

LGPro Submission on Local Government Rates Capping & Variation Framework Review

Executive Summary

In January 2015 the Minister for Finance, Robin Scott asked the Essential Services Commission to establish a framework for the Government's Fair Rates Policy.

In response, LGPro has prepared the following submission that seeks to address the complex issues arising from the application of rate capping.

LGPro believes that the public discussion so far has lacked context. We recognise that Rate Capping is now government policy and our responses to the questions raised in the consultation paper have been designed to provide constructive feedback while highlighting the consequences, some of them unintended, of a "blunt instrument" policy that is unable to address the nuances that are unique to the Local Government budgetary model in Victoria.

As all communities are different, so are all councils. They have different pressure points around service delivery, which increase and decrease according to the circumstances of that particular community at a particular point in time.

In the Terms of Reference for the Essential Services Commission, Minister Scott stated that: "The State Government's objective is to contain the cost of living in Victoria while supporting council autonomy and ensuring greater accountability and transparency in Local Government budgeting and service delivery. The Government intends to promote rates and charges that are efficient, stable and reflective of services that the community needs and demands, and set at a level that ensures the sustainability of councils' financial capacity and council infrastructure, thereby promoting the best outcomes for all Victorians."

As an independent Local Government officer member organisation we believe in the value of evidence based public policy, and we believe there is insufficient evidence to support the argument for the introduction of rate capping. Rates comprise only 1.4 per cent of the cost of living for Victorians so any cap on rates will have minimal impact on containing cost of living. With regard to budgeting, Local Government is far and away the most transparent level of government as budgets, prior to them being able to be adopted are currently subject to a community submission process that spans a mandatory four weeks which is widely publicised.

In addition, the methodology of the Local Government rating model is widely misunderstood by the broader community. This misunderstanding has resulted in a false simplicity in the community debate around the rate capping policy, which will only be further exacerbated if the policy is introduced, particularly if this done in a re-valuation year.

LGPro submits that the central issue that needs to be addressed prior to establishing a rate-capping model is to define Local Government's role and establish a mechanism to allocate functions and associated revenue raising powers to support that role. A focus on one revenue stream without examining the broader revenue framework has the potential to result in poor outcomes for Victorian communities.

Any revenue framework needs to recognise Local Government's role as the third level of government. It can only function effectively if a mechanism is in place to appropriately share public functions and correspondingly allocate funding or revenue raising powers between Local Government and other levels of government. Any 'capping' mechanism needs to be established with the capacity to introduce other revenue streams to meet agreed functions.

Additionally, the model needs to incorporate into its formulae the impact of cost shifting [estimated at about 6% of Local Government budgets] in the current revenue framework for Local Government. One simple example is Local Government's part funding of rate rebates for pensioners. Addressing social impact issues through welfare and income support is the responsibility of other levels of government, which are able to spread the cost of such assistance more equitably and efficiently over a broader revenue base. In light of the issues faced as a result of cost shifting, it is concerning that there is consideration of making Local Government pay the cost of the implementation of rate capping.

Finally, LGPro is concerned that increased financial pressure on councils will come at the cost of on-going learning and innovation, as officers are forced to focus solely on the cost containment of the task in front of them. LGPro provides valuable learning and development to the sector that keeps it up to date and potentially increases productivity and innovation. If funding was to be cut at councils then LGPro membership and capacity to provide high quality, low cost learning and development may be jeopardised at a substantial cost to the productivity of the sector.

Key recommendations

The fundamental recommendations contained in this submission include:

- The development of a more appropriate Local Government Index against which to measure rate capping that includes an adjustment factor that recognises the different impacts on different councils and an infrastructure renewal factor that recognises the different asset renewal liabilities carried by councils.
- That the cap be fixed for two years with indicative caps for a further two years providing guidance for the balance of the four year Council Plan/Strategic Resource Plan horizon.
- That the cap should apply only to general rates and the municipal charge (for those Councils that still have a municipal charge) and not to those fees and charges, such as waste, which are operated on a fee for service or contracting basis.
- That the cap should start in the 2017/18 financial year to avoid the reduced benefits of introducing it in a revaluation year and allow adequate time for community consultation and to align it with council elections in 2016.
- That the Variation framework allow for a less arduous application for those seeking variations of up to two percent and a more detailed hurdle for those seeking higher variations to reduce the cost of administration for both Local Government and the State.

- That the Essential Services Commission, rather than the Minister, be the sole arbiter of whether a council has made its case for a variation.
- That the framework, if accepted, after consultation with the sector, should provide a best practice framework for community engagement up front in order to set clear expectations and provide clarity around the process required to achieve a variation.
- That the cost of funding the ongoing administration of the Framework be funded solely by the State.
- That the Framework be regularly reviewed taking into account the impact on the financial sustainability of Councils.