenditure, it is our position that rate capping will not positively contribute to better Local Government, and will likely exacerbate the already growing backlog of infrastructure projects in Local Government.

Summary

Professionals Australia would like to reaffirm its opposition to the system of rate capping that has been proposed for Local Government in Victoria. We believe that the proposed rate-capping system poses a threat to Local Government capacity, and is likely to hinder Local Governments in their efforts to provide much needed investment in quality staff, new infrastructure and important maintenance programs.

However, the Draft Report released by the ESC has confirmed that despite the opposition of most Councils, rate caps will be introduced in Victoria. If rate capping is to be introduced, it must be done so in a way that does not create disincentives for councils to operate effectively. Furthermore, the system must encourage Council efficiency, rather than simply imposing a system of low cost.

The cap

While Professionals Australia is opposed to the capping of Council rates, we do support the provision for a portion of any cap to be determined by movements in the wage price index (WPI). This provision will allow Councils the freedom to meet market wages and attract a quality workforce. The attraction and retention of quality staff – particularly engineers – will be vital in delivering efficient and effective Local Government.

However, simply applying a 40 per cent weighting to the WPI does not ensure that Councils will be able to build a quality workforce. The largest barrier to achieving this is the remaining 60 per cent of the cap, which will be based on CPI. If this portion of the rate cap is unable to move in line with the cost of providing services, then councils are likely to fund these services by using the portion of the cap attributable to wages. For example, if the cost of materials needed for building a road increases by 10 per cent, CPI will not be adequate to fund the new cost. As a result, workforce investment is expected to suffer, as a likely scenario is that Councils will be forced to take resources away from skilled staff.

If the rate cap is to function as it should, some additional safe guards need to be in place to ensure that voter-friendly project-based investments do not undermine the quality of the Local Government workforce. Conversely, councils should be encouraged to strengthen their in-house technical capacity in order to drive greater efficiency. Additionally, the portion of the cap based on CPI should be altered to reflect the rising cost of delivering services. This may still include an efficiency factor, as at the very least this will still better reflect the cost pressures faced by Local Government. The primary argument proposed by the ESC against a more systematic, reasoned approach to determining the level of the cap was that it would be overly arbitrary. On the contrary, the systematic assessment of the real costs faced by councils prior to setting a cap would be much less arbitrary than simply imposing a cap based on CPI, when an abundance of research suggests that this does not reflect the reality of Local Government cost pressures.

Variation

Where rate capping is imposed, Professionals Australia broadly supports the notion of a variation system, provided the administrative burden is minimised and processes allow reasonable variation where Councils demonstrate the need. The system proposed by the ESC – if balanced in its application – may be able to provide an appropriate approach to variation.

However, while the system appears reasonable, Professionals Australia strongly opposes the suggestion that there be no avenue for appeal, with the ESC being the sole arbiter of the variation process. While efforts will be made to ensure that the process is efficient and effective, it is very likely that there will be issues along the way, and that not every case for variation will result in the ideal outcome for the community. Where a Council strongly believes that their rejected plan for variation is in the best interests of their community, an appropriate avenue for appeal should be established, outside of a judicial review.

In justifying the recommendation that no appeal or merit review process be established, the Draft Report notes time constraints, uncertainty and the lack of a guaranteed correct decision. All of these arguments are equally applicable to the process of variation under the ESC, as this process adds time and uncertainty to council decision making and does not guarantee better decisions. Professionals Australia firmly believes that each individual Council is in the best position to decide whether the needs of their community warrant further time for consideration, and whether the pursuit of a better decision is worthwhile.

Conclusion

The rate capping regime proposed by the ESC should aim to ensure efficient and effective Government at a local level. Any cap must provide adequate revenue for councils to deliver the services and infrastructure investment that their communities need. As a result, while Professionals Australia supports the weighting given to the WPI in determining the cap, we believe that the remaining 60% weighting based on CPI is inadequate. We believe that a cap based on CPI will not keep up with council cost increases and will encourage councils to seek this funding by cutting into wage costs. Furthermore, we contend that any variation process should provide reasonable avenues for appeal, allowing councils to seek a merit review when they firmly believe that some variation is in the best interests of their community.

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