

28 August 2015

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

Dear Ron Ben-David

Submission to the Essential Services Commission 2015, A Blueprint for Change, Local Government Rates Capping and Variation Framework Review – Draft Report Volume I, July.

Thank you for the invitation to make a submission to the above report.

Senior Council staff, the Mayor and Councillors from Mount Alexander Shire Council have attended forums held in Melbourne and Bendigo to further understand the framework proposed in the report and to make an informed submission.

Council continues to be concerned about the impact of the framework on the financial sustainability of Rural Councils, and this has been further heightened by the ESC's recommendation that the rating cap include an efficiency factor. In recent correspondence from the Minister for Local Government she advised Council that "the ESC has been asked to have regard for the impact of the indexation of Financial Assistance Grants and to develop a system that ensures the ongoing financial sustainability of councils". This does not appear to have been addressed in the framework. Further details around Council's concerns in this regard are outlined the response to Section 2.4 in the attached submission.

If there are any questions about Council's submission, Lucy Roffey, Director Corporate Support will be able to assist and can be contacted on 5471 1717 or by emailing l.roffey@mountalexander.vic.gov.au.

Yours sincerely



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Mount Alexander Shire Council's Submission to the Essential Services Commission – A Blueprint for Change July 2015

This submission addresses each section of the above report:

Section 2.1 One cap or many?

While one cap is easier for the ESC to administer, the analysis undertaken and the conclusions drawn on the differences and similarities between Councils could have been supported by more analysis and evidence. The Victorian Grants Commission (VGC) modelling that is used to more equitably distribute the Financial Assistance Grants highlights a number of key cost drivers, such as population dispersion, remoteness and scale, that could have been used in a multi cap model.

Rate rises have been greater than CPI in regional and rural Councils as a result of these cost drivers. This issue was acknowledged on page 5 of Volume 2 where the Commission states *"this finding may reflect the additional challenges faced by rural councils in servicing large road networks and dispersed communities"*

The ESC has concluded that multiple caps would be "arbitrary", however by using the VGC model has been used and accepted by the sector for many years.

Section 2.2 Which revenues come under the rate cap?

Council supports the ESC's recommendation that only General Rates and the Municipal Charge are subject to the Rate Cap.

Council supports the ESC's recommendation that supplementary rates be excluded from the rate cap in the year that they occur.

Section 2.3 Should the cap be applied to total rate revenue or rate revenue per assessment?

The ESC's conclusion that applying the cap to revenue per assessment rather than total rate revenue will assist ratepayers in understanding the rate cap is flawed. This is due to the other adjustments that are beyond the control of a rate capping framework as outlined on page 44 of Volume 2. For these reasons, most ratepayers will not experience the capped increase, particularly in a revaluation year, and may cause further confusion for ratepayers, particularly as current legislation is for increases to be calculated on total rate revenue.

Section 2.4 How should the rate cap be calculated?

Council supports the ESC's recommendation that if CPI forms part of the basis for calculating the rate cap, then the DTF forecast of underlying CPI be used.

Council also supports the ESC's recommendation of including a 40% weighting to WPI in the calculation of the cap.

Council does not support the inclusion of an efficiency factor for the following reasons:

- Councils have already been negatively impacted by an efficiency factor applied to the Financial Assistance Grants. The report notes that the VGC estimates funding will reduce by \$64M as a result of the indexation freeze.
- Councils will incur additional costs in implementing the framework, including the proposed contribution toward the cost of monitoring the framework by the ESC.
- The cap is in itself an efficiency factor given that many Councils had greater than CPI increases factored in their SRPs and Long Term Financial Plans.
- The ESC acknowledged (Page 49 of Volume 2) Councils had faced costs pressures outside their control such as cost shifting, defined benefits superannuation etc.; and that they were unable to verify the extent. It would be prudent to do this analysis before applying an efficiency factor.
- Many Councils have three to four year EBA agreements that were negotiated prior to the rate capping policy.
- Many Councils still have significant infrastructure issues.
 - Only 23 of 79 Councils have a satisfactory level of asset management.
 - Straight-line depreciation limits the usefulness of VAGO's renewal gap measure

In addition the report does not provide information on how long the efficiency factor will apply and if the efficiency factor will be capped.

Section 2.5 What should be the base year for setting the cap?

Council understands the use of 2015/2016 as the base year, however still contends that the timing of the introduction of the rate capping framework has not allowed Councils adequate time to transition Long Term Financial Plans to a rate capping policy.

Section 2.6 What information should be required each year?

It is recommended that financial information as outlined in Table 2.4 is sourced from current reporting requirements such as the Annual Financial Statements and or the Local Government Performance Reporting Framework. This will assist in reducing the cost of compliance, duplication and errors.

Section 3.1 Why is a variation process needed?

The ESC states on page 18 that “ a well-designed variation processpromotes transparency and engagement” It is of concern that the ESC have not been able to clearly articulate how submissions will be assessed, the level of information required, and the process for approving or rejecting a submission. This is likely to impact on the ESC's objective of transparency in the variation process.

Section 3.2 When can Councils seek a variation?

The ESC's stated simple and flexible approach as noted above could result in ambiguity, and concerns around lack of fairness, equity and transparency.

Section 3.3 How would Council demonstrate the need for a variation above the rate cap?

The lack of guidance and support around the application process and supporting documentation could result in better resourced Councils being able to provide more comprehensive information to support a submission than a smaller or lesser resourced Council resulting in a greater chance of success.

A recent example was given at the VLGA forum, where a City of Melbourne Councillor described their recent participatory budgeting process undertaken, which was confirmed as being good supporting evidence of community support. It is understood that the participatory budget exercise was expensive and beyond the resources of smaller Councils.

The ESC needs to consider if the burden of proof should be less for smaller Councils, and that these Councils would be assisted by the development of templates, tools and guidelines for submissions.

Section 3.4 Who decides whether a variation is approved?

Council agrees with the ESC's proposal that the Commission approve variations under delegated authority from the Minister, however there should be an appeals or review process.

Section 3.5 What decisions should be made in response to an application for a variation?

The accept / reject approach is problematic, in that if an application is rejected, it will be 12 months before a Council can re-apply. This could result in projects being unnecessarily delayed or deferred.

The ESC should consider a two stage approach that would allow a Council to resubmit a submission to remove or adjust elements that would result in an amended submission being approved.

Section 3.6 How difficult will it be to have a variation approved?

It is of concern that the ESC expects low numbers of submissions, when many Councils have already estimated greater than CPI increases in Long Term Financial Planning based on adopted plans and strategies supported by their communities.

To say that the ESC is expecting few submissions is either because the timelines are so short that no-one will have time to pull a submission together in the first year, or because the ESC is incorrectly assuming that Councils' SRPs and LTFPs are not well supported by robust community engagement and planning.

In addition the Minister for Local Government recently stated that variations will only apply in "exceptional circumstances" it may be this is the main reason the ESC are expecting low numbers of submissions.

Section 4.0 Monitoring and Reporting?

The review and reporting of the framework is recommended to be conducted by the ESC. It would be more appropriate that an independent review be undertaken by VAGO.

Section 5.1 Timelines for the capping and variation process

The Budget timelines and 28-days consultation will be difficult if the ESC doesn't notify Councils of decisions until May. In the first year of implementation should there be an exemption given to all Councils for adopting their Budgets by 30 June and allowing an extra month or two?

Section 5.2 Are special transitional arrangements required?

The length of permissible variations for transition seem arbitrary, and could make it difficult for rate capping submissions for implementation of large scale projects that require funding certainty over a number of years. Length of permissible variations should be approved on merit as with the quantum.

Page 75 of Part 2 – suggests that Councils can apply for a permanent variation to account for a permanent charge (example provided is cost shifting) but then the recommendation is to limit the length of permissible variations.

Section 5.3 Administration costs

Council does not support the sector funding a State Government policy initiative.

Council supports the suggestion that LGV provide assistance for Councils by introducing templates and guidelines to reduce the compliance cost.

Section 6.0 Over the Longer Term

The report states that Victorian Councils borrowings equal 1.5% of non-financial assets compared to other states average of 3.5%. Councils and communities have become averse to borrowings as the issue has been politicised by successive State and Federal Governments. It will be difficult for Councils to overcome this even though the sector clearly has low levels of debt.