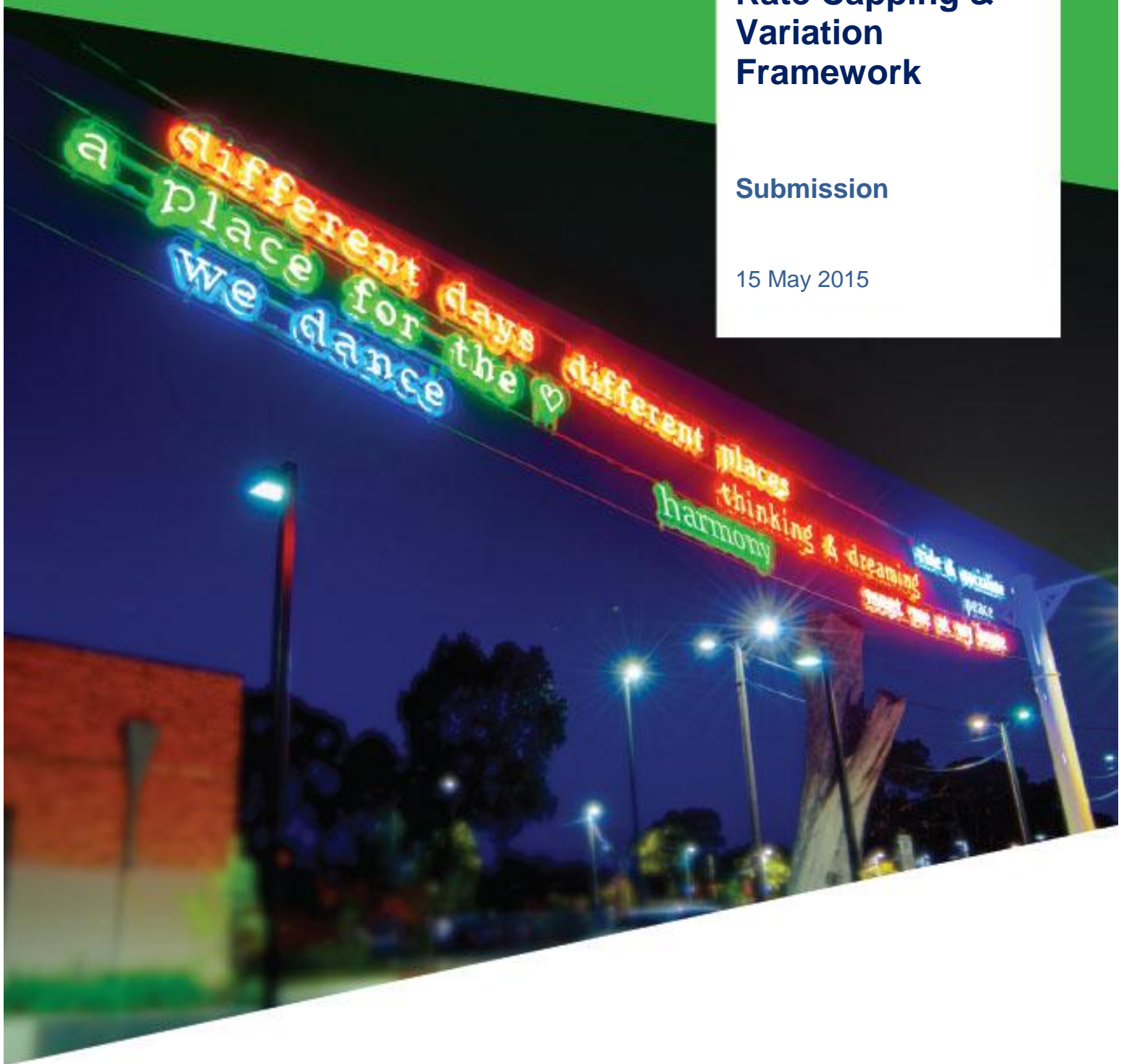


# Rate Capping & Variation Framework

Submission

15 May 2015



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## 1. Introduction

The City of Greater Dandenong thanks the Essential Services Commission for the opportunity to submit a response to the proposed rate capping and variation framework.

At the outset, the City of Greater Dandenong remains fundamentally opposed to the introduction of rate capping and is of the view that the setting of Council rates should remain the responsibility (and accountability) of local Councils.

Council is heartened by the expressed view of the Essential Services Commission that it is determined that the framework 'does not inadvertently or partially shift responsibility for rate-setting from Councils to the Commission'. It is Council's view however, that this will be exactly the outcome of the proposed framework sought by the State Government, particularly being referenced to such a low and inappropriate base as the consumer price index.

It is noted in this submission that the value of Council rates, grant funds and fees, which are set by State Government statute, represent a collective value of 88% of Council's total revenue base per annum. The implementation of the rate capping and variation framework is therefore likely to render Council's role to one where it is restricted to simply being the body to allocate a fixed amount of scarce resources within the community.

The City of Greater Dandenong has made considerable steps in the past decade to greatly enhance the livability of this city to its residents. This has been on the back of careful long term financial planning and a stable and measured approach to rate increases over this period.

There remains however many future infrastructure challenges for Council to address in the coming decade and Council harbours strong concerns that many of these very needed projects will be delayed or deferred indefinitely in a rate capped environment.

Council fully accepts and understands the role that the Essential Services Commission has been tasked with by the State Government. To this end, the City of Greater Dandenong has endeavoured to provide the ESC with an alternative approach to implementing a rate capped environment based on the construction of a more appropriately based Local Government Cost Index. It is noted that the very concept of this index forms a key recommendation in the VAGO report on *Local Government Rating Practices*.

Council looks forward to the consideration of this submission and ongoing dialogue with the Essential Services Commission on this matter.

**Mayor Sean O'Reilly**

## 2. Key issues to be considered by the Essential Services Commission

In terms of considering a rate capping framework, there are a number of key issues that the City of Greater Dandenong would like to submit for consideration by the Essential Services Commission.

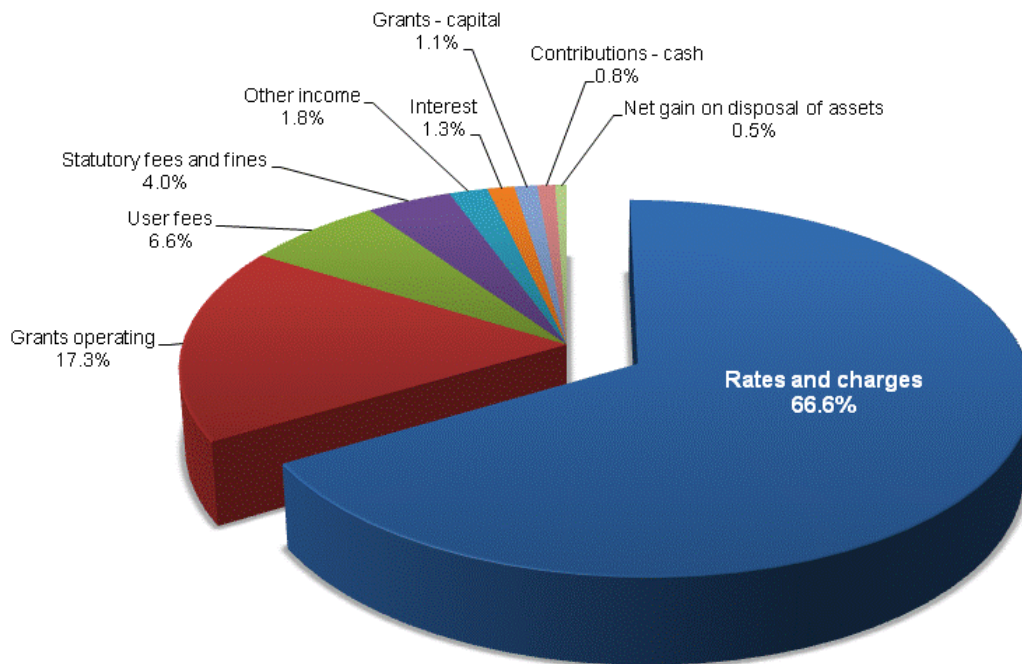
### 2.1 Local Government autonomy

Local Government historically has been directly accountable to its residents in terms of the decisions it takes and the level of taxation it levies on its residents to deliver services and there are many historic examples of where Councils have changed in the composition of their Councillors where there is any significant discord.

In its consultation paper, the Essential Services Commission notes that the autonomy of Councils should not be compromised by the implementation of a rate capped environment and it is the view of the ESC that Councils, in consultation with their communities, remain best placed to make decisions regarding the mix of services and infrastructure they provide.

It is our view that the introduction of rate capping will significantly reduce local government autonomy by providing State Government control over the vast amount of revenue that Council raises and limit Council’s role to only being a body that determines how scarce resources are then allocated.

As outlined in the chart below, in a rate capped environment the State Government will determine 87.9% of the revenue raised (combination of rates, grants and statutory set fees and charges) by the City of Greater Dandenong. Council’s ability to raise additional revenue from Fees and Charges is minimal.



Sources of revenue – City of Greater Dandenong, 2015/16

Contrary to the views expressed in the consultation paper, the introduction of rate capping WILL shift the responsibility of setting Local Government rates from Councils to the State Government.

## 2.2 CPI is not an appropriate index

At present the proposal is for the rate capping index to be based on the Consumer Price index (CPI) .

As noted in the consultation paper issued by the ESC, whilst CPI is a measure that relates to the comparative increase in prices for individual consumption, it has no relationship at all with the cost drivers faced by Local Government.

In the most recent issue of the CPI figures, the index increased by 1.3% for the year ended 31 March, 2015 (based on the inclusion of all groups and all capital cities). For Melbourne the index rose by just 1.0% for the same period.

They key drivers of this result were falls in the price of fuel (12.2%) and fruit (8.0%). Areas that increased in the basket of goods that measure CPI were tertiary education, domestic holiday travel and accommodation and hospital services. This clearly indicates that the basket of goods which comprise CPI are simply not relevant to local government.

In any rate capping framework, it is essential that the index chosen appropriately reflects the cost drivers that impact on Local Government.

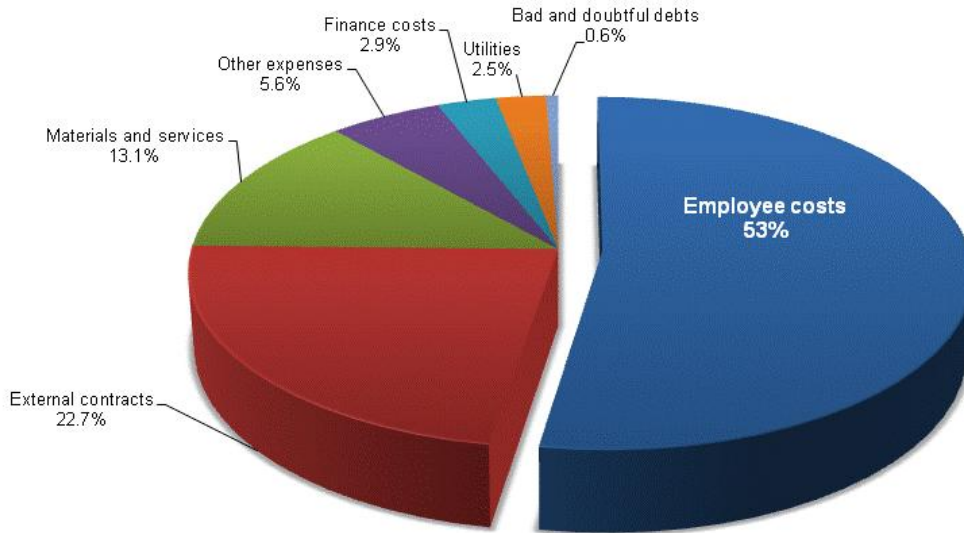
## 2.3 The need for a more accurate Local Government Cost Index

The consultation paper provided by the ESC makes reference to the findings of the Victorian Auditor General's Office (VAGO) in its *Report on Local Government Rating Practices in Victoria*. What is not noted in the consultation paper however is that one key recommendation from that report was for Local Government Victoria to develop a more accurate Local Government Cost Index (LGCI).

The audit report by VAGO recognised the limitations of the previously calculated MAV cost index for Local Government which was extremely broad brush in approach with little connection to the true cost base of Local Government.

The consultation paper notes that other LGCIs appear to be between 0.5% and 1.0% above CPI. It is put to the ESC that this is a significant understatement of the true outcome.

In understanding the true cost base of Local Government, the following chart outlines the key areas of expenditure for the City of Greater Dandenong in 2015-16. The base figure of Total Expenditure is the total expenditure not including the non-cash figure for depreciation.



*Total cash expenditures City of Greater Dandenong 2015-16*

As indicated in the graph, employee costs represent 53% of Greater Dandenong’s cash costs.

Local Government employee costs are influenced by two key drivers. The first and most significant is the three-year Enterprise Agreement that is entered into by each individual Council with the various unions. For the City of Greater Dandenong, the current enterprise agreement expires on 30 June, 2015 and the previous level of increases was 3.5% per annum. It is worth noting that the previous enterprise agreement was only entered into following prolonged periods of industrial action.

The second aspect to employee costs is the annual increase along the banding structure within local government. The vast majority of Council employees are banded within an eight band structure with each band having three to four levels. Employees who are not at the end of the band receive an annual increment until they reach the end of the band. For the City of Greater Dandenong this adds a further 0.5% to our wage costs per annum.

The combination of the two increases mean that Councils wage cost – which is 53% of our cost base – increases by 4.0% per annum.

In terms of our other cost drivers, the external contract figure will be heavily influenced by the cost index that is contained within individual contracts and frequently this will be an index other than CPI. Materials and services are more influenced by the construction index rather than CPI.

These cost drivers obviously have no bearing to the CPI figure of 1.3% and is significantly higher than the assumed 0.5%-1.0% that is contained in the ESC paper.

On an overall basis, an accurately calculated LGCI would be between 3.75% and 4.0% per annum.

## 2.4 Declining grant and fee revenue

In calculating the drivers of local government costs, it also has to be considered the pressure placed on Council rates by the decline of State & Federal Government funding and the failure of the State to increase statutory fees. In each of these cases, Councils have previously increased rates to offset shortfalls in funding from the other levels of government.

The below tables indicate the movement in the Council subsidy compared to external funding received from State Government and in the case of Statutory Planning, from development applications.

### SCHOOL CROSSING

	2006 Actuals	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2014-15 Budget	2015-16 Budget
Council subsidy	73%	75%	78%	78%	79%	76%	77%	78%	78%	78%	83%
External funding	27%	25%	22%	22%	21%	24%	23%	22%	22%	22%	17%

### LIBRARY SERVICES

	2006 Actuals	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2014-15 Budget	2015-16 Budget
Council subsidy	77%	78%	79%	78%	77%	79%	80%	81%	81%	83%	85%
External funding	23%	22%	21%	22%	23%	21%	20%	19%	19%	17%	15%

### MATERNAL AND CHILD HEALTH

Account Type	2006 Actuals	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2014-15 Budget	2015-16 Budget
Council subsidy	48%	48%	59%	63%	49%	62%	64%	63%	60%	64%	64%
External funding	52%	52%	41%	37%	51%	38%	36%	37%	40%	36%	36%

### STATUTORY PLANNING

Account Type	2006 Actuals	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2014-15 Budget	2015-16 Budget
Council subsidy	46%	41%	43%	53%	51%	51%	57%	56%	51%	57%	54%
External funding	54%	59%	57%	47%	49%	49%	43%	44%	49%	43%	46%

In all these cases, Council continues to inherit a higher degree of funding shares for these services.

It is noteworthy in respect of Statutory Planning, that the State Government has significantly increased the cost to developers of making applications to VCAT, which reduces the net cost to State Government of this service – but has declined to review statutory planning fees since the last increase in 2009.

The following table highlights the projected movement in State and Federal funding over the next five years.

	Strategic Resource Plan				
	Budget 2015-16 \$'000	Projections			
	2016-17 \$'000	2017-18 \$'000	2018-19 \$'000	2019-20 \$'000	
<b>Operating grants</b>					
<b>Recurrent</b>					
Commonwealth Government	15,048	15,105	15,316	15,531	15,747
State Government	14,679	14,885	15,086	15,289	15,495
Other	258	440	441	441	443
<b>Subtotal grants - operating (recurrent)</b>	<b>29,985</b>	<b>30,430</b>	<b>30,843</b>	<b>31,261</b>	<b>31,685</b>
<b>% increase (decrease)</b>	<b>-4.4%</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.4%</b>

With the freezing of indexation of the Commonwealth Financial Assistance Grant, Council's revenue from this key grant (which comprises 6% of our annual income) actually fell by 2% and it is projected that a further fall in the grant will occur in 2015-16. Greater Dandenong Council has also been significantly impacted upon by the withdrawal of Commonwealth funding for Family Day Care which will see a \$676,000 government subsidy removed entirely.

With the cost of providing services supported by these grants increasing by 3.75-4.0% and government grants increasing by just 1.5% - the pressure on Councils financial framework will be significant in a rate capped environment.

## 2.5 Impact on the future relationship between Local and State Governments

Council and the State Government have in the past worked in partnership to provide many services to the community, with both contributing a share of the funding required and local government utilising its close connections with the community to deliver the services on the ground.

As noted above, this has frequently been on the basis of local government accepting a greater share of the cost annually due to State funding not keeping pace with the cost of providing these same services.

It needs to be clearly noted that in a rate capped environment, the nature of this partnership will be placed in some jeopardy. Councils as a whole will need to consider what services they remain as the service provider for and what actions will be required if the net cost of providing these services increases annually by more than the set rate cap.

There have been several recent examples of State legislation relying upon the relationship that Council has with its community and Council resources to be enacted. One such example is that of the regulation of puppy farms where increased Council activity is required to implement the intent of the legislation. In a rate capped environment, Council will need to become very selective on any new commitments it enters into to achieve State outcomes.

## 2.6 Impact on Councils ability to meet Objectives of a Council

There are strong concerns that in a rate capped environment, Local Government will become a service provider of core services only which will greatly impact the liveability of local communities. In particular it will be extremely difficult for Councils to meet the objectives of the Local Government Act as outlined in Sections 2 a), c), d) and e) where its revenues are going to be so constrained.

### *LOCAL GOVERNMENT ACT 1989 - SECT 3C*

#### *Objectives of a Council*

*(1) The primary objective of a Council is to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of decisions.*

*(2) In seeking to achieve its primary objective, a Council must have regard to the following facilitating objectives—*



- (a) to promote the social, economic and environmental viability and sustainability of the municipal district;
- (b) to ensure that resources are used efficiently and effectively and services are provided in accordance with the Best Value Principles to best meet the needs of the local community;
- (c) to improve the overall quality of life of people in the local community;
- (d) to promote appropriate business and employment opportunities;
- (e) to ensure that services and facilities provided by the Council are accessible and equitable;
- (f) to ensure the equitable imposition of rates and charges;
- (g) to ensure transparency and accountability in Council decision making.

It must be noted that the City of Greater Dandenong, like many other Councils, has in place a range of adopted strategies and plans aimed at achieving these objectives, particularly in relation to economic development, tourism, environmental sustainability and community health and well-being. Some of these strategies are required by legislation.

The introduction of a rate capped environment will significantly impact on the delivery of these strategies and their future content when they are next revised.

## 2.7 Impact of the level of Socio-economic disadvantage on service needs and provision

The City of Greater Dandenong has the second most disadvantaged community in the State of Victoria and the most disadvantaged in metropolitan Melbourne as measured by the SEIFA index produced from the 2011 Census data results.

This outcome has significant impacts on the needs of residents who are more in need of the services provided by Council than in other local government areas of Melbourne and who are unable to afford private alternative service options.

Based on 2014-15 service volumes, Council provides the following:

- 10,000 immunisations
- 1,290,000 visits per annum to its two libraries;
- 845,000 hours of Family Day Care per annum
- 25,975 visits to its Maternal and Child Health program
- 45,200 delivered meals per annum
- In excess of 190,000 hours of Home Care for aged residents

In reference to the Library service, Greater Dandenong's visitation (on a per head basis) will rank it third in the State for 2014-15 behind only Gannawarra Council and the Melbourne State Library.

The cost of providing services in this community is further impacted upon by the level of multi-cultural backgrounds, with over 156 languages spoken by residents within the municipality and over 60% of Council residents born overseas. The City of Greater Dandenong provide many services that specifically meet the needs to this population that would not be applicable in other Councils.

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These issues have not yet been considered by the ESC as legitimate factors for a variation applying to the rate cap and Council suggests these should be seriously considered by the ESC.

## 2.8 Future infrastructure needs in the City of Greater Dandenong

The City of Greater Dandenong (and in partnership with the State Government) has significantly improved the liveability of this Council for residents over the past decade. Several major infrastructure projects have been delivered including:

- Construction of a new aquatic facility in Noble Park (\$22 million)
- Springvale services for Children Hub (\$5 million)
- Establishment of the Drum Theatre in Dandenong (\$12 million)
- Revitalisation of the Dandenong Market (\$26 million)
- Construction of new civic precinct and library in Dandenong (\$65 million)

Together with the many smaller capital projects, sporting facility renewals and combined with the Places Victoria investment in central Dandenong, the city is a much better place for residents to live than previously.

However Council still has considerable infrastructure needs going forward. These include, among other projects those included in the table following.

Future planned new infrastructure	Amount	Strategic Need
Springvale Community Precinct (including new library, community centre and refurbished town hall)	\$35-45 million	The Springvale community precinct master plan was developed with a high level of consultation with the Springvale community. It will deliver a new library facility replacing the present Library which is operating beyond its capacity, provide a central community facility allowing several existing organisations to relocate to one central position and refurbish the existing town hall which is an extremely popular event space in the region.
Dandeong Oasis Replacement	\$50 million	Dandenong Oasis Aquatic Centre is now nearing the end of its useful life and significant funds are required annually simply to keep the venue open. Council needs to plan for either a major refurbishment of this facility or a full replacement.
Keysborough South Community Facilities	\$10 million	Council has a rapidly growing new population residing in Keysborough South which has no access to any community facilities. Council has included \$3 million in its 2015/16 Budget to acquire land upon which to construct a community hub. A further \$7 million will then be required to construct a facility.
Sporting Facilities in Tatterson Park	\$9 million	Council has a high class sporting facility at Tatterson Park which features three fully developed playing ovals which are now being extensively used for both AFL and Soccer. At present there are no permanent change room or pavilion facilities at this Reserve. Council has successfully achieved funding of \$4.8 million towards this project and must now fund the balance.
Dandenong Community Hub	\$10 million	Central Dandenong is currently served by a wide range of decentralised service providers all operating in old or converted facilities. A significant community benefit would be achieved by the centralising of these services into a community hub.

Council has a sound Long Term Financial Strategy that would see the majority of these works all completed within a ten-year timeframe, with sensible and stable rate increases based at 5.5% per annum. The introduction of a rate capped environment will however see many of these projects either cancelled or deferred indefinitely.

The implementation of rate capping will further put pressure on the funding of asset renewal infrastructure works. At present the City of Greater Dandenong fully meets the funding required to annually renew its assets. One of the choices facing Council will be to consider freezing asset renewal funding to meet other community needs.

One final challenge that is currently being presented to the City of Greater Dandenong is that of population growth and change –despite Council not officially being considered as a ‘growth’ or interface Council. Council is faced with the areas of Keysborough South which are rapidly expanding and growing, yet have no community facilities to service this population both at a local and State provided level.

A different challenge is presented in central Dandenong which is undergoing considerable densification but which has assets and facilities created in the 1970’s which are no longer appropriate to service this new community.

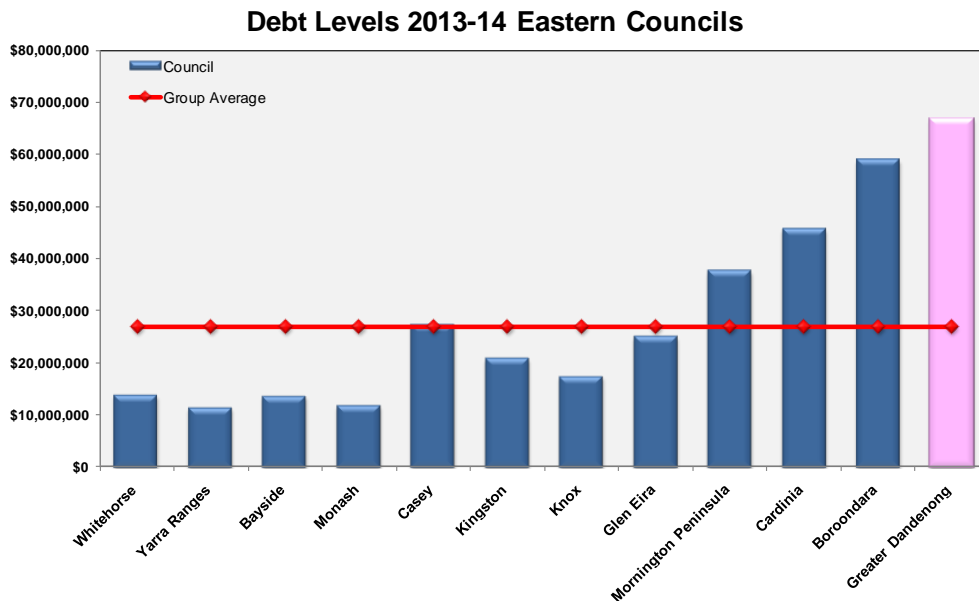
In both these examples, the capping of Council rates will significantly impact on Councils ability to respond to these changing community needs.

## 2.9 Lack of access to alternative funding mechanisms

In its opening comments, the consultation paper issued by the ESC notes that Victorian Councils collectively held \$1.5 billion in loan debts but that Victorian debt levels were well below the average for other States and Territories in Australia and that ‘Councils do not face any legislative restrictions on their ability to borrow’.

The inference from the above statement is that Councils as a collective have access to alternative sources of funding to meet capital needs. That is certainly not the case for the City of Greater Dandenong and this should be added as a factor in considering applications for rate increases over the set rate cap.

The following chart highlights the respective dollar value of debt held by the Eastern metropolitan Councils at 30 June, 2014.



Source: 2013-14 Annual Reports

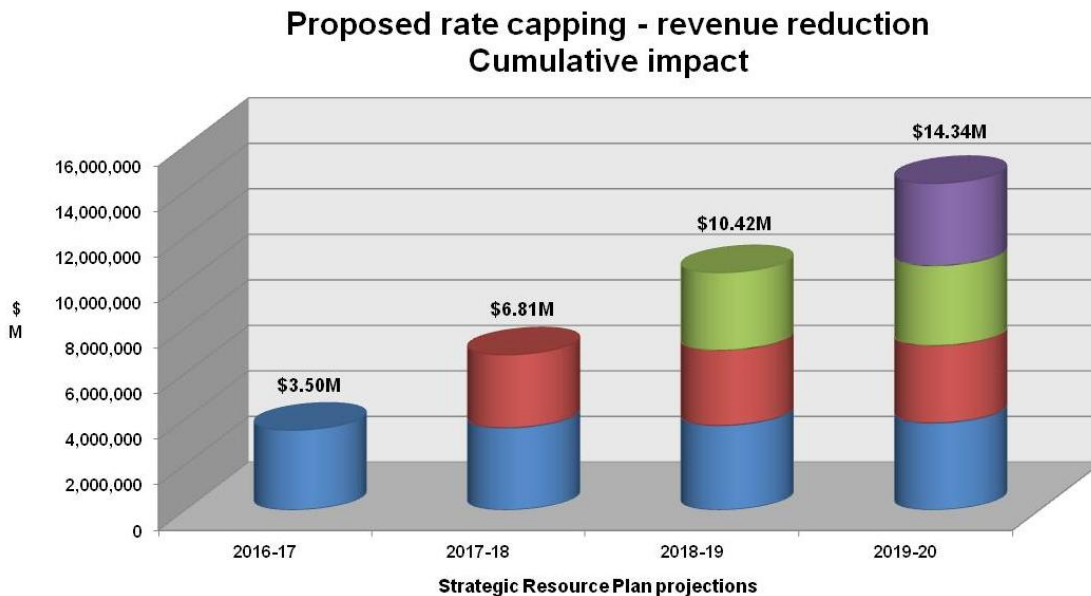
The chart highlights the City of Greater Dandenong has been prepared to access debt funding in order to achieve high community priorities.

Council is carefully managing its debt levels to ensure that its debt/rates revenue ratio remains within an outcome between 40-60% and below prudential guidelines. Council does not however have ready access to alternative funding sources such as debt to deliver on the key future infrastructure requirements as noted in Section 2.8.

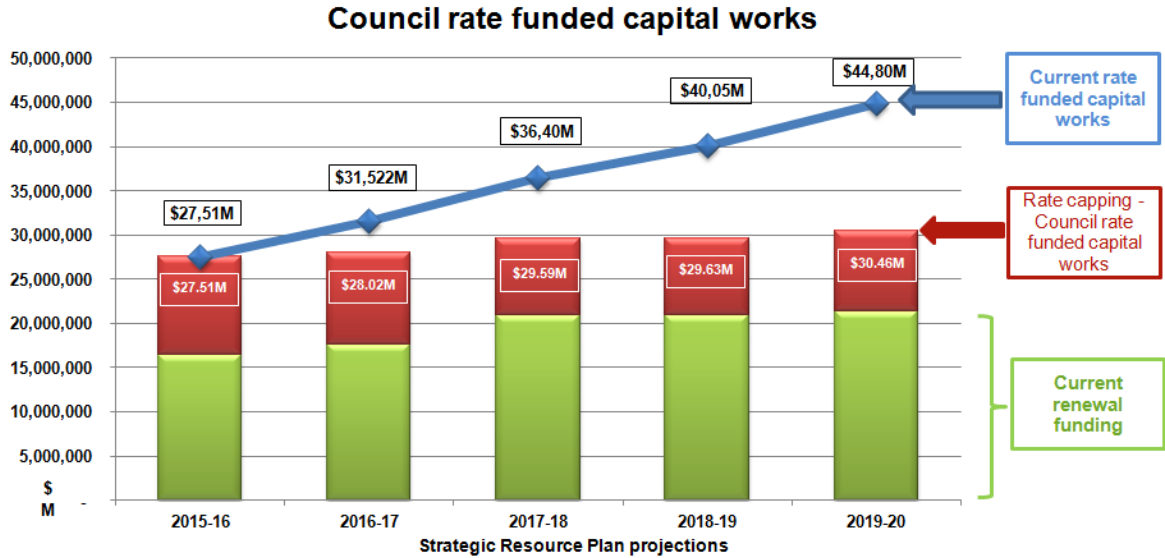
### 2.10 Modeled impacts of rate capping on the City of Greater Dandenong

In terms of developing an understanding of the potential impact of rate capping on the City of Greater Dandenong, Council has developed financial models that compare the projected financial structure of Council – based on continued rate increases per annum of 5.5% - to the financial structure in a rate capped environment (based on a rate cap assumption of 2.9% per annum).

Within these parameters, the funding gap established is approximately \$3.5 million in the first year, rising to \$14.34 million by 2019-20. In the first five years of rate capping it is predicted that in excess of \$50 million worth of expenditure will need to be removed from Councils budget from either operational/ service provision costs or from capital expenditure.



Council has further prepared models that look at the impact on our ability to complete discretionary capital works –which are the funds remaining after Council fully funds the asset renewal requirements in existing asset management plans.



This graph highlights that in a rate capped environment, capital works will essentially plateau based on the 2015-16 levels but an increasing amount of expenditure will be consumed by asset renewal, reducing the amount shown in the red bar on an annual basis.

With little ability to borrow funds, key new infrastructure is likely to remain unfunded in the years to come unless Council is successful in having the rate cap eased.

It should be noted that all of the above figures will be much worse should the rate cap fall below the assumed figure of 2.9% in the models.

### 2.11 An alternative model for rate capping

Council acknowledges that the ESC has been tasked with the role of providing advice to the State Government on how an environment of rate capping can be successfully introduced to Victorian Local Government. Whilst this Council inherently opposes the concept of rate capping and the removal of local government autonomy over the rate setting process, it acknowledges the benefits of putting forward an alternative structure for rate capping for the consideration of the ESC.

The outline of the suggested model from the City of Greater Dandenong is as follows:

1. That an appropriately and correctly based LGCI be established that recognises the actual cost drivers which impact on Councils' costs, including reductions in grant income;
2. That Councils be allowed to increase rates by an amount equal to the LGCI without any additional administrative burden;
3. That for Councils seeking to increase rates in excess of the LGCI but by amount lower than 1-2% over this index, they be required to provide all ratepayers with a statement, included in the rate assessment, that outlines why Council has exceeded the LGCI and how the additional funds will be utilised; and

That for Council's seeking to increase rates in excess of the agreed % over the LGCI, these applications be referred to the ESC for consideration.

### 3. Response to proposed principles of rate capping

The City of Greater Dandenong makes the following observations on the proposed guiding principles in the design and implementation of a rate capping and variation framework.

#### 3.1 Principle 1 – Local communities differ in their needs, priorities and resources

The City of Greater Dandenong agrees with this principle and given its multicultural nature and socio-economic disadvantage believes strongly that the framework should take into account distinguishing features such as population growth, level of socio-economic disadvantage, any particular service or infrastructure needs, and the sources of income available to councils.

Many residents cannot afford private alternatives to Council service and facilities, meaning cutting back on those provided by Council would have a greater impact to Greater Dandenong residents than in some other Councils.

The framework should further note that the cost of providing services in a multicultural community such as Dandenong is higher than average, particularly where Council seeks to be inclusive of all residents in consulting and encouraging participation in local matters.

#### 3.2 Principle 2 – Local communities and ratepayers are entitled to hold their Councils to the highest standards of accountability and transparency when setting rates

Whilst Council agrees with this principle, it is concerned that the threshold for rate increases in excess of the rate cap will be based on demonstrated ratepayer support for an increase. This would create a situation that is quite unprecedented at any level of government in Australia.

The situation in the City of Greater Dandenong is further quite unique in this regard. Council currently receives 52% of all rate income from commercial and industrial properties which make up just 14% of all assessments in the municipality. Of the 51,908 residential assessments, 34% of these represent rental accommodation where the landlord usually does not reside in the City of Greater Dandenong.

Achieving broad based support from 'ratepayers' for a rate increase where they are unlikely to directly access the benefits of infrastructure – compared to 'residents' who do – will always be inherently difficult in this Council.

Council would support a community consultation threshold where there is demonstrated community support for certain investments for which an increase over the rate cap is sought. Further than it considering community support, the needs and wishes of residents are equally as important as those of ratepayers.

Concern is also expressed over the view that the ESC will take into account the results of the Local Government Performance Reporting Framework. Many of these indicators may

provide valid results but there remain several indicators that are inherently poor in construction.

One such indicator of concern to this Council is that of “Rates Effort” which contrasts the total amount of rates raised to the property values. Whilst all Councils require a similar amount of rates per assessment in order to function, there are vast differences in average Council valuations. A Council in the inner area of Melbourne or bayside will have much higher average valuations and therefore a lower rating effort than Greater Dandenong.

Indicators such as this need to be carefully considered and should not form part of any framework that the ESC applies in considering rate capping variation applications.

Of more value is the outcome of overall community satisfaction as assessed annually in the Local Government Victoria survey of Council ratepayers. Despite rate increases, the City of Greater Dandenong has consistently achieved high levels of community satisfaction in regard to the overall performance of Council.

### 3.3 Principle 3 – The framework should support the autonomy of Councils to make decisions in the long term interests of their community and ratepayers

The City of Greater Dandenong supports this principle but argues strongly that by having the State Government control around 88% of Council’s annual revenue, this principle will not be served with the introduction of rate capping.

Instead Council’s role will be limited to one where it will simply be the body that allocates where scarce resources will be expended and will have little to no role in the quantum of these resources that can be raised.

This represents a considerable reduction in local government autonomy.

### 3.4 Principle 4 – Councils will need to satisfy the burden of proof outlined in the framework when seeking a variation above the cap.

Council notes and acknowledges the various comments made supporting this principle and in particular supports the point that in designing the rules, the ESC will aim to minimise the burden on Councils necessary to comply with the new regime and that any requirements under the framework should be proportionate to the expected benefits from its implementation.

A phased in approach of this new regime is supported by Greater Dandenong Council.

Further to comments made in section 3.2, Council does not support the threshold where community support for rate increase is required. This should be limited to demonstrated community support for more or improved services or infrastructure.



### 3.5 Principle 5 – Rate increases should be considered only after all other viable options have been explored.

The City of Greater Dandenong does not support this principle for a range of reasons.

Firstly, as already indicated in this paper, under a rate capped regime, the State Government will control 88% of Council income. There simply does not exist a range of other options to increase revenue – other than Council decisions to cut expenditure through service reductions and capital works.

Secondly, there is the issue of equity. Given the socio-economic status of residents within this Council, there is not the option to significantly increase fees and charges without making these same services inaccessible to the residents who need them most.

Local Government rates are a property tax based on the comparative values within the local community. They are the most equitable way in which a Council can raise revenue and maintain service affordability to those residents in need.

Council does accept it will need to demonstrate thorough reviews of Council expenditure and a commitment to innovation and cost reductions where appropriate. It does not, however, support the blanket principle that rates are an income of last resort.

### 3.6 Principle 6 – The framework should support best practice planning, management systems and information sharing to uphold Council decision making

Overall this principle is supported, but it will need to be further considered with a degree of pragmatism with regard to the timing of budgets and the level of community consultation involved.

The reality is that given the current budget framework which requires Councils to have an adopted budget in place prior to 30 June each year, and which requires a dedicated 28 day community submission period, the additional engagement referred to in the consultation paper would need to occur between November and February in the period prior to the financial year commencing 1 July.

### 3.7 Principle 7 – The framework should be flexible and adaptable

Council notes this principle and agrees that a transition period may be required and be preferable to the full roll out of the program in 2016-17. Council further reiterates the need to build in a review of the framework at a set period after the initial implementation of the review (2 years).

### 3.6 Principle 6 – There should be few surprises for ratepayers and Councils in the implementation of the framework

Noted – but with the inclusion of residents as one of the key stakeholders in addition to ratepayers.

## 4. Response to review questions

The City of Greater Dandenong provides the following responses to the review questions raised.

### 4.1 The form of the cap

As outlined earlier in this submission, whilst CPI might be a readily understood index to the general public, it has no relationship to the cost structures experienced by Council and an alternative index would be much preferable. This is clearly evidenced by the most recent outcome where the CPI figure for the period ending 31 March 2015 was just 1.3% compared to an increase in Council's cost base of between 3.75-4%.

An option for the ESC to consider may be to utilise a CPI + model with a 2-2.5% allowance in addition to CPI to better accord with Council's cost drivers. In the event that CPI is to be used then it should be based on an underlying CPI which discounts out the impact of price changes in food etc. CPI should further be based on the forecast CPI rather than previous. To apply the latter methodology would entail having to use the CPI for the year ended December the previous year which would have little to no relevance in the cost movements for the forthcoming year.

The ESC (if CPI is the basis) should also give consideration to implementing a floor level index to deal with circumstances such as what presently exists where CPI outcomes are well below what any Council could match with its cost base. A minimum outcome of around 3% could be set where CPI falls to extremely low levels.

The better alternative would be to calculate an appropriate and accurate Local Government Cost Index (LGCI) noting that this was a recommendation from VAGO in its reporting on Local Government Rating Practices and appears to have been overlooked by all who have referenced other parts of that audit report.

In an ideal world the cap should be set for more than one financial year. Local Government has invested heavily in long term financial planning and infrastructure management and to suddenly be restricted by an uncertain rate cap from one financial year to the next would destroy this approach – particularly given that it is a revenue source for approximately 65% of total revenue and even small changes to this base can have significant long-term impacts.

There needs to be equity in how the cap is applied with all Councils being placed on an equal footing prior to consideration of the variation process which should take account of the range of factors noted in this submission.

### 4.2 The base to which the cap applies

The basis of the cap should apply to rates and municipal charges. It should exclude service rates and charges and special rates/charges.

The City of Greater Dandenong currently levies a waste charge, which is inclusive of the state landfill levy. This charge is based purely on a cost recovery basis as a fee for service. Council does not profit from the levying of the waste charge.

The future costs of waste are likely to rise significantly. Already in 2014-15 Council has become aware of the falling incomes that recycling contractors have experienced in selling recycled product, leading to cost variations being sought by these contractors from \$70 per tonne to paying Council a reduced income of \$35 per tonne. The anticipated cost to Council from reduced recycling income in 2015-16 is \$414,000.

These sorts of variations will continue in the waste field with the area being highly dynamic in terms of waste disposal costs and factors such as landfill rehabilitation. In addition to this, Council has been levied with significant increases in the State Government landfill levy in recent years.

The inclusion of waste charges into the rate capped environment will dramatically worsen the impact of rate capping on this Council and it is argued that such a fee for service charge should be excluded from the rate capping regime.

The City of Greater Dandenong acknowledges that such an exclusion could provide an opportunity for Councils to seek to increase this charge beyond the demonstrated increases in costs and Council would support a process that requires us to provide evidence of any cost increases and that the service is not providing Council with surplus funds.

The rating cap should apply to the total revenue from rates and municipal charges having regard to the treatment of supplementary rates below.

In terms of determining how to calculate the rate cap, the base should be the annualised rate income from the previous financial year. In calculating this amount it is:

1. The amount originally raised in rates and municipal charges; plus
2. The annualised amount of supplementary rate revenue

This then provides the total amount to which a percentage rate cap can be apportioned to.

Supplementary rates forecast for the coming year should not form part of the rating cap.

In seeking to better explain the above points, the below case example is provided.

- Council A has a rate cap set in 2016-17 where its revenue from rates and municipal charges is \$80 million. In addition to this Council A forecasts that its supplementary rates that it may levy during 2016-17 is \$800,000 –noting that supplementary rates are charges on properties that complete improvements or are new properties that are subdivided during the year.
- During 2016-17, Council raises \$800,000 in supplementary rates which are a collection of various supplementary returns where additional rate notices are issued for varying periods of the financial year remaining. Some notices are for the full 12 months, some for six months and some for just three months. If all of the supplementary rate notices were issued for the full twelve months – the annualised income would be \$1.2 million.
- In setting the rate cap for 2017-18 the base should be \$80 million plus \$1.2 million which equals the new base upon which the rate cap percentage should be based.

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The forecast supplementary rates for 2017-18 should again exclude the forecast amount of supplementary rates.

The above approach is required for supplementary rates as they do not represent free money to Council. Where a ratepayer occupies an improved house or a subdivision is created this comes with a matching service obligation on Council to provide services.

The challenges arising from the revaluation every second year will simply be that whatever the rate cap is set at, every individual property will experience a different level of rate increase due to the comparative movement in the individual valuation to the average. A program such as rate capping, which relies upon it being 'branded' as a set increase to the public, will inevitably cause ratepayer confusion.

### 4.3 The variation process

As part of the variation process, the Council should be able to demonstrate that the drivers of their cost structure vary from the index set and this should further take into account the ongoing reductions in income due to the failure of government grants to keep pace and the restrictions on Council's ability to raise statutory fees.

Council accepts a high level of community engagement should be able to be demonstrated but stops short of the engagement having to demonstrate community support for a higher rate increase. Instead the threshold should be limited to community support for an infrastructure project and/or service.

The listing contained within Clause 14 of the consultation paper should further include the delivery of long-term asset renewal plans and the implementation of strategies which have been developed with demonstrated community support.

The variation process needs to be pragmatic and relatively quick to resolve. Stopping the budget process for over a month to get a resolution to whether Council can or cannot increase rates over the cap would be extremely difficult.

Alternatively legislative change should be enacted that if Council has demonstrated community engagement to the point where it has successfully received an exemption to the rate cap, why should it then still be required to place the Budget out again for a further 28 day period?

### 4.4 Community Engagement

The recent example of the City of Melbourne appointing a 50 strong community panel and work-shopping all aspects of the Budget is one that we believe represents best practice. However, from presentations received on this it was incredibly time consuming and resource intensive and would not represent a sustainable process that could be completed every year.

The City of Greater Dandenong has invested in on-line collaborative technology and this has the ability to become a vital tool in having an achievable and timely annual conversation with the community about expenditure priorities and community support for the same.

This approach does need to be treated with some caution though, as Council will still need to implement ways to engage with the segments of its community which are not on-line and in particular its culturally and linguistically disadvantaged community.

A good recent example of using on-line collaboration in discussing budget options with the community can be viewed by the ESC at the following link.

<https://oursay.org/southgippsland>

#### 4.5 Incentives

The best means of providing an incentive for Councils will be to get the right cost index. Quite simply, if this framework is implemented at pure CPI and Councils are restricted to a rate increase of, for example, 1.3% then no matter what approach Councils take service levels and capital spending will fall dramatically.

If however, the index chosen is achievable with a solid effort towards innovation, resource sharing with other Councils and a smaller level of cost reduction, then the unintended outcomes will be minimised.

The rate capping framework also needs to be supported by the State Government increasing their commitment to annual grant funding to offset the loss of rate revenue.

#### 4.6 Timing and process

As noted earlier, the timing of producing annual budgets is already very tight.

The current schedule for the Budget framework within the City of Greater Dandenong is as follows:

- October-December - development of the long-term financial strategy with Council officers and Executive Management Team
- February – engagement with Council on the long-term financial strategy and setting of the broad parameters for the one-year budget including rate increase
- February-March – development of the draft budget by Council officers in line with the parameters set by Council.
- April – series of Council briefing sessions on the draft Budget
- End of April – Council adopting the budget for the purposes of public display
- May – advertising of the budget for community submissions
- June – hearing of submissions and adoption of the budget

For Council to build in a detailed community engagement process on the budget it would have to be done in phases essentially between October/February in the year prior to the budget.

In terms of ESC consideration of any variation application, it would have to be completed by 31 March in any year in order for Council to then complete its budget deliberations and meet the community advertising requirements. The ESC will have to be very timely in the

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manner in which it process these requests as being essentially on hold for a month will be very difficult for Councils to incorporate into the timeline.

#### 4.7 Transitional arrangements

The City of Greater Dandenong sees some merit in having a transitional period in which rate capping is introduced into Local Government.

#### 4.8 Roles

It would be the preference of the City of Greater Dandenong for the ESC's assessments of rate variations to be advisory in nature and not determinative. Council could then remain accountable to its local community for its rating decisions and retain its autonomy.

#### 4.9 Other Matters

There should be a review process of the effectiveness and the consequences of the rate capping framework every two years from the point at which it is implemented.