8.1 - Rate Cap Variation Framework

Purpose of report

To determine whether Wodonga Council (the council) should submit an application to the Essential Services Commission (ESC) for a variation to the rate cap for 2016-2017.

Background

The Victorian Government has introduced rate capping for Victorian councils commencing July 1, 2016. The Local Government Amendment (Fair Go Rates) Act 2015 received royal assent on December 2, 2015 and has amended the Local Government Act 1989 (the Act) to incorporate the rate capping framework.

Applications to increase rates in excess of the rate cap must be submitted to the ESC by March 31 in the financial year before the capped year. The ESC will then have two months to consider the application.

The ESC requires that councils provide notification of their intention to submit an application by no later than January 31 of the year before the capped year.

The legislation provides for a transition period. For the first year, being 2016-2017, a one year only submission may be lodged. Thereafter submissions of up to four years may be lodged for 2017-2018 onwards.

In considering whether to approve a higher cap, the ESC will have regard to:
- how the views of ratepayers and the community have been taken into account in proposing the higher cap
- the proposed higher cap and the specified year(s) that it will apply
- the reasons for which the council seeks the higher cap
- how the higher cap is an efficient use of council resources and represents value for money
- whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why the council does not consider those options to be adequate
- that the assumptions and proposals in the application are consistent with the council’s long term strategy and financial management policies set out in the council’s planning documents and annual budget.

As gazetted on December 22, 2015, and pursuant to section 185D(1) of the Act, the Minister has determined that the rate cap for the 2016-2017 rating year will be 2.5 per cent.

Council must now determine its position as to whether a rate increase of 2.5% is sufficient to provide the infrastructure, services and community support that will achieve the long term community vision identified by the community, or to seek a variation to the rate cap through an application to the ESC.

There are 79 councils in the State of Victoria, encompassing large metropolitan, regional and small rural. The financial circumstances of each of these councils is
8.1 - Rate Cap Variation Framework (cont’d)

vastly different, with elected councillors given the autonomy to plan to meet the requirements of each unique council community. A one-size-fits-all approach, as indicated by a single rate cap for all councils, is an ineffective way to address the individual needs of each council, with their various levels of financial management maturity and governance. Many councils are left with no option but to apply for a variation to enable the delivery of their long term plans. However for this transitional year, the timeframes councils need to meet to enable effective community consultation to occur are insufficient, putting their community’s goals at risk of not being delivered.

The reasons for which the council would seek a variation to the cap

- Our community had told us through forums such as the Wodonga 2033 vision, the endorsement of the Council Plan and through our annual budget consultations, what they want for their city and we are following their plan which is outlined in our capital works program and Strategic Resource Plan.

- The council provides a range of services that enhance the liveability of our growing city. It is our role to ensure all members of our community continue to receive and access these important and affordable services. It is also our responsibility to ensure we continue to meet the needs and infrastructure demands of our rapidly growing city.

- The council’s rate rises have been consistent with the Strategic Resource Plan which sets out how the council will deliver and resource the aspirations of its community. The council is presently in a strong financial position and is keen to remain sustainable in the long term with its prudent approach to financial management reducing the need for borrowings.

- The council has committed to projects which will boost the prosperity of our city but which do require investment from council. The council’s 10 year plan sets out rate targets to fund the growth of our city and the provision of services. The difference between the rate cap and meeting these aspirations is on average $26 per household. Any decrease in funding will have a compounding effect over the life of the plan, totalling more than $36 million in the next decade.

- At the local government level, the council is conscious of the ongoing pressure put on council finances from other levels of government through cost-shifting, the freezing of funding programs and the failure of regulated fees to keep pace with costs.

The reasons against the council seeking a variation to the cap

As reported at the November 2015 ordinary council meeting, council has benefitted from several positive variations to budget.

These include the remaining surplus from the 2014-2015 year, and additional Roads to Recovery funding allocated as a result of the re-introduction of fuel tax excise indexation and land sales. They are non-recurrent and therefore will not
address the compounding effect from a lower than planned rate increase across the 10 year plan.

Funds from land sales have been earmarked, in accordance with council’s policies, to reduce the amount of funds needed from borrowings in the 2016-2017 year. Road to Recovery funds will be utilised to bring forward much needed road maintenance works. Surpluses have traditionally been used to reduce debt or to bring forward new capital works projects which have not yet been funded.

These additional funds must be taken into account when considering whether to apply for a one year variation to the rate cap for the 2016-2017 year. The ESC will review the 2016-2017 applications as a year in isolation. Even though the additional funds are non-recurrent, they will cover the amount of the rate revenue shortfall for the 2016-2017 year. It would be unlikely, therefore, that a rate cap variation application for 2016-2017 would be successful, even though utilising the non-recurrent funds to cover the rate shortfall would result in the non-achievement of the long term financial plan, the Strategic Resource Plan and the Council Plan in the longer term.

Efficient use of council’s resources and value for money

The council utilises sustainable financial management principles which require the application of a multi-year framework to financial management, asset management, planning, expenditure, and revenue decisions.

The aggregate revenue raised by the council, plus that received from grants needs to be sufficient to cover the aggregate long-run cost of delivering the services provided. The council is focussed on living within its means, while continuing to meet the future needs of a growing city.

The council is accountable and responsible for the policy decisions with respect to the range of services provided, the expenditure and delivery of the services and the way services are funded and paid for by the community. Open and transparent processes for decision-making of the council include the making of information openly available to people in the local community and seeking active participation by the community with respect to choices regarding the range and level of services provided and how they are funded.

Business improvement processes, looking at process improvements and innovation, are part of the continual improvement cycle at the council. In addition, levels of service are continually reviewed to ensure that services provided are targeted to achieve maximum cost efficiency. For example, recent changes to library hours to accommodate the majority of users’ access requirements have been able to maximise savings based on reducing the need for an additional shift for casual staff.
Consideration to reprioritising proposed expenditures and alternative funding options

The council has investigated other funding sources. Other fees and charges have been reviewed and increased where possible, taking into account affordability and access for all community members. The council has successfully obtained non-recurrent grant funding to assist with both large and small capital projects.

Regional councils do not have the same opportunity as metropolitan councils to generate substantial fees from other sources, such as parking and fines.

In comparison to other similar regional cities, Wodonga receives a lower level of recurrent government grant revenue. When comparing recurrent grant revenue across the 11 regional cities, Wodonga receives less than half the average recurrent grant revenue received by cities in that group. On top of this, the freezing of indexation on Federal Government recurrent grant funds has had a significant effect on Wodonga’s budget. Council continues to lobby government for more adequate recurrent grant funding wherever possible.

The council carefully considers the potential for using debt to finance long-term multigenerational infrastructure through considered and prudent financial planning. Current debt levels have been reducing.

The council provides a range of services to our fast-growing regional city, which the community has advised us are important to them. It is therefore important for the council to adequately maintain these existing community assets including roads, footpaths, buildings and recreational facilities. Council has factored this into the Strategic Resource Plan.

Wodonga still lacks some of the facilities that great regional centres need. The Wodonga community has been vocal in saying they want improved connectivity, more footpaths and other linkages between areas in the city. To be able to deliver on these community goals, the council must be able to raise the funds to contribute to such capital works projects. Capital grants are predominantly dependent upon the council matching grant contributions.

The development of the Strategic Resource Plan was carefully undertaken, balancing the needs of a growing community with the available funding and the affordability of rates and user charges. The council believes it has been able to achieve this balance in the plan, utilising a rate rise of 4.25% per year over the next 10 years.

How the views of the ratepayers and the community have been taken into account

The council is aware of, and has regard to, the views of the community with respect to the priority areas for council services. Through the community consultation process, the council increases the community’s awareness of the short and long-
term financial implications of potential service priorities and key decisions, including trade-offs between service priorities.

- The council undertakes long-term strategic planning as collaborated with the community in 2008 and again in 2015 on its 2033 vision to identify the aspirations supported by the community. This included breakfasts and forums with leaders of community groups and key organisations from right across the city as well as online forums for people to view and share their thoughts as well as displays at council venues across the city. This process formed the basis for the development of the current Council Plan, Strategic Resource Plan and will be instrumental in the upcoming development of the new council’s four year plan.

- Each year, the council seeks community input into the draft budget and Council Plan in the lead-up to the adoption of these documents and allows the community to make submissions to the council for inclusions of items important to them. Input is obtained directly from the community and ratepayers through budget consultation sessions run by the council from a number of locations throughout our community.

- The council continues to look at a myriad of ways to involve all sectors of the community in decision-making processes including shop fronts, online tools and consultation sessions in venues across the city.

- The voice of the community was the key input in preparing the Council Plan, ensuring that the most requested aspirations articulated by the community were incorporated into the plan along with the essential and legislatively required services that local government provides. The Strategic Resource Plan then provides the detail of how council will deliver on the Council Plan.

- The Strategic Resource Plan ensures that the council’s resources are directed into delivering the outcomes the community and ratepayers have told us they need and want.

If the council is unable to meet the Strategic Resource Plan as a result of rates being capped at a lower amount and was unable to offset these through other savings, then a number of outcomes will be put at risk of not being delivered at all, or risk being delivered to a standard below that expected by the community.

If the council were to consider applying for a variation to the cap in 2016-2017, further consultation, in addition to the above would be required to satisfy the legislative framework noted above.

Other funding matters

It is well documented that the CPI is not a valid measure of the costs for local government. The costs of infrastructure and social and community services alone generally exceed other cost increases in the economy, such as household goods measured by the CPI. This is due to councils cost base being predominantly wages
8.1 - Rate Cap Variation Framework (cont’d)

and construction based, and not a basket of groceries, petrol, and rent/interest costs that make up the CPI.

In addition to this, a range of issues confront councils that are both outside the scope of a CPI, and beyond the control of councils. These include, but are not limited to, the following:

1. The need to represent the community in decisions over providing new or upgraded services and facilities for which the community has demonstrated a willingness to pay.

2. Dealing with aging infrastructure and a growing infrastructure needs gap, as confirmed by the recent Auditor General’s report Asset Management and Maintenance by Councils – February 2014.

3. Ongoing cost shifting from both federal and state government to councils.

4. Increased compliance and enforcement obligations placed on councils by new or amended legislation. Many examples of this can be found in the following:
   a. Tobacco Act
   b. Domestic Animals Act
   c. Emergency Management Act
   d. Country Fire Authority Act -Fire prevention
   e. Food Act
   f. Environment Protection Act
   g. Residential Tenancies Act

5. Inadequate indexation of ongoing federal and state government funded programs (the recent three year freezing of the Financial Assistance Grants to councils in the federal budget is an example).

6. Defined Benefit Superannuation scheme call ups (some $4m recently in Wodonga’s case and around $0.6 billion across all councils in Victoria).

7. Federal and state government funded projects having funding pulled at short notice or prior to their expected completion dates, results in councils having to redeploy (inefficiently) or cover redundancy costs.

8. Inadequate, or nil over many years of indexing of State Government controlled fees for services provided by councils. An example of this being Land Information Certificates ($20) which has remained unchanged since 1992. Statutory planning fees (set by the State) have also remained unchanged for many years. Presently Wodonga ratepayers cross subsidise developers to the tune of $0.4 million annually as a result.

9. Funding for programs discontinued by federal and state governments, but not before communities have come to expect their ongoing service provision by councils.
10. The obligation to enforce State law which at times can be less that satisfactorily drafted. For example restricted dog laws have cost some councils up to $0.2 million in legal costs for a single dog case, only to lose due to difficulty complying and enforcing the letter of the law. Wodonga has also had its difficulties in this regard.

These issues confront councils each day, week, month and year.

**Council Plan**

<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>Strategy</th>
<th>Key priority activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are innovative, responsive and responsible in the way we conduct business.</td>
<td>Responsible financial management.</td>
<td>Provide council services and projects with a strong financial planning framework</td>
</tr>
</tbody>
</table>

**Council policy / strategy implications**

In partnership with and endorsed by the community, the council has developed a 10 year long-term budget that forms the basis of the Strategic Resource Plan 2015-2016 to 2024-2025. The Strategic Resource Plan has been developed to outline the resources required to achieve the council’s strategic objectives expressed in the Wodonga Council Plan 2013-2014 to 2016-2017.

The Council Plan outlines the economic, social and environmental priorities that have been identified as the direct result of community consultation and ongoing council planning and ensures that the community has access to infrastructure and services that support quality of life and well-being.

The Strategic Resource Plan sets out how Council will achieve the following objectives over the next 10 years

a. Review the current and future needs of the Wodonga community with the aim of developing a responsive and accessible infrastructure and service system.

b. Ensure the council’s financial sustainability in the long-term.

c. Achieve operating statement surpluses with the exclusion of all non-operating items such as granted assets and capital income.

d. Ensure prudent and responsible borrowing levels in the longer term recognising prudential guidelines.

e. Continue to pursue recurrent grant funding for strategic capital funds from the State and Federal governments.

f. Provide a funding level that will consistently ensure assets are renewed at appropriate service levels as expected by the community, including increasing funding for capital works (asset renewal, expansion, upgrade) and general asset maintenance.

g. Continue to pursue recurrent grant funds for the council programs.

h. Continue to divest property and assets no longer required by the council.
8.1 - Rate Cap Variation Framework (cont’d)

The council, as part of developing the Strategic Resource Plan, regularly review its borrowing strategy, asset management, capital investment, notional reserves, capital works program, the range and level of services provided and the revenue-raising strategy.

The council has a number of strategic challenges ahead, including the continued investment in the rebuilding of the central business area, renewing existing assets, continuing to provide an appropriate range and level of services to a growing regional city community, maintaining a financially responsible and sustainable position, and addressing the need for required capital expansion.

The challenge for the council, in the short term, is to fund the appropriate level of investment in the community’s assets and services to simultaneously accommodate the pressures of growth including new capital investment and expanded service provision.

In the short to medium term, this includes the continuation of the revitalisation of the central business area. The other related issues are the risks and liabilities that the council and the community face if the council does not invest in asset renewal at an adequate rate.

The Strategic Resource Plan establishes the strategic financial direction for the council to meet the funding and investment challenges that lie ahead in the next 10 years. It incorporates a rate rise of 4.25% over that period to allow the strategic challenges to be met in a financially responsible manner, providing reasonable stability and predictability for ratepayers. This rate is well below the state average rate rise.

The council believes it is important to maintain current community expectations as identified through the consultation processes undertaken to develop the Council Plan and Strategic Resource Plan. To fully achieve the outcomes set out in these plans, the council would need to submit an application for a rate variation above the cap of 4.25% over the life of the current Strategic Resource Plan.

Risk and opportunity management implications

Making an application for a rate cap variation poses a range of significant risks, as well as opportunities. These are summarised in the following table, along with mitigating actions planned.

<table>
<thead>
<tr>
<th>Risk description</th>
<th>C‘quence</th>
<th>L’hood</th>
<th>Rating</th>
<th>Controls &amp; treatments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Submission for 2016-2017 fails due to favourable financial variances –</td>
<td></td>
<td></td>
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<td>• Communications plan Submission to focus on 10 year planning and vision, and the impact of 2016-2017 within than 10 year vision</td>
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<tr>
<td>○ Council has benefitted from additional income for 2015-2016 and 2016-2017 of</td>
<td>3</td>
<td>B</td>
<td>S</td>
<td>• Emphasise council follows its well consulted SRP</td>
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<tr>
<td>which the ESC is aware/will become aware during their</td>
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</table>
### 8.1 - Rate Cap Variation Framework (cont’d)

<table>
<thead>
<tr>
<th>Risk description</th>
<th>C’quence</th>
<th>L’hood</th>
<th>Rating</th>
<th>Controls &amp; treatments</th>
</tr>
</thead>
<tbody>
<tr>
<td>review of the financials. Includes roads to recovery funding, surplus from 2014-2015, rates supps, carbon tax refund.</td>
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<td>• Do not submit for the 2016-2017 year</td>
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<td>• Tight timelines – this will impact on the quality of consultation for a submission</td>
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<td>OR</td>
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<tr>
<td>o Timelines will be extremely tight.</td>
<td>3</td>
<td>B</td>
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<td>• All available resources directed towards submission</td>
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<tr>
<td>o Short consultation periods</td>
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<td></td>
<td>• Timeline carefully planned</td>
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<tr>
<td>o Have all community sectors been adequately represented during the limited consultation period</td>
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<td></td>
<td>• Comms to focus on the submission, built upon significant consultation held to date spanning some seven years</td>
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<tr>
<td>o Limited resources</td>
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<td></td>
<td></td>
<td></td>
<td>• Do not submit for the 2016-2017 year</td>
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<td>• Financial impact on long term financial plan if the rate cap is used for 2016-2017 (either from an unsuccessful submission or from no submission)</td>
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<td>OR</td>
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<td>o Reduction in 10 year revenues as a result of compounding effect of limiting the 2016-2017 rate rise to 2.5% is $8 million</td>
<td>3</td>
<td>A</td>
<td>H</td>
<td>• Review long term financial plan, with a view to reducing some service levels or capital development equivalent to the revenue shortfall</td>
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<td>OR</td>
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<td></td>
<td>• Review long term financial plan, with a view to increasing future rate rise percentages to recover the reduced revenue in 2016-2017 and resultant compound effect</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunity description</th>
<th>C’quence</th>
<th>L’hood</th>
<th>Rating</th>
<th>Controls &amp; treatments</th>
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</thead>
<tbody>
<tr>
<td>Council seen as consistent with its long term planning if it lodges an application to vary.</td>
<td>4</td>
<td>C</td>
<td>M</td>
<td>• Communications plan</td>
</tr>
<tr>
<td>• Demonstrates the commitment to a vision and a financial strategy that achieves what the community and Council have developed collaboratively over many years and clearly enunciated in the Council Plan and Strategic Resource Plans for a number of years</td>
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</table>
8.1 - Rate Cap Variation Framework (cont’d)

Financial implications

If council were to accept a CPI limited rate increase in all future years, its forecast revenue will be well below that forecast in the 2015-2016 budget. The following table provides an indication of the impact of this.

The table assumes no other changes are made to operating and capital expenditure, and that CPI remains at a constant 2.5% per annum with no productivity factor assumed.

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<thead>
<tr>
<th></th>
<th>$ mils</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
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<th>22/23</th>
<th>23/24</th>
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<tbody>
<tr>
<td>Rate increase per 2015-</td>
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<td>4.25%</td>
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<td>2016 Budget</td>
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<td>Rate increase assuming</td>
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<td>Revenue Shortfall – per</td>
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<td>$(0.5)</td>
<td>$(1.1)</td>
<td>$(2.0)</td>
<td>$(2.8)</td>
<td>$(3.8)</td>
<td>$(4.8)</td>
<td>$(5.9)</td>
<td>$(7.1)</td>
<td>$(8.4)</td>
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<td>year</td>
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<tr>
<td>Revenue Shortfall -</td>
<td></td>
<td>$(0.5)</td>
<td>$(1.6)</td>
<td>$(3.6)</td>
<td>$(6.4)</td>
<td>$(10.2)</td>
<td>$(15.1)</td>
<td>$(21.0)</td>
<td>$(28.2)</td>
<td>$(36.6)</td>
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<td>cumulative</td>
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</table>

If the council does not achieve the rating outcomes outlined in the Strategic Resource Plan due to rates being capped, the cumulative effects can have a substantial impact upon the achievement of the long term strategy. This means that when a rate increase is lower in one year the shortfall in funds flows through to each of the following years as well, and therefore affects every year of the 10 year plan.

The cumulative reduction to community funds through rates, should applications in the future be unsuccessful (or not be made at all) to vary rates above the cap (using the 2016-2017 rate cap with no efficiency factor applied to 2017-2018 and future years), could amount to a revenue shortfall of as much as $36 million by 2024-2025. This is equivalent to 28 percent of the long-term capital works program from 2015-2016 to 2024-2025, or 70 percent of the long term asset renewal budget for the same period.
The transitional provisions of the rate cap regime allow for a variation of the rate cap for only one year for the initial 2016-2017 year. After this first year, councils may apply to vary the rate cap for up to four years, which could work in with the timing of the four-year Council Plan cycle.

Environmental implications

Not directly applicable to this discussion

Social / cultural implications

Not directly applicable to this discussion, notwithstanding any decision with regards to rates and rates rises must give consideration to their impact on the vulnerable sectors of the community, and ability to pay factors. There is the risk of cuts to service levels in the longer term that may have social / cultural implications as a result of rate rises being capped and not meeting the long term financial plan budgeted revenue.

Legislative implications

The new rate capping regime is governed by the recently created Local Government Amendment (Fair Go Rates) Act 2015.

The Act has been amended to incorporate the rate capping framework. This Act also applies to the budget/council plan process.
8.1 - Rate Cap Variation Framework (cont’d)

Options for consideration

Option 1 – make a submission to the ESC to increase rates above the rate cap for the 2016-2017 year, by 4.25%, which is in line with the long term financial plan in the Strategic Resource Plan.

Option 2 – do not make a submission to the ESC for the 2016-2017 year and only increase rates by the cap of 2.5%. The financial impact to the long term financial plan can be considered when preparing a 4 year variation submission for the 2017-2018 to 2020-2021 years (this is recommended).

Conclusion

The demonstration of a strong community engagement process and support will be key to council’s chance of success in requesting a rate cap variation. The timeframe available for the 2016-2017 submission is insufficient to undertake a comprehensive consultation process.

Whilst there are many good and financially responsible reasons for applying for a variation to the rate cap, the heavy political bias surrounding this first year’s variation submission is making it an unviable option for any council that is not already in a dire financial position. Therefore, the more important application to prepare for will be the four year submission from 2017-2018 to 2020-2021. Early planning for community consultation in preparation for this submission should commence within the next few months.

Attachments

Nil

Tabled papers

Nil

Declaration of conflict of interests

Under section 80C of the Local Government Act 1989 officers providing advice to the council must disclose any interests, including the type of interest.

Director Business Services - Trevor Ierino
In providing this advice, I have no interests to disclose in this report.

Chief Executive Officer - Patience Harrington
In providing this advice, I have no interests to disclose in this report.
8.1 - Rate Cap Variation Framework (cont’d)

Chief Executive Officer - Patience Harrington
In providing this advice as the report author, I have no interests to disclose in this report.

Manager Finance - Narelle Klein
In providing this advice as the report author, I have no interests to disclose in this report.

Director Business Services - Trevor Ierino
In providing this advice as the report author, I have no interests to disclose in this report.

Recommendation

That an application not be submitted to vary the rates increase above the rate cap of 2.5% for the 2016-2017 transitional year.