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towongshire

Reference: 07/05/0007

15 May 2015

Dr Ron Ben-David
Chairperson
Level 37
2 Lonsdale Street
Melbourne VIC 3000

Dear Dr Ben-David,

Local Government Rates Capping and Variation Framework Review - Submission

Thank you for the opportunity to provide a submission into the Local Government Rate Capping and Variation Framework Review.

Towong Shire Council supports the concept of a flexible rate capping and variation framework that is able to accommodate the varying needs and challenges facing different Councils. Our Shire has the fourth smallest population (5,889 at 2011 Census) and the ninth largest area (6,675 sq km) compared to the rest of the State. This immediately creates challenges for Council to deliver services and maintain infrastructure over such a large area with a small ratepayer base.

As a small rural council we are additionally challenged with:

- higher maintenance and construction costs in remote areas
- less staffing to support variation submissions and grant funding applications, despite an increased reliance on grants
- less ability to increase revenue through user fees and charges.

Improving our organisation and ensuring that it is poised to efficiently deliver key priorities is a constant focus. Councillors have pushed hard to drive efficiencies, maintain service levels and deliver minimal rate rises to ratepayers. Over the past five years Council has delivered over $400,000 of savings per annum without impacting on service levels to our community. This has been achieved by identifying areas where shared services and pooled resources can reduce costs and improve service delivery and reducing the size of the organisation. Review of purchasing arrangements continues to yield savings by re-evaluating the necessity of purchases, transferring to more cost effective suppliers and extending the life of depreciable assets.

Council's preference is to maintain (or improve) existing service levels and meet its asset renewal and maintenance requirements. This is however constrained by available financial resources. We submit that Councils should be able to seek a variation from the rate cap threshold where additional revenue is required to:

- Maintain community service levels, where:
  - the changes to input costs exceed the rate cap
  - State or Federal Government reduces financial contributions, or
  - where the needs of the community change
- Deliver new or improved services to the community
- Respond to increased responsibility imposed by other levels of government

innovation : technology : sustainability

- Incur additional expenses that Council has no control over, for example defined benefit superannuation call, changes to service quality standards, regulatory charges, fines and levies
- Accommodate retrospective legislative change, such as changes to the EPA requirements for closed landfills
- Meet expected service levels when subject to a natural disaster or other emergency.

Integrating or aligning a multi-year rate capping framework with the existing legislated Council planning cycle may also assist with providing a more efficient rate capping process.

Please find attached more detailed responses on the matters raised in the above consultation paper.

We believe that small rural Councils should be recognised and their needs accommodated in the new Rate Capping and Variation Framework and are hopeful that you would support this principle.

If any further information is required please do not hesitate to contact our Director Community and Corporate Services, Jo Shannon, on jo.shannon@towong.vic.gov.au.

Yours sincerely,

J Heritage

Jamie Heritage
Acting Chief Executive Officer

LOCAL GOVERNMENT – RATE CAPPING & VARIATION FRAMEWORK
CONSULTATION PAPER

SUBMISSION
MAY 2015

COUNCIL VIEWS ON RELEVANT QUESTIONS RAISED IN THE CONSULTATION PAPER

Towong Shire Council provides the following views on the specific questions raised in Section 5 of the *Local Government – Rate Capping & Variation Framework - Consultation Paper April 2015.*

THE FORM OF THE CAP

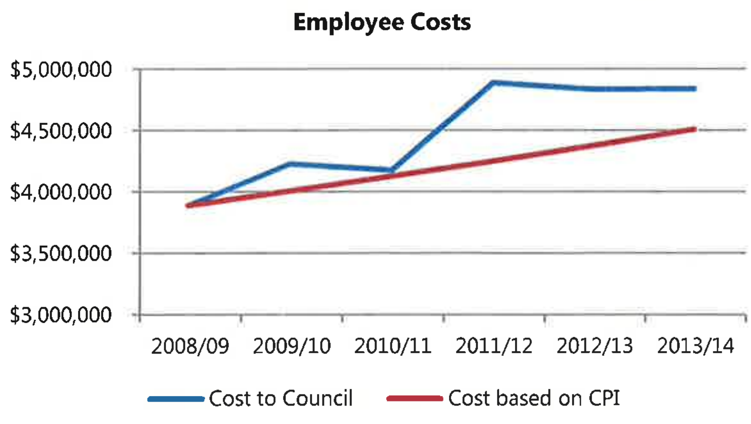
1. While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?

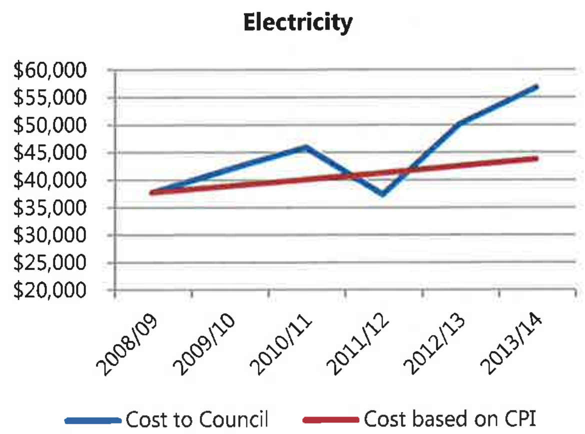
Whilst CPI is a simple measure to understand and apply, it is not a relevant driver of the costs local government face. The CPI measures changes in the price level of a market basket of consumer goods and services purchased by households. Local government is not a household and therefore does not purchase the same basket of goods and services.

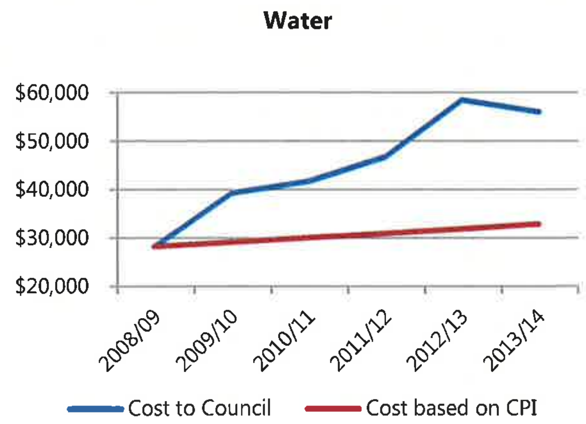
Goods and services that are relevant to the Local Government sector are predominantly wages and construction costs (roads, bridges, buildings and other infrastructure). The expense breakup for Council is typically:

Employee Costs 35% - 45%
Materials and Services 25% - 40%
Depreciation 25%
Financing and Other Expenses 5%

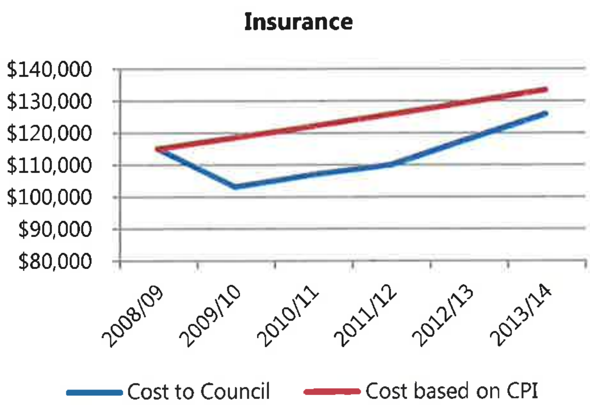
Wages are directly linked to Enterprise Bargaining Agreements that are multi-year agreements with annual percentage increases as well as progressions through the band. Over the past six years, Towong Shire Council's employee costs have risen by an average of 4.5% per annum. This includes Federally legislated increases to the superannuation guarantee contribution. The impact of the defined benefit superannuation calls in 2011 and 2012, totalling $1.2 million, has been excluded for this analysis.

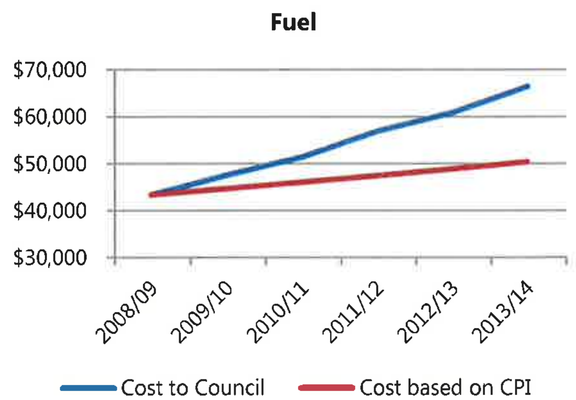






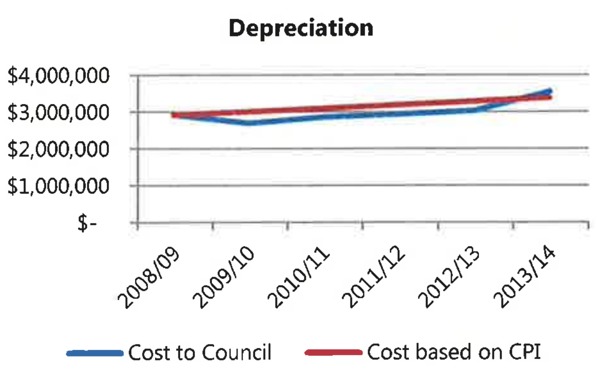
Electricity costs have risen by an average 8% per annum and water by an average 15% per annum.





After a reduction in 2008/09, insurance has been increasing at an average of 5% per annum and fuel for fleet vehicles increasing by 9% per annum.

Construction costs are also greater in rural areas due to increased travel, freight, material availability and a less competitive market. These increased costs flow through to depreciation when Council assets are revalued for accounting purposes. The following graph displays the impact on deprecation when construction costs increase and a revaluation is undertaken (as in 2013/14).



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

The Local Government Cost Index, as developed by the Municipal Association of Victoria (MAV) may be a more appropriate base to use as an indicative cap for rate capping purposes. This index factors in wage increases and construction costs which are more in line with the types of expenditure incurred by Councils.

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?

A multi-year cap would support Council planning and give some certainty over the short term. The timing could be aligned with the Council Plan and Strategic Resource Plan development and associated community engagement.

Rather than implementing the cap from 1 July 2016 or having a transition year, it may be better to postpone the implementation of the rate capping framework until the following financial year (1 July 2017), so that the incoming Council elected in November 2016 has direct responsibility for the Council Plan, Strategic Resource Plan and any required rate capping submission.

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

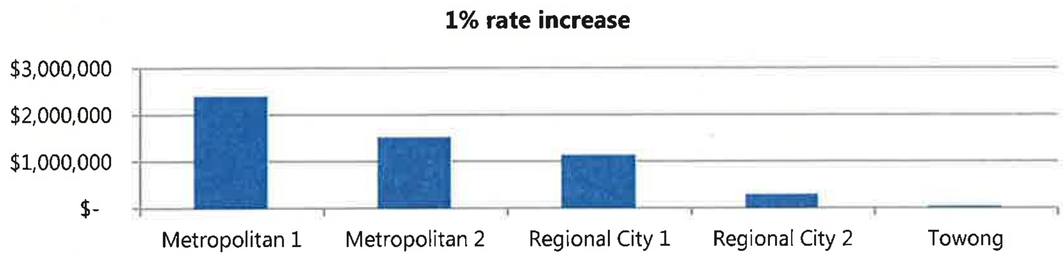
The measure that is eventually used for the cap should be based on forecast movements. Historical movements give no indication of pricing for goods and services in the relevant period of expenditure that the cap is to be implemented on.

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

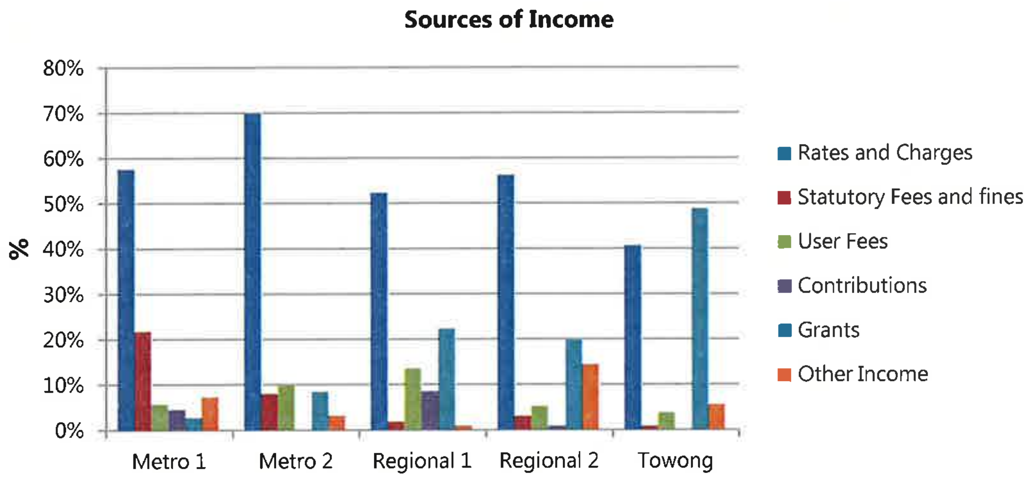
It would be very difficult to have a single cap that provides the flexibility and functionality for the varying sizes and differing characteristics of the 79 councils in Victoria.

It may be possible to have a cap for each grouping of similar Councils. These groupings could align with the Victorian Auditor General Office (VAGO) council categories or possibly with the groupings provided in Appendix C of the Consultation Paper.

Small rural Councils do not necessarily have ready access to the resources required to be able to develop variation submissions to the extent that a larger council would have access to. The quantum of the rate revenue increase also differs markedly between the different sized Councils. For Towong Shire Council a 1% increase in general rates equates to less than $50,000. This compares to many metropolitan councils and regional cities where a 1% rate increase equates to over $1 million.



Unlike other larger Councils, Towong Shire Council does not have ready access to other sources of revenue such as parking fees, fines and developer contributions. Rates revenue accounts for 40% of operating revenue compared to larger Councils where it can range from 50 – 70%. Statutory fees and user charges account for 6% in Towong compared to larger Councils which range from 9% to 28% of operating revenue.



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?

The cap should only apply to general rates revenue and municipal charge. These charges are both general charges and are not a direct fee for service, but more to provide the balancing revenue to offset the expenditure not funded by government grants and subsidise services for the community.

All other Council charges are generally cost recovery or fee for service. For cost recovery charges Council uses the *Cost Recovery Guidelines January 2013* issued by the Department of Treasury and Finance.

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 total revenue arising from the category however using the CIV base of the prior year. This eliminates any effect of supplementary valuations and or new properties on the result.

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

Currently supplementary rates are relatively low in numbers for Towong Shire with an average of approximately 10 -20 supplementary valuations per year. This is due to current restrictions of zoning and the fact the Shire is classed as a catchment area so is therefore very difficult to expand with subdivisions. Council has been actively improving the facilities and services available within our towns to encourage residential population growth. This is particularly evident with Council's investment in the Tallangatta Sports Centre, Tallangatta Integrated Community Centre, Our Bellbridge improvement project and the upcoming Upper Murray 2030 vision. Council expects to see this yield results in the next five years.

Any rate capping that is applied should remove the impact of supplementary valuations to protect Council's rating base when there is an increase in the number of properties within a municipal area.

The rate cap should be applied on the same property base, with additional properties (supplementary valuations) dealt with outside the rate cap.

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

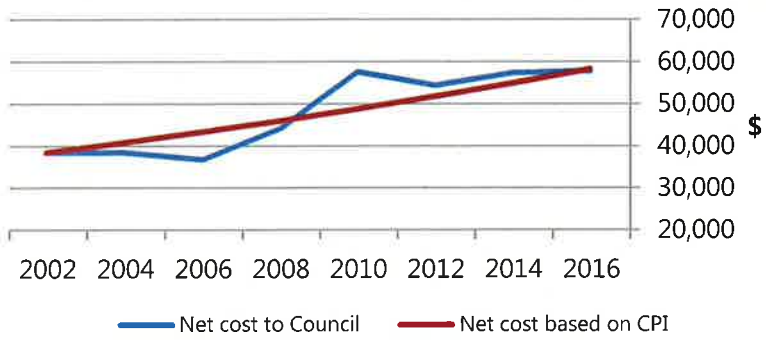
The current valuation system, which requires Councils to carry out a revaluation bi-annually, places a significant cost burden on Council.

The valuation determines the capital improved value of a property, at a specific date and in accordance with relevant legislation. This valuation data is used by Council to distribute or apportion the total rates it requires across all properties within the Shire. Importantly the revaluation does not result in increased revenue to Council, rather it affects the allocation between ratepayers.

Whilst it is understood that the intent of a two-yearly revaluation cycle is to deliver rating equity by redistributing the rate burden within a municipality according to property price movements, in a shire with a small ratepayer base such as Towong, it results in rates that fluctuate significantly between ratepayers, particularly between residential and rural properties.

The net cost to Council (after deducting the contribution made by State Revenue Office) is significant, particularly for small Councils when compared to their rate base. Over the past fourteen years, the total cost of the valuer to conduct the revaluation has increased by greater than CPI, and accounts for 2.5 – 3.1% of the rates collected by Council. This does not take into consideration the internal resources of Council to support the valuer's work and implement updated valuations.

Net cost to Council of general revaluations



It is questionable whether the purported benefits from a bi-annual general revaluation process are greater than the significant ongoing cost.

10. What should the base year be?

Whatever base year is selected, it is important that Council efforts to increase efficiency and effectiveness prior to this policy announcement are able to be recognised in the rate capping framework.

THE VARIATION PROCESS

11. How should the variation process work?

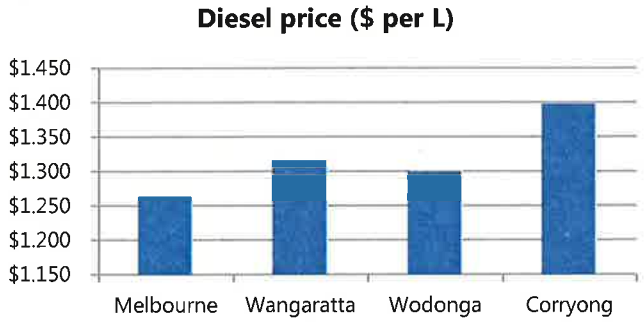
A multi-tiered approach for increases above the rate cap may provide an adequate framework to accommodate the varying scale and differing characteristics of the 79 councils in Victoria. A process where submissions for minor increases above the rating cap are subject to minimal ESC review and disclosure requirements and more significant increases are subject to more substantive ESC review may assist in the efficiency of the rate capping framework.

There are a number of factors that are particularly relevant for small rural councils:

- Maintenance, construction and input costs are often greater in a rural area when compared to metropolitan and regional areas
- Lower staffing levels reduce the capacity to participate in competitive grant funding programs
- Investment in preparing a rating submission yields significant smaller returns given the smaller rating base
- Significant infrastructure assets (particularly roads and bridges) combined with a small rating base results in Council maintaining old and less contemporary assets, until the asset requires renewal and opportunistic funding is available and accessed
- Reduced community capacity limits Council's ability to increase revenue through user fees and reduce reliance in rates.

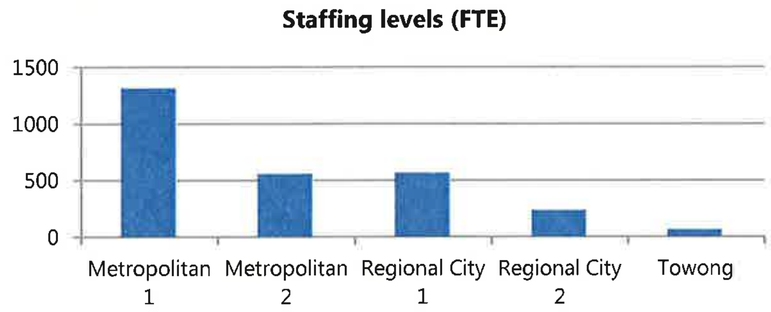
The following examples illustrate the impact of the above factors within a small rural Council:

a) Many input costs for delivering Council services are greater in a rural environment than they are in metropolitan areas or regional centres. The cost of fuel in our Shire is 11% greater than the cost of fuel in Melbourne. To put this in context, if Council were able to purchase the same volume of fuel at metropolitan prices, the annual saving would be in excess of $37,000 per annum or a 0.75% rate reduction.



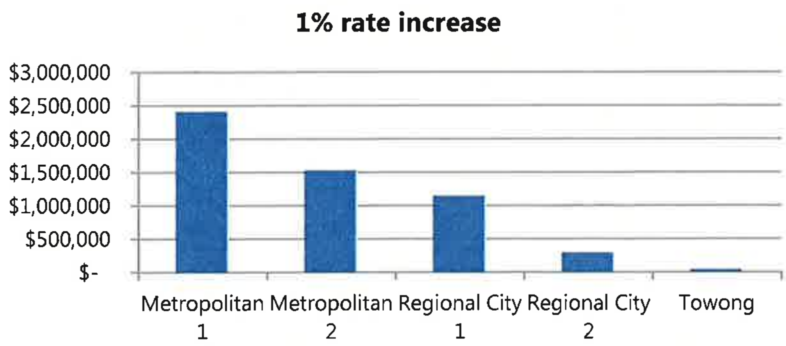
Not only is the unit cost higher, but the dispersed nature of our Shire (0.9 head per square kilometre[1]) means that staff and contractors have to travel greater distances to maintain and construct infrastructure and deliver services.

b) Lower staffing levels in a small rural Council can reduce a Council's capacity to be able to respond to opportunistic or competitive grant funding programs. The same legislative responsibilities apply to all Councils, regardless of size. With 68 FTE at Towong Shire Council, many individuals wear multiple hats and associated responsibilities. Because of competing priorities it is not always possible to commit the resources required when a funding program is open, compared to a larger Council that may have dedicated roles or a more substantial workforce to manage competing priorities.



c) When a percentage rate increase is applied to the rating base of a small rural Council the expected additional rate revenue is less in absolute terms. A 1% rate increase for Towong results in additional rate revenue of $47,000. If similar investment is required of all Councils in preparing a rating submission, smaller Councils will yield significant smaller returns given their smaller rating base.

[1] Victorian Grants Commission – Annual Report 2013-14 Appendix 4



The Victorian Grants Commission has undertaken extensive analysis of a range of major cost drivers of local government expenditure areas. The cost adjusters that are then applied support the view that small rural Councils are disadvantaged by the size of their ratepayer base, the large areas they cover, the dispersed nature of their communities and the increased costs of delivering services and maintaining assets. This analysis may be relevant for the Essential Services Commission to consider when preparing the rate capping and variation framework.

To accommodate these differences it may be possible for the rate capping framework to provide different ranges for what is a minor increase and what is a more significant increase over the rating cap, based on the type of Council. For example, it may be determined that for small rural Councils a moderate increase is 0 – 3% above the cap, whereas for larger Councils a moderate increase may be 0 – 1% above the cap. Such a differential would recognise the different scale of operations in a small rural council and go some way to aligning the quantum of the increase with the effort involved in seeking the increase.

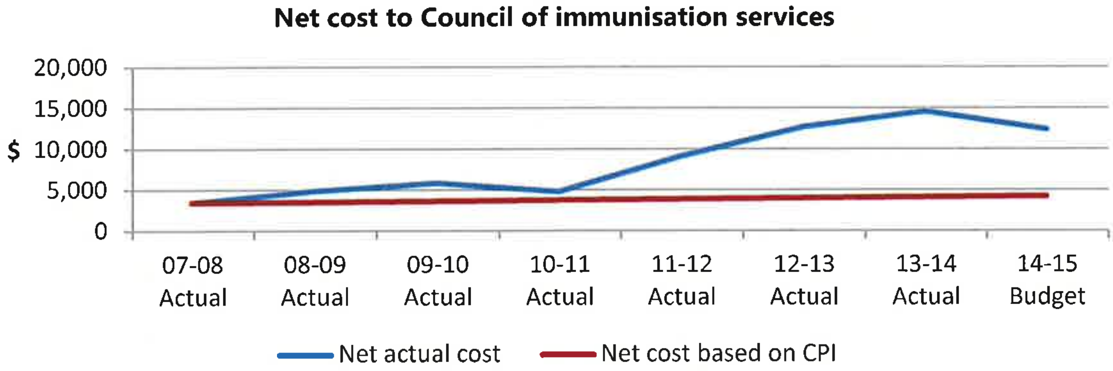
12. Under what circumstances should councils be able to seek a variation?

Council submits that it should be able to seek a variation from the cap threshold where additional revenue is required to:

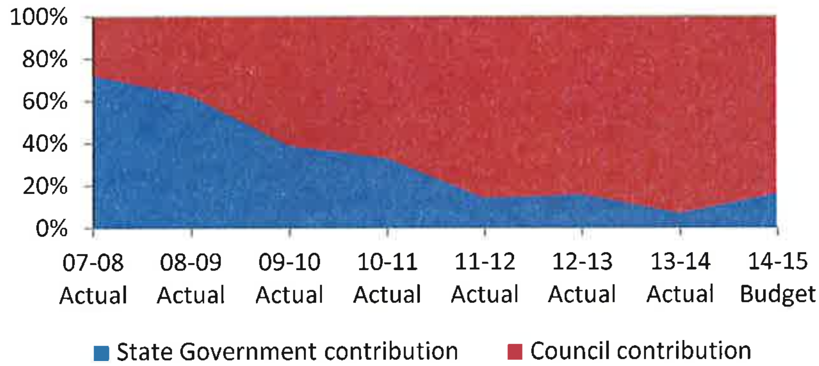
- Maintain community service levels, where:
  - the changes to input costs (for example, wages, utilities, construction contracts, etc..) exceed the rate cap
  - State or Federal Government reduces financial contributions, or
  - where the needs of the community change
- Deliver new or improved services to the community
- Respond to increased responsibility imposed by other levels of government
- Incur additional expenses that Council has no control over, for example defined benefit superannuation call, changes to service quality standards, regulatory charges, fines and levies
- Accommodate retrospective legislative change, such as changes to the EPA requirements for closed landfills
- Meet expected service levels when subject to a natural disaster or other emergency.

The following examples demonstrate a number of the above scenarios:

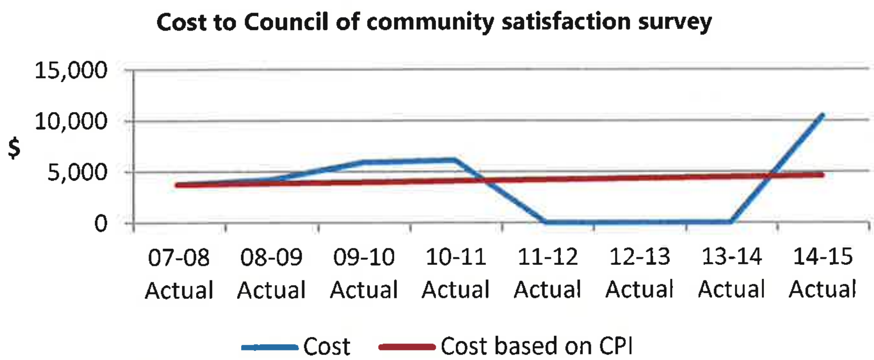
a. Council has responsibility for providing immunisations to children living and being educated in the Shire (Public Health and Wellbeing Act 2008). Costs are continuing to increase due to increased quality standards, wages and in the number of recommended vaccinations. Council has already consolidated the number of locations where the immunisation clinics are held yet costs of providing the service continue to escalate. Over the past six years, the net cost of providing this service has increased by an average 31% per annum.



Over this period of time the proportion of cost borne by Council and the State Government has changed dramatically. The chart below displays the change from July 2007 when Council incurred 29% of the costs of the service to the current day where Council incurs more than 80% of the cost of the service.

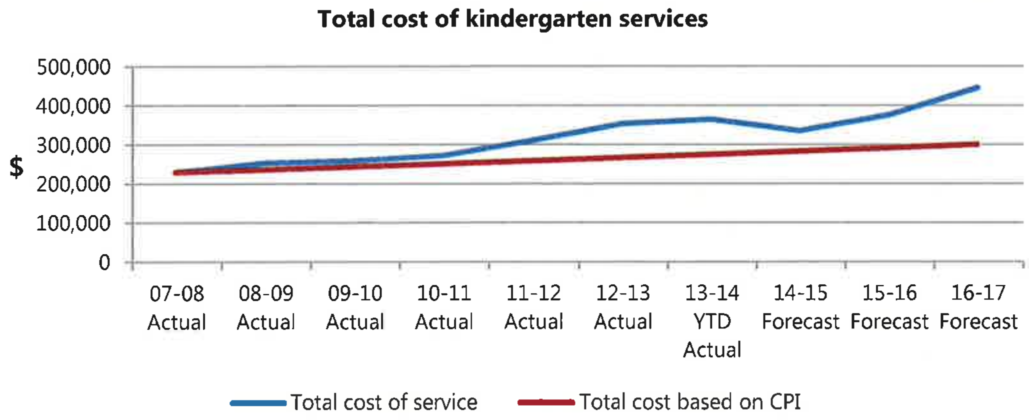


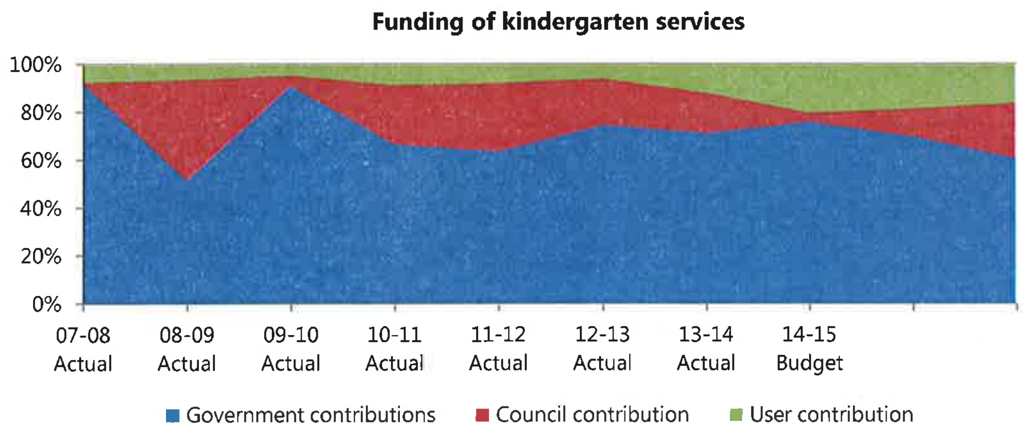
b. Council used to regularly participate in community satisfaction surveying conducted by the Department of Transport, Planning and Local Infrastructure. In 2011 Council made the decision not to participate due to the escalating costs of participation. In 2015 to meet the requirements of the Local Government Performance Reporting Framework Council reluctantly agreed to participate in the survey. Over the past six years, the cost of this survey has increased by an average 16% per annum.



c. Council is responsible for employee superannuation benefits under the Vision Super Defined Benefit Plan. This superannuation fund that was open to membership from 1982 to 1993. Unlike Federal and State Government defined benefit superannuation funds, the local government fund is required to be fully funded. Council was required to make contributions to the local government defined benefit superannuation fund totalling $1.2 million, in 2011 and 2012. This unexpected liability represented 16.6% of total rates revenue[2].

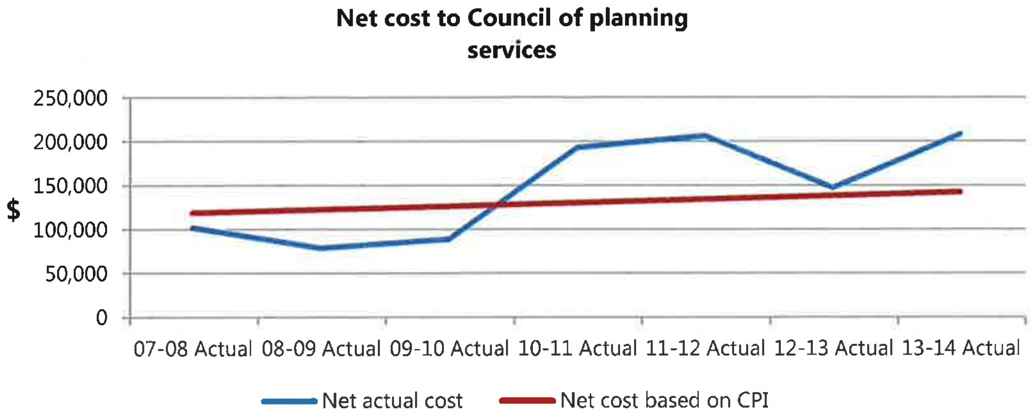
d. Council delivers kindergarten services within the Shire. Costs of providing this service continue to increase with the implementation of the National Quality Framework and will increase significantly from 1 January 2016 when the staffing ratio changes from 1 educator : 15 children to 1 educator : 11 children. This will require an extra staff member at two of Council's kindergartens and this increased cost has not been supported with increased funding.



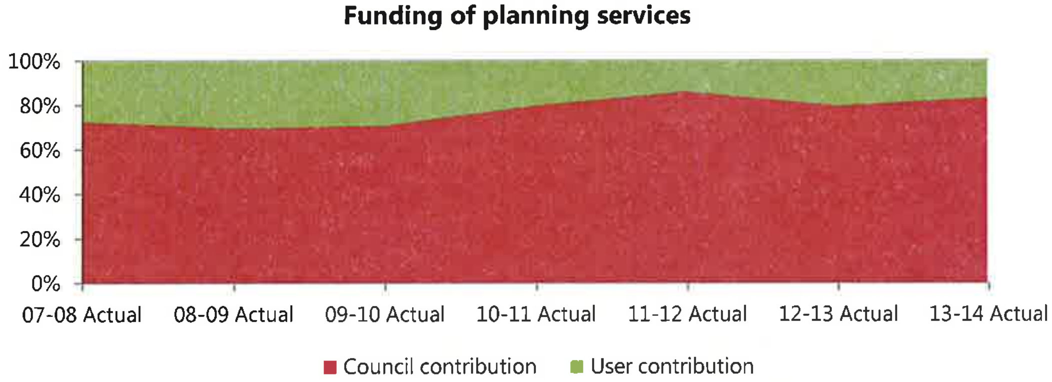


2 *Organisational Sustainability of Small Councils June 2013* Victorian Auditor General p29

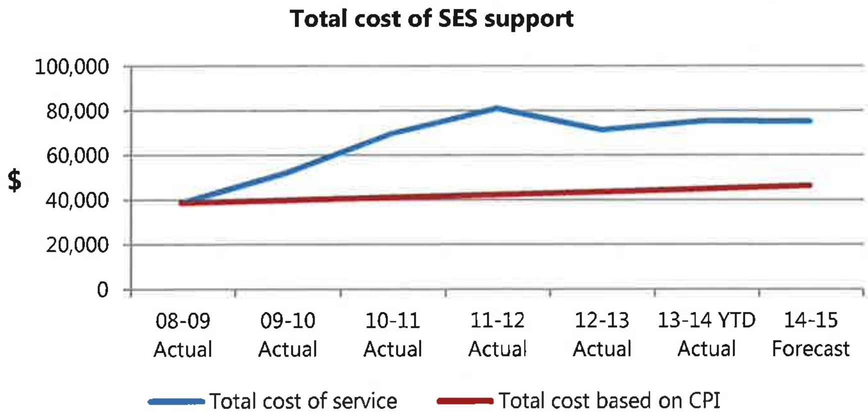
e. Council is the planning authority and undertakes statutory and strategic planning services throughout the Shire. The cost of providing this service has been escalating at 10% to meet the legislative responsibilities.



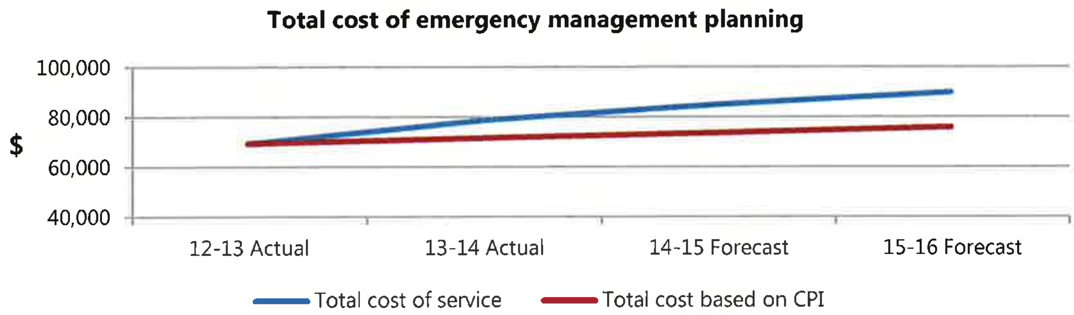
Given the lack of increase in regulated planning fees and charges, the contribution by planning applicants has reduced from an average 28% to an average of 17% the cost of planning services.

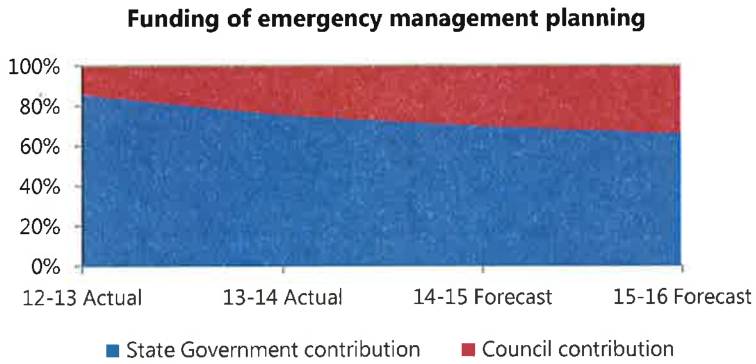


f. Council supports three local SES units with funding to undertake emergency response within the Shire. Our community is dependent on these funds to support the SES response to events within our large Shire area. These costs are continuing to escalate greater than CPI.



g. Council also has legislated emergency management responsibilities. Whilst there has been some State funding with the Municipal Emergency Resourcing Program, the cost of emergency preparedness is continuing to escalate greater than the supporting funding. This is resulting in the cost burden to Council increasing over time.





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?

In addition to the exceptions identified in the question, Council should be able to seek a variation from the cap threshold where additional revenue is required to:

- Maintain community service levels, where:
  - the changes to input costs (for example, wages, utilities, construction contracts, etc..) exceed the rate cap
  - State Government reduces financial contributions, or
  - where the needs of the community change
- Deliver new or improved services to the community
- Incur additional expenses that Council has no control over, for example defined benefit superannuation call, changes to service quality standards, regulatory charges, fines and levies
- Accommodate retrospective legislative change, such as changes to the EPA requirements for closed landfills.

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.

Whilst on the surface the possible requirements listed in the consultation paper may appear reasonable, further explanation is required to establish what is considered "effective engagement of the community", "a legitimate case" and "continuous efforts to keep costs down".

Given the different scale of councils across the state, it will be important to ensure that the expectations on the level of supporting information for a rate capping submission is commensurate with the size and capacity of the individual council.

Council considers that it has made continuous efforts to keep costs down over at least the last five years, that it has engaged effectively with the community regarding its financial challenges and existing services, and that there is a legitimate case to support 6% rate increases through the life of the Council's Strategic Resource Plan. Council can readily demonstrate cost savings that have been implemented over the last five years, can provide evidence of its community engagement and through the Council's Strategic Resource Plan and Long Term Financial Plan forecast the financial impact of required rate increases over the medium to long term.

Over the past five years Council has delivered over $400,000 of savings per annum without impacting on service levels to our community. Council has:

- Reviewed water supply and usage (reduced from $32,000 to $12,000 pa)
- Implemented a new motor vehicle policy, projected to save $130,000 pa by:
    - increasing the length of time that cars are held (retained to 200,000 kms)
    - purchasing second hand fuel efficient motor vehicles (such as low kilometre Hyundai i30s)
    - reducing the size of the motor vehicle fleet
    - reducing the private use availability and increasing the personal contribution where private use is maintained.
- Changed fuel supply arrangements, saving $8,701 pa
- Consolidated and standardised printers and multi function devices to reduce stock supplies
- Changed banking service providers, saving $16,470 pa
- Developed in-house plant and vehicle tracking system to improve plant efficiency and reduce risk
- Brought garbage collection service in-house, saving $70,000 pa
- Limited Enterprise Agreement increase to 3% x 3 years from 1 August 2013
- Restructured the organisation to operate with a two director model and less staff ($250,000+)
- Introduced shared services (rates and property) with Indigo Shire Council, reducing the cost per rate notice from $13.12 to $9.98.

Councils develop short, medium and long term financial projections thought the Annual Budget (one year), Strategic Resource Plan (four years) and Long Term Financial Plan (ten years).

The Victorian Auditor General (VAGO) has also developed a set of financial sustainability indicators to identify Councils that are at more risk of being unsustainable. Despite the fact that there can be some limitations to these indicators, the reporting of forecast VAGO indicators based on the short, medium and long term financial modelling could add value to Council submissions for variations to the rate cap.

Council has modelled the impact of varying rate increases through the life of the Long Term Financial Plan. Rate increases below 6% result in a number of the VAGO financial sustainability indicators entering high and moderate risk ranges. As the rate increase reduces, Council would experience reduced liquidity as a result of the ongoing underlying deficit, and over time is expected to encounter difficulty with self financing and renewing assets. This is likely to lead Council to significantly reduce its asset renewal or borrow to fund operations, neither of which are desirable outcomes for the community.

As the following table demonstrates, the VAGO indicators move from mainly green (low risk) at a 6% rate increase to mainly amber and red (medium and high risk) with a 2% rate increase. It will be important that impact of any rate capping is analysed and modelled into the medium and long term.

High risk
Medium risk
Low risk

6% Rate increase	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Underlying result (1yr)	-5%	-6%	-4%	-2%	-1%	1%	2%	3%	5%	7%
Underlying result (4yr)	-4%	-7%	-3%	-4%	-3%	-2%	0%	1%	3%	5%
Liquidity	4.21	4.03	3.88	3.61	3.11	2.68	2.12	1.82	1.58	1.46
Self financing	37%	27%	27%	28%	24%	25%	25%	26%	27%	29%
Indebtedness	9%	8%	8%	7%	7%	6%	6%	6%	5%	5%
Capital replacement (1yr)	2.18	1.06	1.07	1.20	1.17	1.23	1.33	1.29	1.35	1.41
Capital replacement (4yr)	1.86	1.69	1.53	1.37	1.13	1.17	1.24	1.26	1.30	1.35
Renewal gap (1yr)	-	0.96	1.02	1.07	1.11	1.17	1.20	1.23	1.29	1.34
Renewal gap (4yr)	0.97	0.84	0.73	0.77	1.04	1.09	1.14	1.18	1.22	1.26

5% Rate increase	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Underlying result (1yr)	-6%	-7%	-6%	-4%	-4%	-2%	-1%	0%	1%	3%
Underlying result (4yr)	-4%	-7%	-4%	-5%	-5%	-4%	-3%	-2%	0%	1%
Liquidity	4.18	3.95	3.71	3.32	2.65	2.02	1.21	0.60	(0.01)	(0.56)
Self financing	37%	27%	26%	27%	23%	23%	23%	24%	24%	25%
Indebtedness	9%	8%	8%	7%	7%	7%	6%	6%	6%	6%
Capital replacement (1yr)	2.18	1.06	1.07	1.20	1.17	1.23	1.33	1.29	1.35	1.41
Capital replacement (4yr)	1.86	1.69	1.53	1.37	1.13	1.17	1.24	1.26	1.30	1.35
Renewal gap (1yr)	-	0.96	1.02	1.07	1.11	1.17	1.20	1.23	1.29	1.34
Renewal gap (4yr)	0.97	0.84	0.73	0.77	1.04	1.09	1.14	1.18	1.22	1.26

4% Rate increase	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Underlying result (1yr)	-6%	-7%	-7%	-6%	-6%	-4%	-4%	-4%	-3%	-1%
Underlying result (4yr)	-5%	-8%	-4%	-6%	-6%	-6%	-5%	-4%	-4%	-3%
Liquidity	4.15	3.86	3.54	3.03	2.21	1.38	0.33	(0.57)	(1.52)	(2.48)
Self financing	37%	26%	26%	26%	21%	21%	21%	21%	21%	22%
Indebtedness	9%	8%	8%	8%	7%	7%	7%	6%	6%	6%
Capital replacement (1yr)	2.18	1.06	1.07	1.20	1.17	1.23	1.33	1.29	1.35	1.41
Capital replacement (4yr)	1.86	1.69	1.53	1.37	1.13	1.17	1.24	1.26	1.30	1.35
Renewal gap (1yr)	-	0.96	1.02	1.07	1.11	1.17	1.20	1.23	1.29	1.34
Renewal gap (4yr)	0.97	0.84	0.73	0.77	1.04	1.09	1.14	1.18	1.22	1.26

3% Rate increase	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Underlying result (1yr)	-6%	-8%	-8%	-7%	-8%	-7%	-7%	-7%	-7%	-6%
Underlying result (4yr)	-5%	-8%	-5%	-8%	-8%	-8%	-7%	-7%	-7%	-7%
Liquidity	4.12	3.78	3.38	2.75	1.77	0.75	(0.53)	(1.71)	(3.00)	(4.33)
Self financing	37%	26%	25%	25%	20%	19%	19%	19%	18%	19%
Indebtedness	9%	9%	8%	8%	8%	7%	7%	7%	7%	6%
Capital replacement (1yr)	2.18	1.06	1.07	1.20	1.17	1.23	1.33	1.29	1.35	1.41
Capital replacement (4yr)	1.86	1.69	1.53	1.37	1.13	1.17	1.24	1.26	1.30	1.35
Renewal gap (1yr)	-	0.96	1.02	1.07	1.11	1.17	1.20	1.23	1.29	1.34
Renewal gap (4yr)	0.97	0.84	0.73	0.77	1.04	1.09	1.14	1.18	1.22	1.26

2% Rate increase	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Underlying result (1yr)	-7%	-9%	-9%	-9%	-10%	-9%	-11%	-11%	-11%	-11%
Underlying result (4yr)	-5%	-8%	-5%	-9%	-9%	-9%	-10%	-10%	-10%	-11%
Liquidity	4.09	3.70	3.22	2.47	1.35	0.15	(1.35)	(2.78)	(4.38)	(6.06)
Self financing	37%	25%	24%	24%	18%	18%	17%	16%	15%	15%
Indebtedness	9%	9%	8%	8%	8%	8%	7%	7%	7%	7%
Capital replacement (1yr)	2.18	1.06	1.07	1.20	1.17	1.23	1.33	1.29	1.35	1.41
Capital replacement (4yr)	1.86	1.69	1.53	1.37	1.13	1.17	1.24	1.26	1.30	1.35
Renewal gap (1yr)	-	0.96	1.02	1.07	1.11	1.17	1.20	1.23	1.29	1.34
Renewal gap (4yr)	0.97	0.84	0.73	0.77	1.04	1.09	1.14	1.18	1.22	1.26

COMMUNITY ENGAGEMENT

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

Council refers to the IAP2 Public Participation Spectrum[3] when considering best practice for community engagement. Early in 2015 Council conducted a series of workshops with groups of ratepayers and residents to provide them with objective information to assist them to understand the challenges facing Council, and to gain their input into developing alternative solutions to reduce financial risk.

Community engagement covers a broad range of activities undertaken by Council including workshops, surveys, information sessions and social media to involve the community in decision making. Lack of internet connectivity, a dispersed community, significant distances between townships and a small staffing contingent can provide additional challenges to engage efficiently with our community.

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?

Council elections provide Councillors with an incentive to respond to the community and to be held accountable for decision making throughout their elected term.

Demonstrating effective community engagement during the development of the Council Plan and Strategic Resource Plan provides additional opportunity for Councils to respond to community needs and pursue ongoing efficiency.

[3] International Association for Public Participation (www.iap2.org)

It would be disappointing if financial decision making was being guided by the rate capping framework rather than what is in the best long term financial interest of Council. It could result in Councils unnecessarily resorting to financing or borrowing arrangements to deliver Council programs.

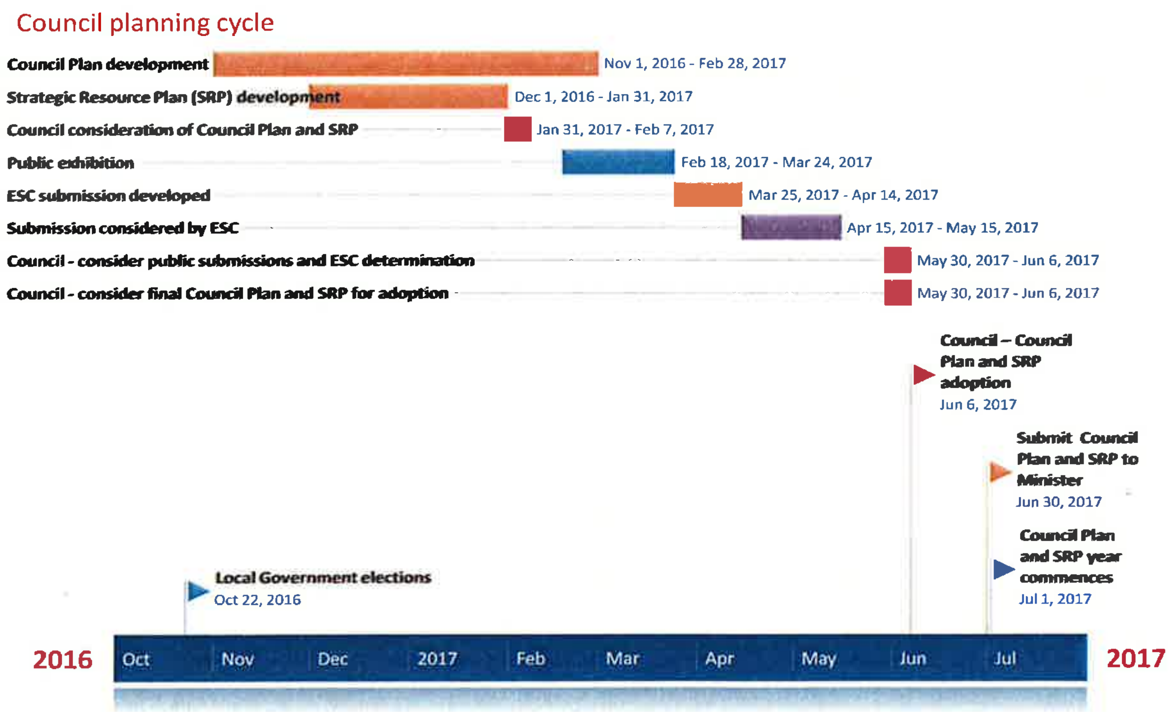
TIMING AND PROCESS

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 it is particularly important that it aligns with councils' budget processes. We are interested in stakeholder views on how this can be achieved.

Through the Local Government Act 1989, there is an existing legislative framework for Councils to develop short and medium term financial projections through the Annual Budget (one year) and Strategic Resource Plan (four years).

Council and the community need to have confidence that the Essential Service Commission submission and review process does not unduly delay final budget adoption by Councils. A framework that provides a multi-year rate cap exemption or variance could be aligned with Council's four year Strategic Resource Plan. Similar to the four week legislative requirement for VAGO to provide an audit opinion, a four week period to form a view on a rate capping variation submission may be appropriate.

The following Council planning cycle demonstrates how the ESC submission could be included in the existing planning framework.



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?

As we understand it current arrangements provide the rate capping to take effect from 1 July 2016.

This is also the year that next general revaluation of properties occurs. General revaluations are undertaken every two years and provide the basis on which local government rates are applied. Updated valuations do not provide for an increased base to derive increased rates from. Rather the updated valuations determine the rates distribution amongst ratepayers within a local government area. This results in fluctuations to rates levied on an individual ratepayers based on their updated Capital Improved Value (CIV) relative to the entire Shire CIV. Whilst Council may adopt a headline rate increase of 6% (which increases the total rates collected by Council by 6%), the individual ratepayer impact can be vastly different.

By way of example, for the year commencing 1 July 2014, when the last general revaluation was undertaken, Council adopted a general rate increase of 5.8%. This resulted in Council collecting 5.8% more in general rates than the previous year. The impact of the rate increase on individual ratepayers ranged from an increase of 9.7% to a decrease of 3.7%, on properties that had not changed in their usage value. Introducing rate capping effective from 1 July 2016 will not achieve the objective of reducing rate fluctuations on individual ratepayers.

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?

It is Council's view that the autonomy of local government should be respected and that the Commission's assessment of rates variations should be advisory not determinative.

OTHER MATTERS

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

The framework should be cyclically reviewed to ensure that it is meeting its objectives. Every four years, in line with Council election cycles, may be an appropriate time frame for this to occur.

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

Whilst it could be argued that capping rates is for the benefit of ratepayers and residents, and that ratepayers should therefore incur the costs of administration, Council believes that the cost of administrating the rate capping process through the Essential Services Commission should be borne by the State Government. Council, and therefore its ratepayers, is already incurring significant costs of preparing for a rate capping regime and providing input into the development of the framework and will have ongoing administrative costs to implement the framework.

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.**

These matters have been addressed earlier in this submission.