Mr Michael Baker  
Secretary – Legislative Council Committees  
Environment and Planning Committee  
Legislative Council Parliament House  
Spring Street  
Melbourne Vic 3002  

Email: epc@parliament.vic.gov.au

Dear Mr Baker,

Re: Inquiry into Rate Capping Policy – Wodonga City Council submission

I write in response to your email of August 4, 2017 inviting submissions from organisations who wish to express views on any aspects of the Inquiry into Rate Capping Policy.

The rate capping framework needs to take account of long term structural adjustments, not just annual explanations for above CPI rate variations.

Council understands and notes the preference of the communities in general for rate increases at or below CPI. The difficulty faced by many councils, however, is the need for structural change and reform to address a backlog of underspending on key infrastructure, and to strengthen their balance sheets to put them on a more sustainable footing.

Dealing with aging infrastructure and a growing infrastructure needs gap is an issue for all councils as confirmed by the Auditor General’s report Asset Management and Maintenance by Councils — February 2014.

Wodonga has taken a long term approach to financial sustainability. It has a clearly defined long term vision, developed through a long and extensive community consultation process. It has a plan to ensure all its infrastructure assets are renewed as and when required, it is strengthening its balance sheet, as recommended by the Auditor General to make provision for possible future superannuation shortfall call-ups, and continually reviews its services to ensure they are meeting the wants and needs of the community.

Wodonga is also in a period of rapid growth, being North East Victoria’s fastest growing regional city. This situation can be compared to that experienced by peri-urban councils on the fringe of the Melbourne metropolitan areas. This can’t be supported without significant upfront investment.
The Australian Local Government Association's (ALGA’s) definition of financial sustainability is worth noting:

"A council’s long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services."

It is against this definition that Wodonga develops its long term financial planning.

Wodonga has a prudent financial plan to address the challenges above and ensure it remains financially sustainable.

In addition to this, a range of issues confront councils, often on a yearly basis, 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. Ongoing cost shifting from both federal and state government to councils;
2. Increased compliance and enforcement obligations placed on councils by new or amended legislation (rate capping will further increase these requirements);
3. 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);
4. Defined Benefit Superannuation scheme call ups (some $4m recently in Wodonga’s case and around $0.6 billion across all councils in Victoria);
5. 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.
6. Funding for programs discontinued by federal and state governments, but not before communities have come to expect their ongoing service provision by councils;
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. 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.

Such goals, issues and challenges cannot be achieved or addressed without a modest increase over and above CPI, unless services levels are adversely impacted. Under current rate capping guidelines a submission for a rate cap variance based on the above issues alone is likely to fail.
What is the cumulative impact on Wodonga's forward budgets?

- Council's 2017/18 long term plan has been adjusted from planned rate increases of 4.25% in the out years, to 2.5% annually being the estimated rate cap in the long term. To accommodate this, there has been a $22.6 million reduction in the capital plan for the 9 out years of the 10 year long term capital plan. In addition, there is a reluctance to borrow, therefore leaving Council in a position where it will have difficulty in positioning itself to take advantage of opportunities that may arise for the community.

- Current growth rates in the municipality will put pressure on community facilities and infrastructure, with limited ability to accumulate sufficient funds to facilitate construction of any major capital projects.

- Additional work and pressure put on the Finance Team during preparation of council budget to make sure rate in the $ estimates and calculations are accurate to maximise possible revenue without exceeding the rate cap, plus ESC annual reporting obligations.

- The cost and investment of time to prepare a submission is cost prohibitive Unless council's sustainability is severely compromised it is unlikely to voluntarily seek a rate cap variation.

Councils should not have to bear the cost of a rates variation submission

The very introduction of rate capping itself is an example of costs shifting or added cost burdens placed on councils by the decisions of state and federal governments, and beyond the control of councils.

Costs include developing a submission, the ESC's costs in reviewing the submission and making its decision, and further ongoing council reporting requirements. This question is particularly important if the ESC determines the request for a variation was justified.

It is unlikely that a request for variation to the cap could be undertaken without councils' committing significant resources. Further, administrative burden is already required in ongoing reporting and monitoring regimes as required by the ESC.

The ESC should be given legislative authority to make a decision on a rate capping variation.

Currently the ESC has no legislated power to make such a decision. It is Wodonga Council's view that the Essential Services Commission, given the mandate and resources to review a council submission should be given the legislative authority to approve the rate rise it has determined. This avoids the additional administrative delay of a Minister performing another review and the possible perception of political influence over a submission already considered by an independent regulator.

Two tiered regime

In various forums and dialogues between the state government and local governments regarding the impending introduction of rate capping various comments and assertions were made that the government was specifically targeting those councils in the upper echelon of rate increases (say 10% and above), and not those councils with more reasonable increases (say 1 to 2% above CPI).
This submission raises the possibility of a 2-tiered regulatory regime with a "light handed" approach being taken for those councils in the 1 to 2% above CPI zone.

This could include for example those councils who are able to demonstrate a prudent long term plan, with support of the community through existing budget processes, who are attempting to deliver structural adjustments to its financial and asset management positions to be subjected to a lower level "review and confirmation" process rather than a full rate capping variation submission process.

Such an approach would seem reasonable and would deliver great efficiencies to both the ESC and to councils whilst councils would still be exposed to the scrutiny of an independent regulator.

This submission recommends that a 2-tiered approach to regulation be strongly considered by the government.

**Monitoring regime not to be onerous or an additional burden to councils**

Councils are already subject to a litany of reporting requirements through various state and federal agencies. Further duplication of reporting obligations are to be avoided at all costs. Council suggest reporting regime by the ESC should be provided via existing documents submitted such as the newly introduced Local Government Performance Reporting Framework, or the pre-existing Grants Commission reporting requirements.

**Reduced Independence of Local Government**

Rate capping hamstrings the independent operation of democratically representative governments. Councils should have the freedom to make autonomous decisions around levels of own-source taxes and charges.

The rate capping framework has the potential to adversely impact the longer-term sustainability of councils and places a great deal of responsibility about the future of the sector out of the hands of community elected representatives and into the hands of the ESC.

**Relevance of Consumer Price Index (CPI)**

The CPI reflects movement in the final prices paid by household consumers for a weighted basket of goods and services and therefore is a general indicator of "prices paid" not of council construction input costs.

The selection of the CPI represents a bias in favour of perceived community expectations about prices rather than any consideration of the cost of inputs. No consideration is given, in any case, whether the basket items, or their weightings, reasonably reflects the inputs for local government service provision.

Weightings of costs within the CPI indicate that the CPI has little relevance to local government inputs. For example, approaching one third of the weighted change in costs is attributable to food, beverages and tobacco and 19% to housing costs excluding utilities and 3% to education costs. Utilities (excluding water) account on average for around 8% or more of councils' recurrent costs although the weighted change in the CPI incorporates a figure of less than 4%.

A significant proportion of councils' spending, around 18% to 19%, is dedicated to building and non-building construction. The contradiction between this and the basis of the CPI are stark.
Additionally smaller regional locations don't always have sufficient scale to attract multiple tenderers and therefore guarantee city-equivalent competitive tender pricing. Fluctuations in pricing between some years can be quite stark. Some projects are stalled when this occurs. It is not always possible to delay projects and sometimes must proceed at unavoidably higher costs.

**Limitations of Wages Price Index (WPI)**

WPI only considers "pure" price changes in labour costs and does not consider changes in the age, grade or level of qualification of the occupant and relevant pay. The local government sector is characterised highly by salary progression via levels within bands. The costs of annual progression for a large number of employees will therefore not be accounted for in the cap which alone may add more than 1% to wage payments in councils with low staff turnover.

While opposition may be taken to any claim local government labour market conditions are different from those generally prevailing, councils are not like private sector providers that can just "close shop" or drastically change product lines—they have to keep providing services and often have to pay premium prices for labour. For example, they have to compete in labour markets where demand is strong in disciplines like planning and environmental health and may need to provide higher rates in order to attract staff to specific locations.

**Factors to be taken into Account by Councils**

A successful request for a variation is determined entirely by the ESC.

The requirements needed for success is a huge task and include councils:

- taking account of ratepayers views including the presentation of other realistic options;
- proving that the variation will provide good value for money, including business cases and cost benefit analyses;
- showing service priorities and funding options have been considered including possible reprioritisation of expenditures and financing options;
- considering all other revenue-raising opportunities; and
- demonstrating consistency with councils’ long term financial strategies.

It is easy to suggest the development of business cases and cost-benefit analyses (incorporating various re-prioritisation and financing options) without fully appreciating the expertise, time and resources required to do this work.

Councils should not feel pressured to take on additional risk in the form of less effective but lower cost suppliers/contractors in order to be successful in obtaining a variation.

The rate capping framework is strong on the need for community consultation and involvement however councils are generally on a "hiding to nothing" when this relates to rates. As shown with experience with rating strategies vocal minorities often attempt to hijack the process and State assessments of whether consultation processes are adequate are often seen through the prism of these minorities rather than the community as a whole.
In closing thank you for the opportunity to make this submission which I trust will be given full and fair consideration in your final report.

Please feel free to contact our Director Business Services, Trevor Ierino, on [redacted], or email [redacted] should you need to clarify any elements of this submission.

Yours faithfully

Patience Harrington
Chief Executive Office