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Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 37/2 Lonsdale Street
MELBOURNE VICTORIA 3000

Dear Dr Ron Ben-David

**RESPONSE TO THE DRAFT BLUEPRINT FOR CHANGE, LOCAL GOVERNMENT RATES
CAPPING AND VARIATION FRAMEWORK REVIEW**

Thank you for the opportunity to make a submission on the *draft Blueprint for Change, Local Government Rates Capping and Variation Framework Review*.

Please see attached Gannawarra Shire Council's submission to the Essential Services Commission of Victoria's consultation paper on the development of state-wide rates capping and variation framework.

Like the Victorian Government, Gannawarra Shire Council is committed to ensuring future rates are 'efficient, stable, and reflective of community needs and demands'. Gannawarra Shire Council believes that at the same time, it is critical to maintain Councils' autonomy and financial sustainability.

Gannawarra Shire Council believes its rate rises are already compliant with the above terms, and to place a cap on future rate increases would threaten Council's financial sustainability and its ability to provide vital community services. This is because of the impact rate-capping would have on the operating budgets of small rural Councils and the lack of alternative service providers. A rate-capping framework would also threaten Council's viability because wage increases are currently greater than CPI and due to the potential for an asset renewal gap to develop.

Small Rural Councils such as Gannawarra Shire provide vital services to small, relatively isolated and dispersed communities. These communities are entitled to have access to a base level of services, although providing that service may cost more than in a metropolitan centre. In this way, rate-capping could become a barrier to equality of access to services.



Small Councils like Gannawarra Shire often take on the role of service provision due to the lack of alternative providers. There are significantly fewer commercial or not-for-profit providers, which in some cases means the most effective and efficient way to deliver a service is for Council to do so. Again, this becomes a way of ensuring equality of access for Gannawarra's communities.

Gannawarra Shire Council proposes the introduction of a tiered system which would allow smaller Councils to adopt rate rises to ensure key services and infrastructure can continue to be provided. This would allow rural communities to continue to receive the services and infrastructure they require, while ensuring that future rate rises are in line with community expectations.

I recommend the attached submission for your consideration.

Yours sincerely

Eric Braslis
CHIEF EXECUTIVE OFFICER

SUBMISSION TO ESSENTIAL SERVICES COMMISSION

DRAFT BLUE PRINT FOR CHANGE, LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK REVIEW

Introduction

Gannawarra Shire is a small rural shire in northern Victoria with a population of just over 10,000 people. Its economic base is underpinned by agriculture with a substantial irrigated farm sector, largely dairy, and a strong dryland farming sector in the west of the Shire. In an effort to diversify the economy, Council has been very active in the promotion of tourism to the Shire.

The introduction of the rate-capping framework proposed by the Victorian Government presents a range of challenges for Gannawarra Shire Council. Council's main concerns regarding the introduction of rate-capping are:

1. Council's reliance on limited income streams

Gannawarra Shire Council is heavily reliant on two income streams; rates income and government grants. Council is very limited in its ability to seek revenue from any other source. Other than a small amount of user fees and charges that Council can collect, rates revenue is our only real source of 'self-generated' revenue, which allows Council to meet constantly changing community expectations.

2. Increased reliance on grant revenue

By capping rates and limiting Council's ability to receive self-generated income, Gannawarra Shire Council will become increasingly reliant on grants from the Commonwealth and State Governments. Councils are already operating with decreasing grants revenue received via the Financial Assistance Grants program. Gannawarra Shire Council has been forced to review services to accommodate this reduction. The freezing of CPI indexation of the Financial Assistance Grants alone has reduced our ability to keep pace with inflation by approximately \$100,000 per year (\$5,000,000 grant at 2% CPI). For our community, this equates to a 1% rate increase (per annum). Many additional grants are provided on a part funded basis with the expectation that Council bridge the gap in delivering infrastructure and services through self-generated funding.

3. Cost-shifting by Victorian Government

More recently the Victorian Government has made local government responsible for the delivery of many services previously delivered by the Victorian Government, particularly in the areas of community services. Due to our size and limited economies of scale which would be provided by a larger population, Gannawarra Shire Council has limited opportunities to seek private service providers, unlike metropolitan councils. This is most noticeable in the areas of children's services and aged care services.

4. Gannawarra Shire rates increases are lower than many councils

In the past few years, Gannawarra Shire Council has kept its rate increases to 4% and below. This year our rate increase was 3.9%. This approach is financially responsible and recognises the financial challenges our community faces. By increasing rates in small and sustainable increments, Council only asks the community for what is required to deliver services and does not seek unnecessary growth in services at the expense of ratepayers. An increase of 3.9% is only 0.9% higher than the proposed rate cap, but represents \$90,000 in lost revenue which is substantial for Council.

5. Cost of preparing a variation in the rate cap

It is uncertain what the cost will be to Council to seek a variation in the rate cap but what is clear is that it will redirect resources away from community focused activities. It has been discussed at the ESC information sessions that the cost could be between \$20,000 - \$50,000. This would be approximately 0.5% of a rate increase for Gannawarra Shire if at the higher end. An application fee of this amount would eliminate most of the revenue received for a rate increase at 1% higher than the proposed cap.

Proposed changes

The proposed rate-capping framework will impact most heavily on those councils that have very limited ability to apply for a variation or to find alternative sources of revenue.

Therefore, Gannawarra Shire Council proposes the following actions:

- Allow councils with limited ability to source other revenue more flexibility in the cap limits e.g. a percentage rate higher than metropolitan councils.
- Allow rural councils a multiplier for remoteness, to take into consideration higher costs in relation to transportation, attracting qualified staff and providing services where a commercial provider is not available.
- Reward responsible councils by setting the cap at an average over the sector.
- Waive the application fee for a variation in rate cap for small councils.
- Reduce or eliminate the minimal grant for metropolitan councils (of which there are 13 in Victoria).