Enquiries: Mr Rod Wilkinson - 9217 2341

File Reference: CRM 1027343

23 June 2015

Mr Keir Delaney
Secretary
Environment and Planning Committee
Legislative council Parliament House
Spring Street
MELBOURNE VIC 3002

Dear Mr Delaney

Inquiry into Rate Capping Policy

Thank you for your letter dated 11 June 2015 inviting submissions on the State Government policy of local government rate capping.

The City of Whittlesea recently made a submission to the Essential Services Commission on this issue and we enclose a copy of this submission for your consideration.

Yours sincerely

David Turnbull
Chief Executive Officer
City of Whittlesea

Submission re the
Essential Services Commission
Consultation Paper

Local Government –
Rates Capping & Variation Framework

15 May 2015
Contents
The Form of the Cap ................................................................. 4
The Base to Which the Cap Applies ....................................... 7
Community Engagement ......................................................... 9
Incentives .............................................................................. 10
Timing and Process ............................................................... 11
Transitional Arrangements ..................................................... 11
Roles ..................................................................................... 11
Other Matters ....................................................................... 11
Other Matters Raised in Earlier Chapters ................................. 12
Point 1 ................................................................................. 12
Point 2 ................................................................................. 12
Point 3 ................................................................................. 12
The City of Whittlesea is located in Melbourne's north about 20km from the Central Business District (CBD) and is one of the largest municipalities in metropolitan Melbourne, covering an area of approximately 489 square kilometres. About 60% of the City is rural area, with the other 40% being urban area, comprising residences and services/employment.

Whittlesea is one of the fastest growing municipalities in Australia. Our current population is approximately 194,498 residents, we expect to welcome 8,130 new residents to our municipality this year and our population is forecast to grow to 333,696 persons by 2036.

We are also home to Australia's fastest growing suburb over the last 5 years - South Morang/Mernda. Our growth is not just taking place in our newer suburbs, but there is also massive growth and redevelopment set to take place in our established areas - such as Epping, Thomastown and Lalor.

The City of Whittlesea is one of the most multicultural municipalities in Victoria, with over half of our residents identifying with non-English speaking backgrounds (NESB). Our residents come from a wide range of backgrounds with a very high percentage born in other countries, particularly Italy, India, Macedonia and Greece.
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?**

   Council is of the firm belief that the CPI is not an acceptable or supported index for capping Local Government rates. CPI is calculated on the cost of common household goods whereas the cost of council services is affected by growth in employment, construction, materials, service costs and borrowing repayments and has no connection with CPI.

   It is questionable whether the community really understands the CPI, they certainly use it as a measure when comparing bills or costs movement over a period.

   The CPI has been designed to measure the general level of prices faced by households. The Australian Bureau of Statistics suggests it has three main purposes:
   - As a general measure of inflation
   - An input to the income adjustment process
   - For general indexation of public and private sector contracts.

   This measure has increased its relevance since 1993 when the Reserve Bank of Australia (RBA) introduced an inflation target. This target has been endorsed by successive Federal Governments. The RBA has an inflation target and seeks to keep consumer price inflation in the economy to 2-3%, on average, over the medium term.

   Council supports a based cap if it is to be used in the range of 2.5% to 3.0%, as identified by the RBA’s inflation target.

2. **What are some ways to refine the cap (eg, alternative indices), in line with the Government’s objectives?**

   An alternative index to CPI could be the use of a Local Government cost index as used in South Australia, NSW (the NSW indices measures 26 separate indices, we need to ask ourselves is this over complicating the indices and do ratepayers understand it) and Victoria (calculated by the MAV). This would be seen as preferable to the CPI. However, while these alternative cost indices are used, they merely function as a means of monitoring movement in council service and construction costs, as a basis for estimating future increases in councils’ input costs, therefore comparing the ability of councils to deliver the same services in quantity and quality across years.
An inflation target rate meets the objectives of the State Government’s Framework as it:

- Contains cost of living expenses in Victoria while supporting council autonomy and ensuring greater accountability, transparency in Local Government budgeting and service delivery.
- Promotes rates and charges that are efficient, stable and reflective of services that the community needs and demands.
- Promotes rates and charges that are set at a level that ensures the sustainability of councils’ financial capacity and infrastructure.

The 2015/16 State Budget has forecast CPI to be in the range of 2.5% to 2.75% over the next four years.

Further indices could be to apply a factor to cost shifting from one level of government to another. The City of Whittlesea has seen a shift in cost from 2014/15 to 2015/16 of approximately 1.4%. Council recommends that as part of the Cap Framework, the financial impact on the net cost of services where government grants or charges are applied be considered. The timing and use of this type of indices would be difficult to implement and would be historically based.

3. **Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicate 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?**

As councils are encouraged to have long term financial plans and, in particular, four year Strategic Resource Plans (SRPs), the rate cap should be fixed for several years, ideally at least four years to match council electoral terms.

Multi-year caps need to be provided to councils as this will provide certainty and assist with better planning for infrastructure and meeting the needs of growing communities over the longer term.

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

If the cap is to be linked to CPI, then the cap should be limited to forecasts as a preference as it represents estimated expenditures in the forecast period.

Rather than determine whether the cap should be based on historical movement or forecasts, the determination of the cap and advice as to when the cap is to be made available is equally important for councils. This would enable councils to plan their budgets for the coming year or 4 years at least and also undertake community engagement with its community.
If CPI is used for the rate cap then there should be a compensatory movement in the CPI at the end of the cycle to adjust for differences in the actual and forecast CPI over the term.

The cap needs to be made available to councils prior to December as councils will have commenced preparation of business plans which feed into the formulation of their draft budgets and capital works programs, together with new initiatives to introduce new or enhanced services or the increase in operational resources.

The community consultation process would need to be held during December to February if councils are to meet their statutory obligations (ie 30 June) to complete the budget process and apply for a variation to the cap if that is an outcome of the community consultation.

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

A different cap should be applied for different groups of councils. Whittlesea is an interface council, but more importantly, one of seven high growth councils as gazetted by the Statement Government that are the interface between the metropolitan area and rural councils of Victoria.

City of Whittlesea Annual Population Growth 2014-2020

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<tbody>
<tr>
<td>Whittlesea ERP</td>
<td>186,368</td>
<td>194,498</td>
<td>202,731</td>
<td>210,954</td>
<td>218,962</td>
<td>226,616</td>
<td>233,881</td>
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<tr>
<td>Growth</td>
<td>8,130</td>
<td>8,233</td>
<td>8,223</td>
<td>8,008</td>
<td>7,654</td>
<td>7,265</td>
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<tr>
<td>Annual Growth</td>
<td>4.40%</td>
<td>4.20%</td>
<td>4.10%</td>
<td>3.80%</td>
<td>3.50%</td>
<td>3.50%</td>
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<tr>
<td>People per month</td>
<td>678</td>
<td>686</td>
<td>685</td>
<td>667</td>
<td>638</td>
<td>605</td>
<td></td>
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<tr>
<td>People per week</td>
<td>156</td>
<td>158</td>
<td>158</td>
<td>153</td>
<td>147</td>
<td>139</td>
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Growth affected councils are different to established areas and required to deliver services at both ends of the demographic scale from 0-15 and 65+ age groups in multiple locations, together with servicing the rural community over large distances.

Growth affected councils face significant expenditure increases annually to service the recurrent budget and deliver multiple new works projects annually, however they do not have access to the same non-rate revenue sources as inner/middle metropolitan councils through parking fees and fines.

Whittlesea’s capital works program over the next 10 years totals $350M, whilst part funded by borrowings, development contributions and internal sources of funds, it still requires approximately $184M to be funded by way of rates. In addition to the capital works figures mentioned above, a further $77M from rates will be required to fund the shortfall in the new areas of Donnybrook and Wollert in development infrastructure and community facilities.
In recognition of the particular needs and challenges facing growth affected councils, a rate capping framework provides an 'as of right' higher cap for the Interface Group. A cap of 1.5% above that identified in Question 1 should be available to the Group.

Should an interface council propose an increase above the standard cap plus the 'as of right' increase plus 1.5%, then ESC approval would be required.

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?

The cap should apply to rate revenue and not apply to special rates and charges.

Special rates and charges can only be used for a designated purpose and are applied only to a select number of properties. By council resolution these special rates and charges are applied and advised to the ratepayer and the future costs are known to the ratepayer for the life of the charge.

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

The cap should apply to the total rate revenue. This is consistent with the way in which all councils determine rate increases, whereas the valuation process will determine individual rate assessment and what the property will pay in rates.

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

Supplementary rates are not included in the base total rates revenue that the cap would be applied to. Council recommends that the rate base should be determined according to the prior year’s declared rates and charges, plus any rates growth due to supplementary valuations or changes in rate assessment numbers during the year.

9. What are the challenges arising from the revaluation of properties every 2 years?

A property based rating system has been in place in Victoria since 1853 and has generally been regarded as the fairest system for the distribution of municipal rates. Whilst the City of Whittlesea generally supports the process of making councils accountable for their rate movements, it opposes any proposal of moving away from a rating system that distributes rates based on up to date property valuations.

Victoria has a sophisticated valuation system and has adopted world's best practice with its valuation process since 2000. Each property in Victoria has
three valuations assessed every two years, a site value (land only); a capital improve value (land and improvements) and a net annual value (either 5% of the capital improved value or an annual rental value).

Councils in Victoria have the flexibility of adopting which valuation to use for the distribution of municipal rates. Currently there are 73 municipalities using capital improved value and six using net annual value. Any proposal of introducing rate capping on average municipal rates (individual assessments) for rate capping purposes within Victoria, should be disregarded as it erodes the fair system of distributing property based municipal rates.

The complexity of revaluations and the fact that property values are only relative within a municipality, further supports the rate cap framework applying to total rates and charges and not on an average rates and charges per assessment.

10. **What should the base year be?**

As the 2016/17 year is the year the 2016 General Valuation is adopted by councils throughout Victoria, we recommend the introduction of a staged system of rate capping commencing in 2016/17.

Due to the movements in value that are assessed as part of the 2016 General Valuation throughout Victoria, the use of new valuations might undermine any attempt to cap rate movements in 2016/17. It is therefore recommended that a staging of the rate cap system be introduced in the first year. For example, in year 1 (2016/17) a broad based transition cap of say 5% be introduced, with the view of moving to the adopted level of cap in year 2 (2017/18). In this way the 2016 general valuations won’t adversely impact on the introduction of a rate capping system in 2016/17.

11. **How should the variation process work?**

The variation process should be a simple process and both a low cost for councils to apply for and the ESC to make a determination within the shortest possible time to enable councils to meet statutory obligations and undertake further community consultation if required.

If the cap is set at an appropriate level, the need to seek a variation could be greatly reduced and further expenditure minimised by councils in seeking a variation and the State Government in implementing the variation process.

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

The variation should apply where there are significant cost increases outside of councils’ control, for example:
- Superannuation calls for defined benefits (over 5/10 years repayment plan)
- Changes to the Super Guarantee legislation
- Infrastructure expenditure relating to Precinct Structure Plans (PSPs) where insufficient other source funding is available
- Greater than expected population growth or changes to immigration policy
- Cost shifting and legislation changes ie. emergency management recovery tasks
- Natural disasters (not otherwise reimbursed by the Grants Commission)
- Change in funding levels, eg Grants Commission allocation.

The variation could be a two stage process to allow the ESC to provide feedback before more detailed work is undertaken and may help councils focus on the application before much effort and cost is incurred.

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 increases?**

Where council based service planning and level changes are being proposed and these changes have been through a community consultation process and/or where councils are not meeting asset renewal programs as identified in the Step Program (being implemented by the MAV).

14. **What should councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation?**

The list of requirements appears to be appropriate subject to clear definition of what is meant by *effectively*, *reasonable* and *legitimate* in the context proposed by the ESC. In addition, the exercise to have a variation approved should not be onerous. The key should be for simplicity and low cost process. The ESC needs to make a commitment that where the process is being applied, they will expedite the matter in an efficient and timely manner to enable statutory deadlines to be met.

**Community Engagement**

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

Best practice community engagement is not so much about the method you use for the engagement, but what principles are applied in undertaking it. What would be crucial to creating a meaningful engagement, from the community’s point of view, is
• Being very clear in the questions we ask, and being very clear what the community has an opportunity to influence (the negotiables) and what is not part of the consultation (the non-negotiables).

• Being very clear on what will be done with the information supplied from the community. For example, using the International Association of Public Participation (IAP2)'s engagement spectrum, would Council commit to keeping the community informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision, or perhaps work together with the community to formulate solutions and incorporate their advice and recommendations into the decisions to the maximum extent possible, or promise to implement what the community decides (by show of majority preferences).

• Providing all the information reasonably needed for the community to base their decisions upon.

• Providing that information in plain English, and translated into other languages as appropriate.

• Ensuring there are multiple ways in which the community can be informed about the engagement and many ways in which they can participate in the engagement.

• That the final decision, and reasons for it, is clearly communicated to the community once the decision has been made.

The City of Whittlesea recommends using VAGO's Public Participation in Government Decision-making Better Practice Guide when setting any guidelines or requirements. Available software such as Bang the Table's Budget Allocator for an online component of any engagement (it would also require other options for engagement, for those not comfortable with engaging online) would be a good way to present the information in an easy to understand and engaged format.

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?

Where a council has been actively pursuing efficiency gains through service planning reviews, a council could receive a benefit as part of the variation application and process.

Some examples of unintended consequences could be:

• Council borrowing costs that are above the rate cap
• Non-maintained service standards in relation to assets and infrastructure
• Deterioration in service standards for community users.
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 council applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with council budget processes.

The cap should be advised to all councils prior to December and ideally the cap for multi-years advised at the same time.

Transitional Arrangements

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?

Delay the implementation to 2017/18, a non-revaluation year or if this is not possible, allow a phased implementation over the two year period to support a smooth transition.

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?

The ESC should advise, not decide, and councils should make the final decision. Councillors are directly and democratically elected through the ballot box and are accountable to the community for the Annual Budget to which the community can have input prior to its adoption.

Other Matters

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

Yes, the Framework should have a review period to assess if the objectives have been met and to evaluate the impacts on council services and infrastructure. This would also allow for an assessment of the community’s understanding of how the framework operates both within the revaluation and non-revaluation process. The provision of a sunset clause attached to the legislation would provide the Government of the days to review the effectiveness of the rate capping provisions.
21. **How should the costs of administering an ongoing framework be recovered?**

The costs should be borne by the State Government. Failing this, any cost or licence fee related to the rate capping framework be the same as applied to the electricity, gas, ports and water authorities to be carried by Local Government should be an addition to the cap for the year.

This would ensure that the framework has no financial impact on Council and that the fee is added, in percentage terms, to the approved cap.

**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.

**Point 1**

Overall the principles identified are supported.

Consideration of principle 4 to allow self-assessment style of variation application or an online assessment to be developed to make any variation system simpler and easier to implement.

**Point 2**

The impact of the Fire Services Property Levy on the Rate Notice issued to ratepayers.

Of particular concern is where the Fire Services Levy is significantly different to the rate cap.

**Point 3**

1. Preliminary cost shifting information for Whittlesea City Council. Cost shifting occurs when Federal and State programs transfer responsibility to local government and insufficient funding or grants don’t keep pace with delivery costs.
Cost shifting for specific services -- some examples include:

a. Library Services - $1,400,000 from 2010/11 to 2014/15
b. Maternal & Child Health $ 790,000 from 2010/11 to 2014/15
c. Home & Community Care $1,700,000 from 2010/11 to 2014/15
d. School Crossing Supervision $ 470,000 from 2010/11 to 2014/15

2. Loss of funding in general:
   a. A freeze on indexation of the Federal Financial Assistance Grants. The cumulative impact on Whittlesea for the three years totals approximately $1.8M.
   b. Discontinuance of the Community Support Program (CSP) Fund for Family Day Care Program from 1 July 2015 – $90,000 per annum.

3. State Government Levies
   a. The Landfill Levy has increased from $9 per tonne in 2008/09 to $58.50 per tonne in 2014/15. Total landfill levy for Whittlesea is $12.2M for the seven years 2008/09 to 2014/15.
   b. Animal Registration Levy $336,000 from 2010/11 to 2014/15

4. Statutory requirements lead to increased costs:
   a. Line clearance/cutting back tree branches around power lines – approx $450,000 from 2010/11 to 2014/15
   b. Introduction of National Policy of 15 hours kinder for four year olds $3,300,000 of capital works over the past two years