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Subject - Submission for Publication: Consultation Paper - Local Government rates capping and variation framework

Thank you for the opportunity to provide feedback on matters raised in the consultation paper – Local Government – Rates Capping and Variation Framework.

Whilst not related to the consultation paper I first question the State Government's decision to introduce such a framework that I believe effects a Council's ability "to achieve the best outcomes for the local community, having regard to the long term and cumulative effects of decisions" (Section 3C of the Local Government Act 1989)

Rates are a "wealth" tax based on the valuation of a property. In 1995/96 Council's general/residential rates in Ararat were $634.90 per $100,000 of Capital Improved Value (CIV).

In 2014/15 Council's general rates in Ararat were $686.10 per $100,000 of Capital Improved Value, plus a municipal charge of $84 – an increase of $51.20 per $100,000 of capital improved value over the past 20 odd years, excluding the municipal charge .

How does this compare against other household expenses such as electricity, water & sewerage, vehicle registrations, gas and telephone? Rates on a median valued residential property in Ararat in 2013-14 (source MAV 2013-14 Victorian Local Government Rates Survey) were $1,580 – how does this compare with the household expenses mentioned above? (and the owners "wealth" in CIV does not increase over time as a result of payment of these expenses).

As indicated in your paper rate pegging has been in place in New South Wales for a number of years.   A report into financial sustainability of the New South Wales Local Government Sector in 2013 found that out of the 152 councils 32 were sound, 2 very strong and the remaining councils either moderate weak, and very week.

"TCorp identified that a majority of councils are reporting operating deficits, with only 1/3 of councils recording a surplus in 2012. Over the period 2009 to 2012, the cumulative operating deficits for all councils totalled about $1 billion.

Compounding this problem is the fact that most councils are not providing sufficient funds to maintain their assets to a satisfactory standard, which is further adding to the local government infrastructure backlog.

TCorp found that councils' deteriorating financial performance had been occurring for some time and this had led to a gradual weakening of the local government sector. TCorp concluded that these factors, if not corrected, will lead to further deteriorating financial strength and ultimately a lower quality of assets and hence services that can be delivered by the sector" (source:-

http://www.olg.nsw.gov.au/strengthening-local-government/local-government-reform/TCORP-financial-assessments/tcorp-findings

http://www.olg.nsw.gov.au/sites/default/files/TCorp-Report-Financial-Sustainability-of-the-New-South-Wales-Local-Government-Sector-April-2013.pdf

Perhaps in hindsight the State Government should have commissioned a similar study of Victorian local government before making election promises?

In providing feedback I have attempted to provide responses to Section 5 of your paper title "what are the relevant questions for the review".

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?

   ***Response**:*

   - *what "CPI" will be used – both the state government and federal government have just released their budgets and CPI's differ in each one – also the forward projections in these budget documents differ..*
   - *CPI has little relevance to local government costs – Councils have experienced reduced income recently through no indexation to Financial Assistance Grants and the cessation of the Country Roads and Bridges Program. If two council's both received $1 million through the Country Roads and Bridges Program the Council with a larger rate base has a greater ability to cover the loss of this grant.*
   - *Councils have varying abilities to raise income from sources other than rates and municipal charges – parking fees & fines, caravan park fees, landfill fees, developer's contributions, saleyards, windfarms etc.*
   - *A 1% increase in rates for one council is obviously higher or lower than another so if both councils have an added responsibility to pay for additional costs, such as an increase in the mayoral or councillors allowances, then the higher rated council will have a great ability to pay for these additional fixed costs.*

2. What are some ways to refine the cap (for example, alternative indices), in line

with the Government's objectives?

Response:

If long term financial sustainability is the aim then I believe the State Government should consider reviewing the financial positon of every council in Victoria to determine sustainability before determining what framework should be introduced.

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?

   Response:

   - *The Local Government Act and/or associated regulations require Council to prepare a Strategic Resource Plan (SRP) so I believe the cap should be at least for the term of the SRP but subject to yearly change. CPI forecasts for 10 years should also be provided to allow Councils to prepare a 10 year Long Term Financial Plan. This will then allow all readers to see the long term effects of rate capping. If the actual CPI differs to the forecast CPI then Councils could adjust the next year's budget to reflect the change – either by raising extra income should the forecast CPI used the prepare the budget/SRP is less than the actual or by reducing the next year's rates should the CPI be greater than the actual.*
   - *Should Councils wish to vary from the rate cap approved in the SRP then Councils could apply on a single year basis. This will allow for one off unavoidable issues Council's may experience e.g another call from Vision Super Defined Benefits Scheme, government funding variations such as freezes to Financial Assistance Grants and ceasing of other funding programs, cost shifting such as the introduction of the Fire Services.*

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

   Response:

   CPI forecasts could be used to prepare the SRP. If the actual CPI for that year is greater than or less than that estimated in the SRP then the difference can be taken into account in preparing the next budget/SRP.(ratepayers may not like this?)

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

   Response:

- *The State Government should consider reviewing Council's financial statements to determine long term sustainability.*
- *A different cap should apply based on the results of the review – there are already a number of Council's that have been classed as unsustainable (Whelan Report, VAGO Audit Results 2013_14).*
- *Should the ability to raise income from sources other than rate and municipal charges be taken into account?*

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?

   Response:

   - *The cap should apply to the combined amount of income received from rates and municipal charges only. This is because Council can increase or decrease the municipal charge which then alters the amount of rate revenue raised through valuations.*
   - *The cap should not apply to service charges such as waste collection, recycle collection and green waste collection. These service charges are raised to cover some or all costs associated with these services. For example, if a Council introduces a new collection for recycle and green waste that is going to cost $1 million to implement council is required to charge services charges to recover these costs – a cap cannot restrict Council's ability to recover these costs*
   - *The same should apply to special rates/charges i.e these charges are to pay for specific works for specific purposes, and should not be subject to capping.*

7. Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?

   Response:

   - *The cap should apply to the total revenue raised from general rates and municipal charges. It should not be based on average rates and charges per assessment because these change every revaluation.*
   - *Average rates and charges per assessment can also vary between councils depending on the number of assessments and their valuations - one council may have a rate assessment that pays over $100,000 whereas the next council may have 50 properties paying $2,000.*

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

   Response:

   - *Supplementary rates should be excluded from the calculation as it is the result of an improvement to the property or the subdivision of land. If 1,000 more houses are built over the year this may mean increased population which then leads to more demand for council services. Large subdivisions*

generally require public open space contributions that may be in the form of a payment to council or by providing land as part of the subdivision. Additional public open space then leads to additional costs for Council.
- *If supplementary rates were included then the individual ratepayers would be paying less than the CPI increase.*

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

   A revaluation does not result in additional rates and municipal charges. Individual ratepayers will experience rate increases or decreases depending on the movement in individual valuations.
10. What should the base year be?
    Response:

    The base year could be 2016/17 because this is the first year that legislation and the framework will apply.

THE VARIATION PROCESS

11. How should the variation process work?
    Response:
    - *The State Government provides forecast CPI/alternate index to enable council to prepare a SRP. Council prepares the budget/SRP then goes to ESC for approval over the life of the SRP. The ESC then approves the SRP as being financially responsible, Council then advertises the budget & SRP, calling for submissions, Council then considers submissions as part of the normal budget process, Council adopts the budget/SRP with or without amendment.*
    - *If Council requires a variation at the time of the preparation of the SRP based on the forecast CPI/alternate index then Council presents a business plan or similar for consideration by the ESC (NSW would have a process that may be referred to and adapted to suit Victorian Local Government?)*

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

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 increase
    Response:
    - *Where the Council's SRP shows council is unsustainable, based on financial performance indicators to be determined e.g adjusted underlying deficits, liquidity ratios, asset renewal ratios….*
    - *Where council identifies the need to make application e.g vision super defined benefits shortfall; state government provides major capital grants that add material costs to councils operations and maintenance for the facility?*

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.

Response:

- *New South Wales would have a process to follow in applying for variations that may be adapted to suit Victorian Councils?*

COMMUNITY ENGAGEMENT

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

Response:

- *There are many sections of the community that may be only concerned with equity as it applies to them with little or no regard to the long term future of the municipality. Urban interests versus rural interests – roads expenditure versus community services and recreation expenditure.*
- *Some councils may have a number of Section 86 Committees of Management that may be the connection between Council and the community. Some councils may also have other leaders in the community who have contributed to the development of community action plans that may assist?*

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?

Response:

Incentives should not be considered as there are a number of external influences beyond council's control. It also does not take into account the existing state of affairs of individual councils.

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

Response:

- *Process could be:*
  - *Council is advised of the exact forecast index to enable Council to*

prepare the budget/SRP (4 years)

  - *Council prepares the budget/SRP based on the forecast index. As part of the budget/SRP process Council identifies if any variation from the index is required*
  - *If a variation is required then Council makes application to the ESC (should council consult with the community before determining whether they accept the variation application?)*
  - *If no variation is required Council advertises the budget/SRP in the ordinary course of business*
  - *If a variation is applied for the ESC considers the application and makes a determination*
  - *The ESC advises council the results of the application and council then makes the necessary adjustments to the budget/SRP*
  - *Council advertisers the budget/SRP in the normal course of business, calling for submissions under Section 223 of the Local Government Act 1989*

- *The process outlined above however does not allow the community the opportunity to consider the variation council has identified before applying to the ESC.*
- *NSW timeframes may be considered – it may mean council is required to have a draft budget/SRP prepared in early January/February each year?*

TRANSITIONALARRANGEMENTS

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?

Response:

- *A transitional period may be required if the state government is going to conduct a review of the financial viability of all councils to see what effect the capping will have on individual councils.*
- *If the ESC studies the proposed rate rises of councils for 2015/16 it may find most councils have increased rates in excess of the CPI (whichever CPI is used)*

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?

Response:

I assume council's will want advisory but the State Government will want determinative?

OTHER MATTERS

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

Response:

Yes – but how is effectiveness assessed? – rates may be pegged but how does this affect the long term sustainability of some councils?

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

Response:

State Government, otherwise it is another form of cost shifting. If councils are responsible for the costs will councils be able to raise rates to cover the additional costs?

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.

Conclusion:

I believe no councillor wants to increase rates more than necessary. No ratepayer wants to pay more than he/she believes is reasonable.

But services need to be provided and assets need to be built, operated, maintained, renewed or disposed of. Legislation needs to be complied with.

The community may want everything but do not want to pay full cost recovery – otherwise it may cost over $20 to go for a swim in the local pool

There are a number of reports that indicate a number of councils are financially unsustainable. The infrastructure renewal gap facing Council's will continue to grow as I believe the issue is too big for Councils to manage.

The MAV Rates Survey for 2014-15 indicates Ararat has the 8th highest average rates, municipal charges and garbage charge per assessment, excluding the fire services levy.

I believe Ararat will always be one of the highest in Victoria because it is what it is – a limited number of assessments, the lack of population growth in rural areas, the regional type services provided but paid using a rural rate base; the increase in the asset renewal gap, having a few highly valued buildings that cannot be disposed of etc etc etc

Perhaps the answer is for local government to borrow money every year to pay for operations, maintenance and renewal works?

Perhaps the answer is a new round of amalgamations? Perhaps the 1994 amalgamations did not go far enough?

Council is the custodian of a number of assets situated on crown land and local government is to a large extent influenced by state government decisions.

Is long term financial sustainability of councils the ultimate responsibility of State Government or Local Government?

As taxpayers of Australia live beyond their means it appears deficits from all levels of government will become the norm?

The views expressed in the submission are my own personal views, being a ratepayer who pays community taxes (rates) in 3 different councils for 5 houses (a taxpayer living beyond their means).

What do I get for my rates? – a receipt, but only if I request one (LOL).

I wish you luck in your endeavours and thank you for the opportunity to contribute to this consultation paper.

Regards

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