



## Context

Following the November 2014 election, the State Government have committed to the implementation of a Rates Capping and Variation Framework for all local Councils across Victoria.

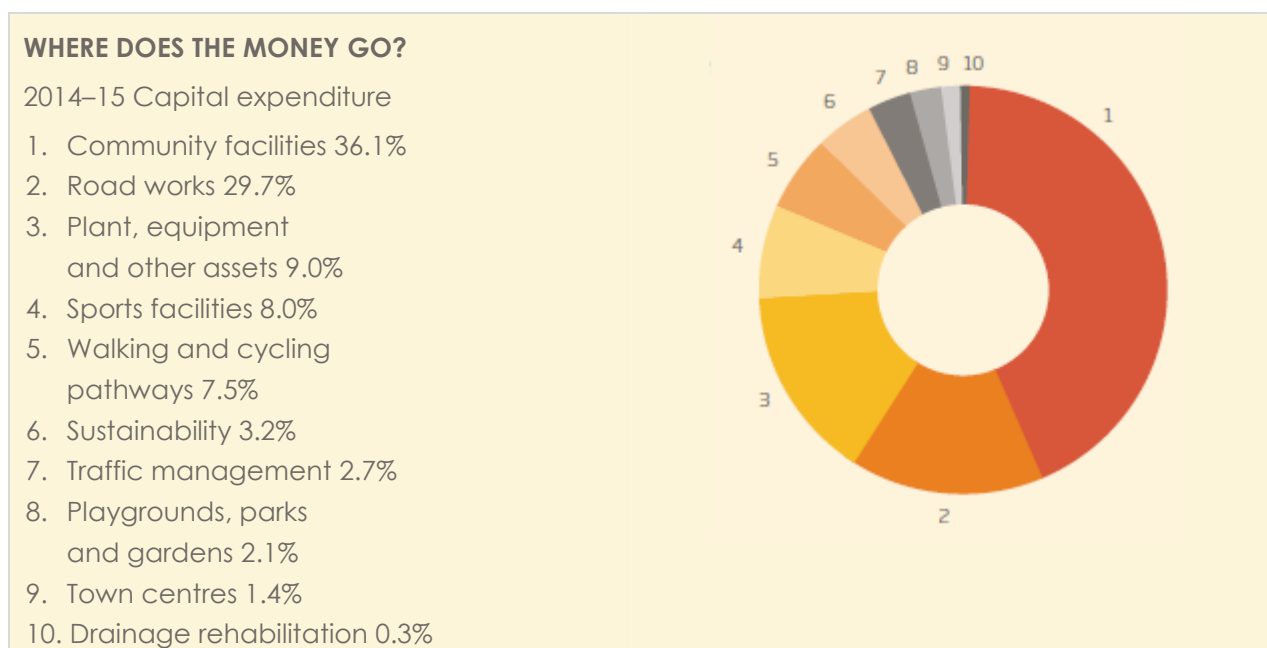
The Essential Services Commission (the Commission) have been tasked by the Minister for Finance (in consultation with the Minister for Local Government) to conduct a review and report on a Local Government Rates Capping and Variation Framework.

The Commission has been asked to design a framework that meets the Government's commitment to cap annual council rate increases, as well as to develop a workable process to assess any proposals by Councils for above cap increases. The Commission is required to complete its final report by 31 October 2015.

Brimbank City Council welcomes the opportunity to make a submission to this vital review. As a core principle we believe that, as a legitimate tier of government and a major provider of direct services, unique programs, quality infrastructure and local employment, Local Government should retain its autonomy to set rates and municipal charges. In accepting that this is not the preferred view of government Council has sought to provide valid and constructive comments to this submission process to ensure minimal service disruption for residents and the broader community.

As the Essential Services Commission have demonstrated in their consultation paper in order to develop a rate capping model that does not have ongoing negative unintended consequences, an understanding of the breadth of issues that local government grapple with on a daily basis, as well as the wider financial implications of potential service or employment cuts is required.

The following chart shows how Brimbank allocates its capital spending across the community:



## About Brimbank

*“While there is commonality across the types of services delivered by local government in Victoria, each municipality is distinct. As such, there is diversity in service delivery across the state reflecting the different composition and priorities of communities. This requires councils to make choices about prioritisation of their limited resources to balance the demands of a range of stakeholder groups. The types, levels, and quality of services councils provide vary depending on the geography of the region they serve, the demographic profile of the community, individual council’s financial circumstances, inherited assets and policy decisions. Councils also employ different service delivery models such as service provision being council owned and operated, or outsourced”*

Local Government Rates Capping & Variation Framework Review Consultation paper

With over 195,000 residents, Brimbank is the third largest municipality in Melbourne and is located between 11 and 23 kilometres west and north-west of the Melbourne GPO. Brimbank covers over 123 square kilometres of area in metropolitan Melbourne.

The City encompasses 25 new and established suburbs. Much of the recent residential growth is near completion; however some growth is expected in Deer Park, Derrimut and Cairnlea through the redevelopment of older industrial sites and the development of apartments and townhouses on subdivided properties in and around the Sunshine and St Albans town centres.

The inflow of migrants and refugees over many years means that Brimbank has developed into one of the most culturally diverse municipalities in Australia. Over half its residents speak a language other than English and there are over 160 languages spoken in Brimbank. Similarly, the proportion of recent arrivals or long-term residents from countries in which English is not the predominant language is greater than for Melbourne and Australia. As a consequence, poor English proficiency in the City of Brimbank is almost three times that of Melbourne, and more than four times that of the Australian average. This has necessitated a focus on community learning and leadership programs, significant resources on multilingual materials and direct assistance for refugees to enable them to understand and live within their new environment.

On the whole Brimbank is the second most socio-economically disadvantaged municipality in the Greater Melbourne area and the third most disadvantaged in Victoria, with some pockets in the municipality experiencing a higher level of disadvantage than any other in the state. The proportion of adult and youth unemployment amongst Brimbank residents is higher than the Melbourne and Australian averages. There are a large number of jobless families across the City of Brimbank, twice the Melbourne average. As a result, government support is the main source of income for almost twice as many families in the City of Brimbank as the Melbourne and Australian average. Council is also one of the top five (5) employers in the municipality, providing not only direct employment for over 1300 employees but work for sub-contractors, agencies and students. Due to the high level of unemployment, Council has a strong economic development focus seeking to work directly with trader associations, small and larger businesses and is active in seeking to attract more jobs to the west. In fact nearly 40% of the space in Council's soon to be constructed Community and Civic Centre will be offered to tenant partners in order to provide much needed office space and job opportunities.

Councils raise and receive funds from a variety of sources. Across Victoria, Councils, **on average** raise around 56% of their revenue from rates; however this is not the case for the Brimbank City Council, where the Council's reliance on rates is at around **67%**. Council's ability to raise revenue from other sources e.g. parking, fees and charges, is limited due to demand and supply issues.

Another key issue for Brimbank is the industrial legacy and associated contaminated land issues. In this past year alone, Council has spent about 2.5 million dollars on managing and monitoring pollution and air quality issues in Brooklyn and other areas, in addition to contamination on construction projects, facility upgrades and private sites.

## Brimbank City Council Financial framework

Brimbank City Council is working hard to improve socio-economic disadvantage and health outcomes through the provision of services, programs, improved infrastructure and economic initiatives.

Council also recognises that rates need to be affordable and increases kept to a minimum. With this objective in mind, three years ago the Council embarked on developing a fully transparent Rating Strategy and a 10 year Long Term Financial Plan (LTFP) which formed the basis for the Annual Budget. At the time of developing the LTFP, Council commissioned an independent "Capacity to Pay" report which confirmed that Council's proposed rating increases were affordable, nonetheless, in developing each Budget since adopting the initial Long Term Financial Plan Council has worked diligently to reduce its residential rate increases.

Year	Original LTFP prediction	Actual residential increase
2014-15	6.8%	5.8%
2015-16	6.00%	4.8%

Brimbank's average rates and charges are in line with the Victorian average. With the range being around \$1,300 per assessment to around \$2,400 per assessment (MAV 2014-15 Victorian Local Government Rates Survey) each Council is at a different starting position before the cap is applied.

Achieving these savings to date has not been without consequence, particularly as Council enters its 2015/16 Budget year with over \$92 million in planned capital works. In order to deliver a 4.8% residential increase there has been no growth in response to demand across all services with some programs reduced or no longer delivered. Efficiencies as a result of emerging technologies have been identified and implemented.

Council has responsibly borrowed to part fund the recent superannuation shortfall and the new Brimbank Library, Civic Centre and Community Auditorium in Sunshine. The consolidation of the staff into one building will occur in mid-2016, resulting in significant savings from no longer needing to rent space across the municipality, undertaking maintenance in ailing facilities and the inherent productivity improvements of staff no longer needing to drive across the municipality to the other sites or replicate administrative support.

Council has acted responsibly and found savings, however, is now at the point that a rate cap of say **2.5%** could result in expenditure reductions of up **to \$24 million over four years**. This would be very significant in the context of the City's 2015/2016 budget of \$178.5 million and will have a direct impact on Council's ability to provide a range of programs and employment.

Each year as part of the development of the Budget, the LTFP & Rating Strategy are reviewed, advertised and available for public comment and input.

As part of a recent review of its LTFP, Council undertook a benchmarking exercise with 13 other (like) Councils - key findings were;

- Brimbank's reliance on rates was high at 67%, yet despite this our rates per capita were one of the lowest at \$674 per head;
- Council had the highest capital works program of the benchmark group (excluding growth councils) with a strong focus on upgrading assets for our community;

Council's level of renewal spend compared to depreciation expense is one of the lowest in the group and a strategy to start addressing this in the future will need to be developed.

## Response to Consultation Paper

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?	<p>The rate cap should not be based solely on CPI as it does not represent the true costs of services for *Local Government. *See response to Q2</p> <p>An independent and separate index should be developed that recognises the impacts of:</p> <ul style="list-style-type: none"> <li>• Local Government Enterprise Agreements;</li> <li>• Cost and responsibility shifting from other levels of Government; and</li> <li>• Impacts of other indices relevant to Local Government such as CPI and movements in the building and road construction industry.</li> </ul>
2	What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?	<p>Refer question 1.</p> <p>Research indicates that local government costs typically increase by around 1-1.5% per cent above the consumer price index (CPI) as Council services are quite different to household services.</p> <p>CPI is not a relevant cost index for Local Government as most of the items in the CPI basket of goods are not relevant to Local Government given that a significant proportion of costs are providing infrastructure and social and community services.</p> <p>Each year the MAV release the Local Government Cost Index which estimates the increased input costs facing councils to deliver services at the same level and quality as they did the previous year.</p>
3	Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative 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?	<p>Section 126 of the Local Government Act requires Council's to prepare a Strategic Resource Plan (SRP) for the next four (4) years. Given that rates are an important source of revenue for all Council's, the level of rates raised each year needs to be confirmed so that a longer term plan can be developed. Many projects and initiatives span longer than one year and it is important that funding for such projects is confirmed.</p> <p>Councils also need time to prepare for any changes in the SRP that may arise through rate capping. For example if the rate increase was capped at 2.5% at Brimbank City Council this would mean that over \$24 million in revenue would be lost over the next four years. Council would need time to develop a strategy to either increase other sources of revenue or reduce expenditure (services) to offset this loss of rates income.</p>

		The cap should be set for a four (4) year period in line with the SRP and there should be a mechanism in place to review the rate increases during the life of the SRP should circumstances change e.g. a municipality that may be hit by a disaster event. To enable planning for major projects and service initiatives adjustments to the cap may need to be in place over a 3-4 year period
4	Should the cap be based on historical movements or forecasts of CPI?	The cap should be based on the forecast information relevant to the period, however there should be a mechanism in place to review the cap should circumstances change and there is a discrepancy between forecast and actual result.
5	Should a single cap apply equally to all councils	<p>A single cap should not apply to all Councils. Each Council should be assessed by the ESC and be able to demonstrate to the ESC and its community that it has a clear strategy and process that meets the needs of each Council in the following areas:</p> <ul style="list-style-type: none"> <li>• Community and social needs, taking into account socio economic demographic, cultural issues and the initiatives undertaken by Council to address these needs;</li> <li>• Asset maintenance and renewal needs, and Councils level of maturity in these areas;</li> <li>• A robust long term capital works program that identifies any significant major capital projects such as leisure centres, and combined community facilities; and</li> <li>• Demonstrated strong financial management, including long term financial plans and strategies, evidence of responsible rating strategies and ability to demonstrate where prior efficiencies and innovation have occurred.</li> </ul> <p><a href="#">Please see response to Q 11, 12 13 &amp; 14</a></p>
<b>THE BASE TO WHICH THE CAP APPLIES</b>		
6	What base should the cap apply to? Does it include rates revenue, service rates/charges, municipal charges and special rates/charges?	<p>The cap should apply to all general rates, municipal charges, service rate and services charges declared under sections 158-163 of the Local Government Act 1989.</p> <p>The cap should not apply to special rates and special charges declared under section 163 of the Local Government Act 1989.</p> <p>Any charges that Councils collect on behalf of other levels of government, such as fire services property levy and landfill levies should be excluded from the cap and be explicit on the rate notice i.e. – this year's fire levy increase of <b>7%</b> should be clearly shown as a charge from State Government .</p>

7	Should the cap apply to total revenue arising from these categories or on average rates and charges per assessment?	<p>The cap should apply to total rates and charges revenue after a full year adjustment has been made for supplementary rates.</p> <p>In a year when there are no other changes to rates and charges this would be the same as applying a % increase to the rate(s) in the dollar and multiplying by the relevant valuation. In years where there has been a revaluation or where there has been a change in the Council's rate strategy, then Council would need to take into account the full year's effect of the supplementary valuations.</p>
8	How should we treat supplementary rates? How do they vary from Council to Council?	<p>Supplementary rates should not be included. The full year's value of supplementary rates needs to be calculated and added to the base for calculating the rates for the next year.</p> <p>Supplementary rates represent a growth in the municipality and while there is additional rates income received, there are also additional services that Council need to provide.</p>
9	What are the challenges arising from the re-valuation of properties every 2 years?	<p>As we have seen in recent times, fluctuation in valuations, particularly where one sector of the property market increases (or decreases) greater than the rest of the market will lead to fluctuations in rates. Sometimes due to the short period between valuations, one sector may lead the market and face higher increase in the revaluation but when other sectors catch up in the next revaluation the market will correct.</p> <p>There is also a misconception that each time Councils have a revaluation and values increase that Councils receive extra rates income.</p>
10	What should the base year be?	The previous year – i.e. Base year for 2016/17 rates should be 2015/16.
<b>THE VARIATION PROCESS</b>		
11	How should the variation process work?	The variation process needs to be simple and low cost to Councils and ideally not require substantial additional work just for the purposes of getting a variation to the rate cap. Current documents such as Annual Budget and Strategic Resource Plan, LTFP Rating Strategy and a comprehensive business case should be used in the process.

12	Under what circumstances should Councils be able to seek a variation?	Council should be able to apply for a variation when there is a significant change to the Strategic Resource Plan. This change can be brought about by circumstances outside the Council's control (such as loss of significant funding source) or when the community has sought a change in level of service or that Council takes up a new service that was not anticipated when the SRP was developed.
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?	<p>Changes in responsibilities from other levels of government, i.e. new legislation that passes additional responsibilities onto Local Government.</p> <p>Where there has been an unanticipated service need– i.e. affordable housing, close to the city in Sunshine has seen an influx of new “families”, birth rates have increased requiring an increase in maternal and child health services, refugees requiring additional support services to enable them to participate in city life – i.e. Council has run interactive Living in Your Neighbourhood information sessions and English Language classes to create an awareness of Council services.</p> <p>Where Council have a significant issue – (particularly not of their making) – that is unique to their municipality/region for example in Brimbank this would be contamination of land.</p>
14	<p>What should Councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation? A possible set of requirements could include:</p> <ul style="list-style-type: none"> <li>the Council has effectively engaged with its community</li> <li>there is a legitimate case for additional funds by the Council</li> <li>the proposed increase in rates and charges is reasonable to meet the need</li> <li>the proposed increase in rates and charges fits into its longer term plan for funding and services</li> <li>the Council has made continuous efforts to keep costs down.</li> </ul> <p>We would like stakeholders' views on whether the above requirements are adequate.</p>	<p>Agree, as well as an assessment of Councils' ability to raise additional revenue outside of rating revenue.</p> <p>A review of unanticipated expenditure such as expenditure relating to a disaster event.</p>



<b>COMMUNITY ENGAGEMENT</b>		
15	<p>What does best practice in community engagement, process and information look like? Are there examples that we can draw from?</p>	<p>Best Practice community engagement reflects methods of engagement that understand and are tailored to the communities' specific profile and interests, taking into account barriers such as language and access. For example in Brimbank, due to the high number of people who don't have access to the internet and speak a language other than English there is a stronger focus on interpreters and community leaders to assist council in direct face to face communications.</p>
<b>INCENTIVES</b>		
16	<p>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?</p>	<p><b>This is a key challenge for the ESC.</b></p> <p>It is inevitable that cost shifting will result in at the very least changes to service delivery - in Brimbank's case alone, a potential cut of \$24 million dollars on top of Financial Assistance Grant freeze will result in a pegging back of service that has consequences down the line – for example in order to save money in this forthcoming budget Council cut back on planting, festivals, community newsletters and no “new jobs” – this will have a direct flow on to local suppliers, traders and contractors, multiply this x 79 Councils.</p> <p>Unintended consequences will also come about if a Council is made to look irresponsible or unable to manage their funds if they apply for a variation, this may be poorly perceived and received by their communities, with a real risk of infrastructure renewal being abandoned as it is not immediately obvious. Another could be that Councils will no longer seek to be innovative or take (measured) risks in service delivery that is unique to their municipality. Councils may also refuse funding from the state and federal governments for fear of further cost and responsibility shift.</p> <p>In order for these risks to be minimised it is critical that the ESC work closely across the sector, seeking input from those with economic and social backgrounds as well as finance and revenue.</p> <p>There should be incentives for Councils seeking to improve service and cut costs through shared services and procurement.</p>

<b>TIMING AND PROCESS</b>		
<b>17</b>	<p>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 councils' applications. To ensure the smooth functioning of the rates capping and variation framework, it is particularly important that it aligns with councils' budget processes. We are interested in stakeholders' views on how this can be achieved</p>	<p>The rate capping process should align with Council's Strategic Resource Plan process, i.e. the Council should consult with the community as part of the development of the Council Plan and Strategic Resource Plan which is ideally done prior to the budget being finalised.</p>
<b>TRANSITIONAL ARRANGEMENTS</b>		
<b>18</b>	<p>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?</p>	<p>There is merit in phasing the implementation of a rate capping framework over two years, as it would take some time for Councils to prepare the information required. Should they seek to apply for a variation, and if there were savings required to be made, then it could take some time to implement the changes. Councils also have existing commitments such as major contracts and Enterprise Agreements</p>
<b>ROLES</b>		
<b>19</b>	<p>What are stakeholders' views on the respective roles of the key participants? Should the Commission's assessment of rates variations be advisory or determinative?</p>	<p>The Commission should play a determinative role and make a decision on the submission independent of the parties</p>
<b>OTHER MATTERS</b>		
<b>20</b>	<p>Is there a need for the framework to be reviewed to assess its effectiveness within three years time?</p>	<p>Given the level of concern and possibility for unforeseen and unintended consequences, the framework should be initially reviewed within two years and then regularly reviewed, ideally every four (4) years, in line with the Council planning cycle.</p>
<b>21</b>	<p>How should the costs of administering an ongoing framework be recovered?</p>	<p>The costs of administering the rate capping framework should be borne by the <b>State Government</b>.</p>

**OTHER MATTERS RAISED IN EARLIER CHAPTERS**

<b>22</b>	<p>We are interested in hearing from stakeholders on:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> whether we have developed appropriate principles for this review</li> <li><input type="checkbox"/> whether there are other issues related to the design or implementation of the rates capping and variation framework that stakeholders think are important</li> <li><input type="checkbox"/> supporting information on the major cost pressures faced by councils that are beyond their control and the impact on council rates and charges.</li> </ul>	<p>The principles developed are adequate and we understand the time constraints and appreciate the opportunity to provide the ESC with our comments.</p> <p>Rate Capping cannot be considered in isolation of the other factors imposed on Local Government:</p> <ul style="list-style-type: none"> <li>• Cost Shifting</li> <li>• Responsibility creep ( i.e. emergency services, collection of fire levy , electricity line clearance, kindergarten hours )</li> <li>• Loss of funding ( F.A.G )</li> <li>• Limited revenue raising sources – opposition to the sale of underutilised assets</li> <li>• Statutory fees that prohibit full cost recovery</li> <li>• New Legislation ( i.e. smoking in public places, dangerous dogs )</li> <li>• Complex EBA negotiations</li> <li>• Local accessibility and the only tier of government that responds to direct need.</li> </ul>
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## Conclusion

In conclusion we thank the Essential Services Commission for the opportunity to make a submission and seek further and ongoing engagement in this very important matter.

For further enquires please contact

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