Thank you for the opportunity to prepare and present a submission to the Environment and Planning Committee inquir into the State Government policy to cap local government rates.

The Borough of Queenscliffe is a lean and agile local government, our size necessitates a high level of productivity and requires an innovative approach to maximise efficiency in the Council operations. Small rural councils, such as the Borough of Queenscliffe, with fewer resources, have experienced significant unforeseen challenges in applying the rate capping legislation.

The Borough of Queenscliffe Council has previously acknowledged publicly the State Labor Government’s policy position on rate capping and consequently resolved in January 2016 not to prepare a submission to the Essential Services Commission to seek a variation to the 2016/17 rate cap of 2.5%. Council has complied with the rate cap, but maintains the view that the framework developed is unworkable for small rural councils. In meeting the requirements of the legislation and adapting our strategic planning framework within a very restrictive legislative timeframe, our experience has been that the State Government’s policy is onerous to apply, enormously confusing for the community and financially irresponsible.

The rate capping legislation provides outcomes that are contrary to State Government policy. This submission demonstrates what we know now in light of the experienced impacts on the Borough of Queenscliffe and our community of introducing the rate cap.

What do we know? - The facts

• Borough of Queenscliffe is a lean organisation

The Borough of Queenscliffe’s programs and services reflect a lean organisation with a dynamic mix of legislative obligations, agreed service arrangements with other levels of government and commitments to Council priorities, clearly expressed through the Council Plan and annual budget. Our size necessitates that the range of services provided to the community does not include discretionary services or projects unless the service will meet
or respond to high community needs or interests. As a result, Council has remained one of the lowest rating municipalities in Victoria.

Council’s draft 2016/17 Budget is being prepared based on a 2.5% rate increase. Council has achieved sustainable operational efficiencies to reduce costs and minimise waste and duplication and has applied for external funds to maximise revenue, yet in order to deliver current services and community priorities, we cannot responsibly sustain a rate rise equivalent to the State Treasury CPI forecast over the next four years.

**Borough of Queenscliffe is compliant with legislation**

In preparing its revised Rating Strategy and 2016/17 Budget, Council will meet its obligations under the rate capping legislation for the 2016/17 rating year, however, this has not been without significant impact on Council and our community. Our community do not understand how rate capping will appear on Council’s rate notices nor the impact on Council’s operations. The responsibility of communicating the change resides with the State Government, beyond policy announcement, into actual implementation.

**The costs of compliance are significant**

In complying with the legislative requirements, the costs are stacking up with significant additional Council resources applied to an extensive process of making necessary changes to Council’s Rating Strategy. This involved actively engaging with the community over an extensive period of more than eight weeks to provide an understanding of the changes and to seek feedback, including publishing a community information video clip. Council conducted two public submission processes in January and March 2016 and presented drafts of the Rating Strategy to a community reference group to develop an understanding of the proposals and to seek further community feedback.

The costs of making an application to the Essential Services Commission to seek a variation to the rate cap are very prohibitive for small rural councils. Council cannot realistically develop a comprehensive long term strategic planning framework beyond its 4 year Council Plan cycle or engage with our communities to set priorities over the long term without incurring considerable expense.
In addition, the State Government has indicated its intention to pass on the costs of monitoring compliance to Local Government as part of the Victorian Auditor-General’s annual audit of the sector. This is on top of additional auditing costs already imposed in 2014/15 to monitor annual compliance with the State Government’s Local Government Performance Reporting Framework.

In preparing the draft 2016/17 Budget, Council has achieved operational savings, however not all of these efficiencies can be sustained over the longer term. Council has also been obliged to allocate some of its cash reserves, normally set aside for future asset renewal programs in order to balance the 2016/17 Budget. The effect is an erosion of Council’s financial position over time.

**The Borough of Queenscliffe experience – the impact**

- **Changing the Borough of Queenscliffe rating system**

The Borough of Queenscliffe is currently one of only eight councils in Victoria without separate waste management charges. Council has historically recovered the costs of waste management services from general rates. This enabled Council to equitably distribute the burden of waste management costs to those who have greater capacity to pay, that is, using a property valuation or property wealth system.

Council has been compelled to fundamentally change its rating structure to separate waste management charges from general rate revenue. This is required to ensure that Council may continue to fully recover the cost of waste management services, which is essentially driven by external costs that continue to increase at a significantly higher rate than CPI.

The impact of the changes to Council’s Rating Strategy have been complex and more challenging for Council in light of the statutory constraints to a) comply with the rate cap from 1 July 2016 and b) adopt the 2016/17 Budget by 30 June 2016. The changes to the Rating Strategy have been significant and costly, in terms of Council resources. Despite an extensive community consultation process, the statutory process constraints have resulted in our community expressing a view that the process has felt rushed. This has increased
mistrust in our community about Council’s intentions to genuinely consult with them. This outcome contradicts the intent of State Government policy to ensure that councils have considered the views of their ratepayers and community members in applying the rate cap.

- **Unworkable processes**
  Council has been forced to introduce rate capping under unreasonable time constraints that have been unworkable and undermine our relationship with the community.

  The statutory timeline to adopt the budget has reduced and additional processes are now required to incorporate rate capping processes, including assessment of Council variation requests to the Essential Services Commission and review of the Rating Strategy under circumstances that have generally confused people. As a result, the timelines prevent councils from placing its draft budget on public exhibition by 1-2 months.

  The process has undermined the trust between Council and the local community by compromising the consultation process and timing.

- **Undermining the community’s trust**
  People are generally confused about why the amount on their rates notice will be above the 2.5% rate cap and how the changes will impact on them. Council is keen to develop a sense of unity between Council and the community, however this is difficult to achieve when the State Government has promised a 2.5% cap on rates without any further information provided. Council has been unfairly left to take the lead role to explain why ratepayers will receive a rates notice with a total bill that will be above the promised rate cap. That is, increases due to application of a) service charges and the Fire Services Property Levy not subject to the rate cap, and b) the effect of the 2016 general revaluation of all properties within the municipality.

  Our concern is that the community will not understand the information on the rates notice and the State Government has been hesitant to take a essential role in communicating the real impact of rate capping.
• **A financially responsible Council**

Council has expressed concern that the application of the rate capping framework is unworkable and financially irresponsible. The true impact of rate capping will be evidenced over time as Council’s capacity to fund asset renewal and community priorities continues to be eroded as Council’s revenue base declines. This reflects a lower rate revenue base and decreasing levels of government funding, such as the current freeze on federally funded Financial Assistance Grants. Council’s four-year Strategic Resource Plan demonstrates this forecast outcome.

It is vital that the current levels of uncertainty regarding future rate caps be addressed. This uncertainty makes it impossible for councils to make meaningful strategic decisions to plan for their long term financial sustainability and to provide a genuine opportunity to consult with our communities about the impact of those future strategies.

It is also unreasonable to expect a small rural council that is a lean organisation to find significant efficiencies that can be sustained over the longer term. Equally, it is not financially responsible for councils to raise debt to offset the impact of rate capping. This would effectively shift the rate burden to future generations.

A single rate cap fails to recognise the financial sustainability challenges facing small rural councils and their limited capacity to raise revenue from sources other than rates. Small rural councils have higher levels of asset management responsibilities and this is not recognised in a ‘one size fits all’ approach.

In conclusion, Council remains fundamentally concerned about the impact of an unknown rate cap on services and the potential to undermine the community’s trust in government. It also reflects the current situation in the Borough where there is general confusion about how the changes will impact on people. The consequences for small rural councils of continuing to apply the framework in its current form provide Council with sound reason to remain resolute in its critical review of the framework.

State Government should not be able to develop and deliver a rate capping framework in isolation from Local Government. Council has complied with the rate capping legislation, yet
the impacts have been experienced at the Borough on multiple fronts, including unworkable processes, community confusion and mistrust, as well as being unsustainable financially over the longer term.

It is critically important that Council is able to convey a sense of unity between Council and the community. Sharing the responsibility between State Government and Local Government to develop the community’s understanding of the changes is essential. This includes clarifying what is and is not included in the rate cap, as well as how Local Government is responding to ensure compliance with the legislation and the intent of State Government policy.

The success of rate capping requires a genuine collaborative effort between State and Local Government to understand the impacts and implement strategies together to ensure that our local communities understand the framework and how it can be successfully implemented.

In light of the sustainability challenges facing small rural councils, serious consideration should be given to applying a different cap to the small rural Councils group or earmarking an allocation of grant funds to the small rural Councils group to offset the impact of a state wide cap. There is still an opportunity to improve the practical application of the legislation, resulting in a better outcome for all Victorians.

Lenner Jenner
Chief Executive Officer

11 April 2016