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Dear Dr Ben-David

## **Local Government Rates Capping and Variation Framework Review Draft Report July 2015**

Thank you for the opportunity to provide feedback on the above report. The following comments and feedback are provided for your consideration.

Before commenting on the specific recommendations of the draft report, I believe it is important to re-state Council's position that despite statements to the contrary by the Victorian Government, rate capping significantly impairs the ability of Local Government Councils to make decisions and deliver programs and services that are in the best interests of their specific community. Put another way, rate capping impairs the independent operation and decision-making of democratically elected local Councils. Council believes the imposition of the rate cap represents the influence of control by the State Government over Local Government, which is contrary to the Victorian Government's own statements about the importance of retaining the autonomy of Local Governments.

Council is also concerned that the proposed Framework has the potential to significantly impact the longer-term sustainability of smaller Local Government Councils. It could be argued that to a degree, the future sustainability of the sector is no longer in the hands of the sector itself but rather, subject to the direct influence of the Victorian Government, through the Essential Services Commission (ESC).

### **Recommendations of the Draft Report:**

#### **Draft Recommendation 1:**

The ESC is recommending there should be one rate cap that applies equally to all Councils in Victoria and has emphasised the importance of a simple approach to rate capping. It is considered that to place more emphasis on simplicity of governance (of the rate cap) than on introducing a model that recognises the enormous diversity of the Local Government sector, is not in the best interests of local Councils or their communities.

By way of illustration, imposition of a uniform rate cap will make it more difficult for smaller Councils to manage real reductions in external revenue (e.g. Australian Government Financial Assistance Grants) than for larger Councils. Because external revenue sources make up a significantly larger proportion of the total revenues of smaller Councils, any proportionate reduction will represent a larger proportion of their revenue collection through rates.

The ESC's view that the specific needs of individual Councils can be addressed through the proposed variation process is noted, but is not seen as consistent with the objective of a simple approach to rate capping.

If one rate cap is introduced, it is considered likely that applications for variation will be numerous – again, given the wide diversity of Councils and the services they deliver; the need to maintain capital works programs that ensure appropriate infrastructure renewal; and individual Councils' relative ability to fund these. Any system that anticipates frequent or regular exceptions to the rule is unlikely to deliver simplicity of governance.

It is imperative that the process for seeking and presenting a case for a variation is not so onerous as to further disadvantage smaller, less-resourced Councils by dissuading them from undertaking the variation process.

Also, given there are many services Council provides where there has been cost shifting from other levels of government, but these are now included in the rate base, the reality of applying for a variation based on additional cost shifting into the future becomes problematic. Incremental amounts of cost shifting for various services may not be seen as material in any one year but over time will add up. To apply for a variation based on smaller amounts may not be practical. Rather it may be more relevant to review the "efficiency" factor to take into account the cost shifting that takes place each year by other levels of government.

#### **Draft Recommendation 2:**

Council supports the recommendation that the rate cap will only apply to general rates and the municipal charge and will exclude service rates and charges (i.e. waste charges).

#### **Draft Recommendation 4:**

As argued by the Municipal Association of Victoria on behalf of the Local Government sector, the use of the standard CPI measure to underpin the rate cap formula is considered inappropriate. The CPI reflects movement in the final prices paid by household consumers for a weighted basket of goods and services. It is a general indicator of "prices paid" rather than "cost to produce". It is argued that the basket of goods and services utilised to determine CPI does not reflect the cost of Local Government service provision. By way of example, almost one third of the weighted change in costs is attributable to food, beverages and tobacco; 19% to housing costs (excluding utilities) and 3% to education costs. These measures have very little direct relevance to the costs incurred by Local Government in delivering the projects and services required by its communities.

In respect of the 'efficiency' factor incorporated in the formula, it is considered that a year should be indicated for the anticipated end of the factor's application of an additional 0.05 percentage points per year from 2017-18. This would facilitate better informed longer term planning by Councils.

Further, the assumption that efficiency gains can be made year after year without impacting service effectiveness does not account for the current levels of productivity in the sector.

Finally, consideration should be given to the fact that most recurrent government grants already include an efficiency factor and therefore, increases less than CPI apply to this funding source already.

#### **Draft Recommendation 9**

The ESC recommends that it should be the decision-maker under the framework, but only be empowered to accept or reject (and not to vary) an application for variation. The ESC also reserves the right to unfavourably review requests for variation where it deems uncontrollable budget blow-outs have occurred.

It is not evident from the proposed framework that an avenue for appeal is contemplated, should a Council believe that the ESC's decision to unfavourably review a request for variation in respect of "budget blow-out" is flawed. Council contends that where there is potential to make subjective decisions, an appeal or dispute mechanism should be available.

**Draft Recommendation 11:**

The monitoring of the financial sustainability of all Councils post rate capping is supported to ensure appropriate levels of infrastructure renewals are being undertaken or are planned to be undertaken.

**Matters for Further Consideration:**

Council supports the view that statutory fees set by other levels of Government need to be reviewed regularly to ensure they adequately cover the cost of providing the service.

Given Councils are required to prepare a Strategic Resource Plan for four years, it is considered both logical and appropriate for the ESC to provide four years of estimated rate capping data rather than three years as proposed in the draft Report.

The costs of the ESC should not be recovered from local Councils. Rate capping is a Victorian Government initiative that provides no benefits to Councils and therefore, the cost burden of its implementation and management should be borne entirely by the State.

Once again, thank you for the opportunity to provide comment on the Draft Report. If you require any clarification of the feedback provided, please contact me on 03 5153 9512.

Yours sincerely



**GARY GAFFNEY**  
**Chief Executive Officer**