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15 May 2015

Mr Ron Ben-David
Local Government Rate Capping and Variation Framework Review
Level 37, 2 Lonsdale St
Melbourne VIC 3000

Dear Mr Ben-David

I welcome the opportunity to submit our comments on the Local Government – Rates Capping & Variation Framework Consultation Paper. Our submission is provided subject to Council endorsement at its Ordinary Meeting being held on May 25, 2015.

We are strongly supportive of the emphasis in the consultation paper for demonstrable accountability and transparency as these are fundamental aspects of good governance and a key requirement of the act governing our operations.

Wyndham City is one of the fastest growing municipalities, not only in Victoria but Australia. It is anticipated that this growth will continue for decades to come given the volume of developable land available within the municipality. This growth creates opportunities for social and economic development in the municipality. However it also creates a number of complex challenges for Council and residents the most notable being the provision of adequate support services, infrastructure and employment opportunities.

This submission has been prepared keeping in mind that Council's role is to endeavour to achieve the best outcomes for the local community and meet our legal obligations particularly in the provision of infrastructure in growth areas. This also needs to have regard to the long term sustainability with due regard to cumulative effects of decisions.

The attached paper provides our comments in relation to many of the issues canvassed in the consultation paper as well as addressing a number of the questions posed.

If you have any questions regarding the issues raised in this letter or the attached paper please contact either of the following:

Steven Lambert
Director Corporate Services
03 9742 0707

Bill Forrest
Director Advocacy
9742 0934

Regards,
Kerry Thompson
Chief Executive Officer
Wyndham City

A SNAPSHOT OF WYNDHAM 2015

Wyndham's Growth

- Wyndham is the second fastest growing municipality, by percentage Victoria wide – 6.5% (2013-2014).
- The population of the City of Wyndham will be 201,012 (as at June 2015), with a projected population of 384,275 in 2036.
- There are 11 babies born each day, with a record 4,120 births in 2014.

Who is Moving Here?

- 204 new residents a week.
- Wyndham's population grew by approximately 10,604 persons from 2013 to 2014. This is planned by the State to continue for the next 30 years.

What is our demographic?

- The largest age group is 35 to 49 years, with a population of 46,807 people. This is followed by 25 to 34 years with 36,646 persons.
- Between 2011 and 2036, the age structure forecasts indicate a 133% increase in population of retirement age.

Wyndham's Diversity

- Over a quarter (25.9%) of Wyndham residents speak English as a second language.
- 34% of the population were born overseas.
- The top five countries of birth of Wyndham residents (other than Australia) in 2011 were India, United Kingdom, New Zealand, Philippines and China.

Wyndham's Local Economy

- More than half of the jobs in Wyndham are held by locals.
- More than 60% of our residents commute out of Wyndham City for work
- The main industry sectors are Manufacturing, followed by Retail Trade, Health Care and Social Assistance, Transport, Postal and Warehousing
- Wyndham's unemployment at the end of June 2014 was 6.2%, equal to Victoria's average
- Employment and economic growth lags behind population growth

Wyndham's Asset base - \$2.7 billion

- Over 11 million square metres of road to maintain
- 1,300 km of drainage pipes and 50,000 drainage pits to keep clear
- 150+ buildings, 25+ sporting reserves, 240,000 street and park trees
- Our asset base is growing at around 5.6% per annum

KEY ISSUES FOR CONSIDERATION

Cap of CPI inappropriate for Local Government

It is our understanding that the state government is proposing to use the Consumer Price Index (CPI) as the cap point for future rate increases. Put simply, local government is not a consumer, it is a service provider, therefore the index is not measuring the right basket of goods/costs. While the CPI is a number which is often reported in the press and therefore one which arguably carries strong public recognition, we believe there is little understanding as to the construction of the number and its relevance to the costs of delivering services provided by Local Government.

Household v. Local Government – Expenditure mix and cost escalations differ

The reality is that local government expenses are different to household consumer expenses. Whilst the CPI measures movements in a standard basket of common household goods and services, the council ‘basket’ is predominantly made up of staff expenses, contractors and materials to deliver community based services.

The table below shows the composition of the basket of goods which makes up CPI alongside Councils corresponding items of expenditure.

CPI Group	CPI Weighting	Council Spend Category	Spend Weighting
		Labour	58%
		Services	21%
		Materials	7%
Housing	22.03%		
Food & non-alcoholic beverages	17.04%		
Recreation & culture	12.58%		
Transport	12.05%	Fuel	1%
Furniture, household equipment & services	9.03%	Power / Water	3% / 1%
Alcohol & tobacco	6.89%		
Health	4.93%		
Insurance & financial services	4.81%	Insurance	2%
Clothing & footwear	3.96%		
Education	3.64%		
Communications	3.04%	Communications	1%
		Other expenses	6%
Total	100%	Total	100%

As you can see from the table the mix is vastly different and using the CPI risks a significant understatement of Council’s cost base. Based on current assumption of CPI and our proposed rate increase of 5.5% for 2015/16, over the next four years we would anticipate a loss in revenue of around \$50 million. To put this into perspective, \$50 million is close to the amount that is being planned to be spent on road renewal works over the next four years. This reduction in funding will have significant implications for our levels of service provision.

We do recognise that of the above Council spend categories, the Labour category is in some way under the control of the organisation but even then, increases in labour costs are subject to multi-year EBA’s and hence not variable in the short term. In the medium term whilst we will be attempting to negotiate an EBA with the best outcome for Wyndham residents in terms of costs and productivity gains, it is highly likely to be

a number in excess of the current CPI taking into consideration current labour market benchmarks. This is consistent with recent and continuing trends.

Capital Works – Construction cost escalation

Wyndham has one of the largest capital programs of any LGA in Victoria and while the table above refers to costs which are predominantly expense in nature when you are consistently investing in excess of \$100 million pa on capital infrastructure, these costs need to be considered also. There is a construction cost index which is commonly referenced in the industry and the sector and this index has been averaging well above CPI. This is further evidence of the inappropriateness of the CPI as a measure for the sector.

Infrastructure for New Communities – Funding Gap

Council is responsible for the delivery of \$2.40 billion of infrastructure as defined in the development contribution plans (DCP) for Wyndham's growth areas. Developer contributions are likely to be \$1.54 billion, leaving a gap of \$0.86 billion. Not only is there a gap in funding, but Council is carrying the financial risk associated with delivering this infrastructure as the base construction costs in the DCPs are in some cases frozen or indexed by CPI only.

A bigger issue for Wyndham and other growth area councils is the legal obligations imposed upon Council by the State Government through the approvals by the Minister for Planning of precinct structure plans and developer contributions plans for these areas. In effect the State Government and Local Government have agreed to a list of infrastructure items to be provided and an indicative timeframe for this provision. Developers have or will pay the development contributions, in effect on behalf of the future purchases of residential allotments in growth areas.

In Wyndham's case the \$0.86B shortfall, if it were to be evenly spread across the next 30 years is approximately \$30 million per year. The shortfall is equivalent to a 30% increase in Council's capital works program. It equates to an 11% increase in Council's total budget. It is in effect a legal obligation on Council to provide this infrastructure imposed by the State Government through the planning process. Whilst there is some capacity to vary the scope and the timing, this discretion is limited and will only have a limited impact on the financial obligations Council faces.

Community infrastructure levies have been frozen at \$900 per lot since 2004. Council estimates the impact of this has been the loss of \$20 million relative to even CPI indexation. There needs to be some recognition of how this is to be accounted for.

As discussed above, CPI is not reflective of the increasing cost of constructing infrastructure, so the actual cost of construction is likely to be more than the allocated amount in the DCPs. Furthermore, the estimated amounts in the DCPs are often lower than the actual cost of construction. As an example, the Wyndham West DCP has \$6.4 million allocated for the construction of each level 2 community centre. Council will open Saltwater Promenade Community Centre in 15/16 at an estimated cost of \$7.5 million. Council is also finding significant errors and omissions in calculations of the costs of relocating services in particular telecommunications which can add millions of dollars to individual projects. The costings in the DCPs are estimates only and Council wears the financial risk of any omissions.

The gap in funding between developer contributions and the actual cost of delivering infrastructure will be a significant challenge for Wyndham over the next forty years, made significantly more difficult if rate increases are capped at CPI.

Borrowings and cost of finance

We are keen to ensure that we manage our finance position optimally and in a prudent manner. In addressing existing funding shortfalls and recognising the intergenerational nature of our major capital investments, Wyndham has moved from a position of no borrowings to one of a significant leveraging of its balance sheet. We have undertaken long term borrowings in 14/15 of \$40 million and a further \$15 million planned for late 14/15 or early 15/16, in order to fund the capital programs. While the Local Government Funding Vehicle makes these loans more affordable in terms of a lower interest rate margins, this borrowing still requires servicing and this also puts pressure on Council's bottom line.

External factors – decreasing revenue or increasing costs

There are external factors that require additional funding to offset either reducing revenue or higher costs. Funding from other levels of government is not increasing proportionally to the cost of delivering services. The growth in demand for some services, expanding Council responsibilities, increased regulation, and growing state levies that are passed on through rates are all contributing factors that need to be addressed.

Community feedback – value for money if issues are addressed

Council's draft budget for 15/16 has an average rates increase of 5.5%, as per Council's rating strategy to keep the increase at a sustainable, consistent and affordable level. Our own surveys of the Wyndham community have not highlighted rates as a forefront issue. Our most recent Community Survey of 800 residents saw the following as the top five issues for the community being:

- Traffic Management
- Roads maintenance & repairs
- Public transport
- Parking
- Parks, gardens & open space

Fifteen respondents (1.9%) raised rates as an issue. These five top areas listed above accounted for 57% of the survey respondents. Based on our assessment of the Community Survey and broader community engagement, we believe that our community is willing to fund the infrastructure they need. This has been further supported at the "Rates Showcases" Council has presented as part of the launch of its last two budgets which have drawn large audiences of people keen to get an understanding of Council's process and where their rates dollars are spent.

Council undertakes regular "Listening Posts" across the municipality where we display information on where our rates are spent. Most of the conversations are related to the spending mix and prioritisation of where the money is spent rather than the overall quantum of rates levied.

Focus on delivering cost savings

The above said, Council is very much aware of the need to curtail the growing costs of doing business and we have over recent years commenced the **Excellence@Wyndham** program. This program has many facets, all of which are about delivering high quality services to the community in the most efficient and effective manner possible. Procurement processes and policies also ensure contracts deliver the best value to Council. Additionally, Council's long term financial plan model has an efficiency factor target that embeds productivity targets for the organisation.

To this end Council recommends:

- That the Essential Services Commission (ESC) in determining the level of Rates cap to apply in any given year source information from the Australian Bureau of Statistics or some other sources relevant to Victorian Councils.
- That the information used to support the outcome of the cap is generated at the same point each year, that being 31 December prior to the year of application so as to allow time for it to be worked into the budget process. Indicative caps for the following 4 years should ideally be provided at this point to assist councils in articulating their Strategic Resource Plans and longer term financial planning processes.
- That changes as outlined below to our existing service delivery base costs be factored into the calculation of the relevant index:
 - +/- changes in real grant funding
 - +/- changes in costs as a result of legislation changes, levies, expanding council responsibilities
 - + an allocation for specific new initiatives or services identified through consultation and feedback from the community
 - + an allocation to fund new infrastructure, particularly that which relates to legislative requirements imposed by the State.

Application of the Cap between types of Rates and Charges

We note in your paper, a number of questions in relation to the application of the proposed cap which we believe need to be addressed.

Wyndham adopts a model whereby it has three components to its annual rates statement:

- Waste Management Charge – this is a pure cost recovery process for the cost of the kerbside collection service as well as a hard waste service and tip tokens which are provided to residents. The fees also recovers the cost of residential street cleaning, collecting and disposing of dumped rubbish and rubbish in public bins and the cost of the Waste Education team. Given this we do not believe it should be subject to capping in any way but should continue to reflect the cost of the service.
- Municipal Charge – this charge is to reflect the cost of governance and as such we would suggest that if this is to be included in the capping, then it should be at a rate more appropriate with our cost base and that it is subject to indexation.
- Rates – we would suggest if there is to be capping, the index is one more fitting with our cost base that it is subject to indexation.
- Special Rates and Charges – as these relate to a specific benefit applicable to a very small number of properties council believes these should be excluded from the cap.

Driving an appropriate User Pays Model

At this point Council uses its rates income to underwrite the provision of many of its services where charging prices based on full cost would make the service unaffordable for those people in our community most in need of the service. That said Council is looking to move more down the path of a user pays model for a number of its services, keeping capacity to pay as a prime consideration, and any move to impose capping on other income sources would certainly curtail this and put additional pressure on those service. This will see Council potentially reducing service levels, limiting availability of services or exiting services.

Total rates application vs individual properties

In terms of rates, there appears to be two methodologies open when applying the cap, the first being to apply it to the total rates income, and the second to apply it to individual properties. Wyndham is firmly of the view that the former should be the case with the exception of Supplementary Rates. Applying a cap to individual properties creates complexities which come every two years as a result of revaluations required under the act.

Supplementary rates apply to properties which change classifications during the year, typically a move from vacant residential land to developed residential land. This change, as a result of the construction of a dwelling, should not be the subject of any cap at this point in time. Wyndham would suggest that the cap should be applied in the following fiscal year and to an amount equivalent of the full years rates, if the dwelling had been in place from the start of the year.

Council is concerned that the ESC may not be sufficiently resourced to cope with the number and complexity of exemption applications it may face. It is also very firmly of the view that the costs associated with the administration of the cap should be borne by the State Government not council and that the process should , as recommended be evaluated after 3 years of operation.

Justifications for a Variation to the Cap

With rapid residential growth, Wyndham is under significant pressure to provide services and infrastructure for its existing and future residents. This issue is compounded by a number of challenges that we believe should form part of the consideration for an exemption to the cap.

- The level of state and federal grant funding for future community facilities has been reducing each year. By way of example the last library Wyndham Council built cost in excess of \$8 million for the building, fit out and collection to which the state government contributed \$750k. Our indoor aquatic redevelopment project which cost Wyndham in excess of \$50 million drew state and federal funding of less than \$4 million, most of which was tied to environmental outcomes.
- With an ever increasing balance sheet, resulting from our own capital investment and significant amounts of developer provided infrastructure (local roads primarily) the asset renewal requirements are ever increasing.
- We have multiple Developer Contribution Plans which detail future infrastructure provision for new communities and the amounts to be contributed. The costs of building this infrastructure is in excess of \$800 million greater than what is provided for in the DCP's. This shortfall, is to be funded from

rates from the existing and future communities which we are now capping at levels which will struggle to see core service provision let alone the closure of the infrastructure gap.

- Infrastructure is needed as soon as the residents move into the new areas in order to avoid many of the social issues we know are inherent with new communities but the timing of the developer contributions is such that it only comes in after the event. Council is already attempting to manage an infrastructure gap including State Government provision. This lag and future infrastructure needs increasingly puts pressure on our need to borrow.
- VicRoads are not declaring many of the roads (as arterial) within Wyndham despite them having significantly exceeded VicRoads own traffic volume thresholds. This puts pressure on Wyndham in terms of upgrades or at the very least significantly increases maintenance costs, which again have to be funded from rates.
- The level of debt Council is carrying on its balance sheet demonstrates the extent to which it is attempting to contribute to its infrastructure funding requirements.
- The level of community satisfaction / dissatisfaction with the services and infrastructure provided by Council and the rates being levied upon them.
- Exemptions to be measured against Councils' performance (Local Government Performance Reporting Framework).
- The impact on Council of natural disasters where those costs are not otherwise covered by grants from other tiers of government
- As the ESC is aware most Councils still have significant exposure to the Defined Benefit Superannuation funds which operated in the past and as a result if there were to be a funding call made then Council would need assistance in order to meet that call.
- Cost shifting from both Federal and State Government related to grants for service delivery eg. Library, M&CH, School Crossing, HACC Services

Summary

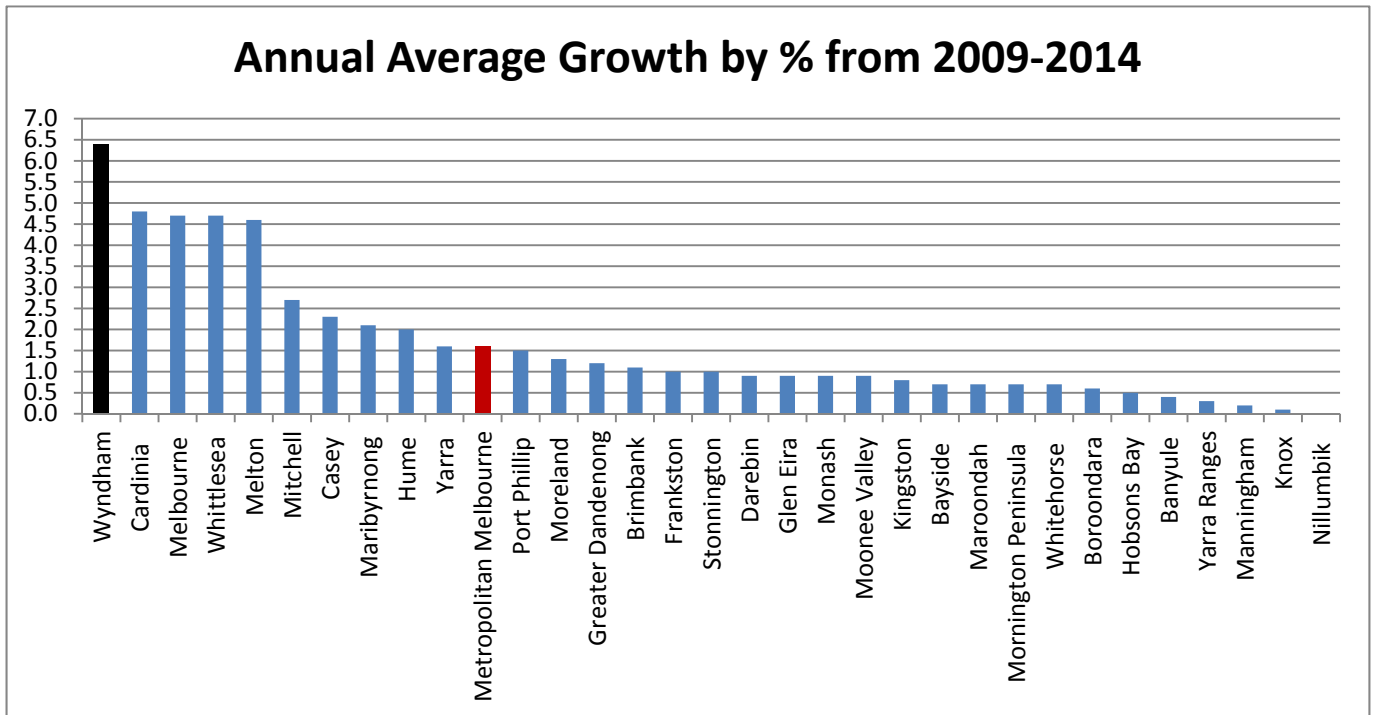
In summary, Councils are democratically elected with a very high degree of exposure and accountability to its local constituents, more so than State and Federal Government. As such, Council does not support the imposition of rate capping.

If the State Government is to pursue this policy with a role for the ESC, then a framework should be built around the following principles:

- A price index that fairly reflects the costs of Council services, infrastructure provision and asset lifecycle management.
- A measure of and allowance for the many different forms of cost shifting and revenue constraining imposed by federal and state government.
- A framework for expecting Councils to demonstrate how they drive and achieve efficiencies in their operations.
- A framework that provides a mechanism for exemptions encapsulating the set of principles outlined above and other factors listed for consideration in this submission.

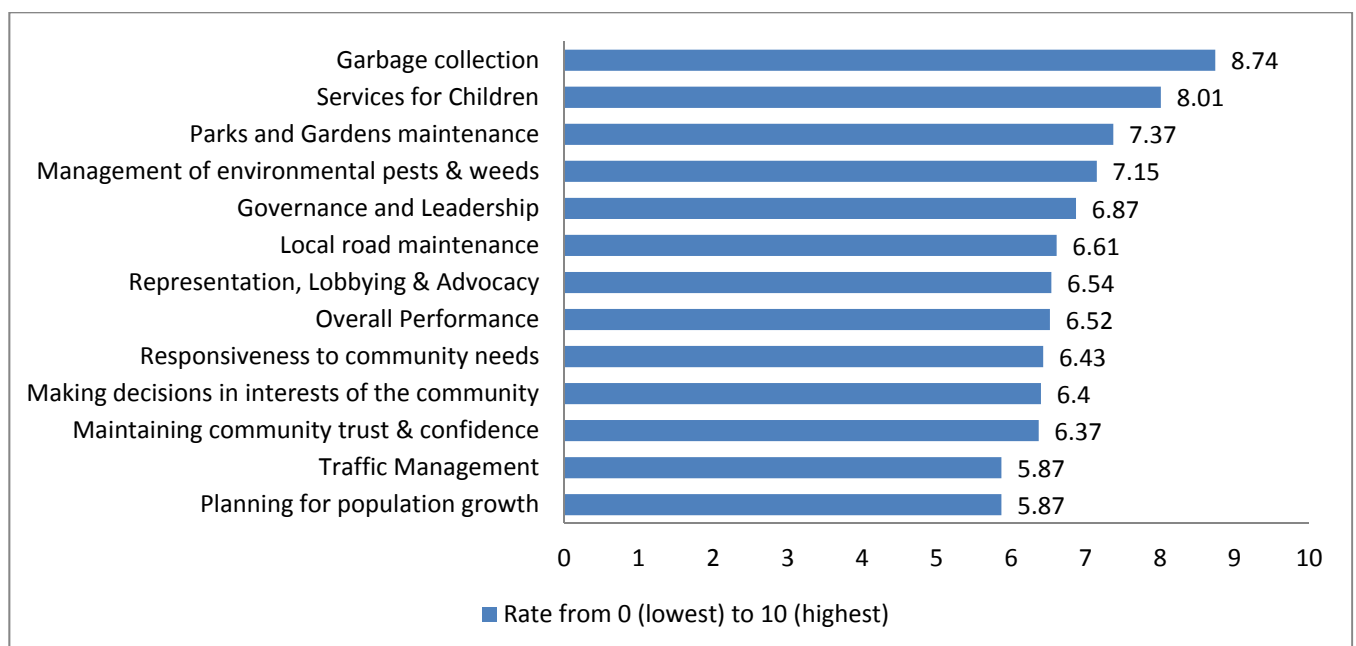
Attachments

LGA Annual Average Growth



Source: Regional Population Growth, Australia, 2012-13 (cat. No. 3218.0)

Wyndham Council Community Satisfaction Survey 2014 – Council Services / Actions



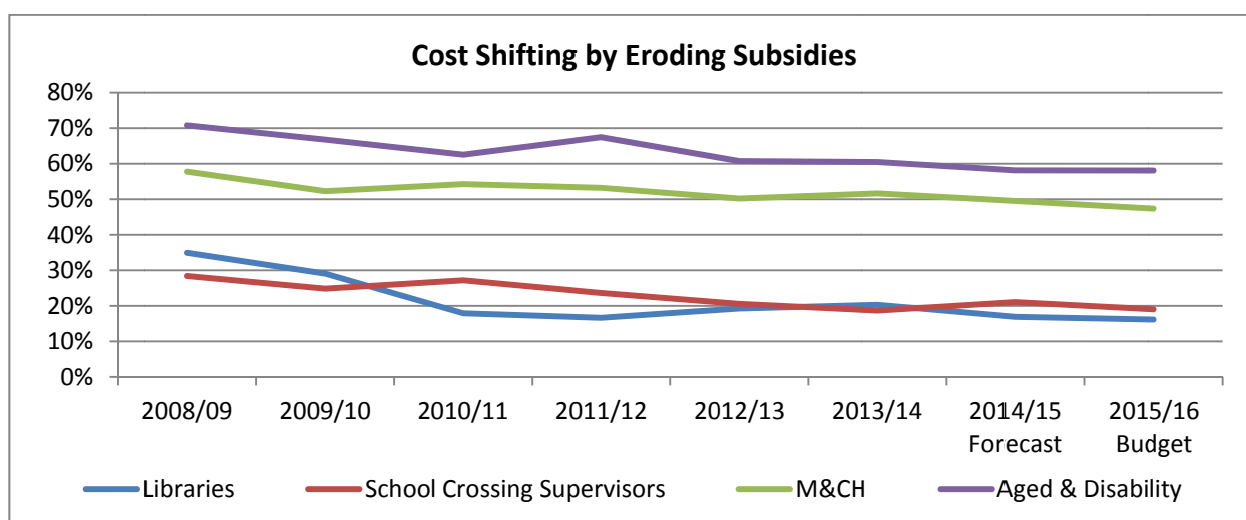
*Total of 802 participants

Councils Challenge - Infrastructure & Financial Challenges

Infrastructure	Costs*	Likely DC's	Gap to Fund
Roads	\$1.30 - \$1.35 billion	\$980 million	\$320 - \$370 million
Active Open Space & local standard space for all community & recreation infrastructure	\$750 - \$800 million	\$560 million	\$190 - \$240 million
Higher order & Outdoor Sports Facilities (e.g. grandstands & specialised surfaces)	\$300 million	\$0	\$300 million
Total (midpoint in range)	\$2.40 billion	\$1.54 billion	\$860 million

* Costs only relate to DC relevant infrastructure

Rate Capping



EFT Staff per 1,000 residents: 2009-2014

