



# Designing a rates capping and variation framework

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# Today's presentation

- Who we are
- What is ESC's role in local government
- What are the matters we need to provide advice on
- State Government's rates capping objectives
- Our understanding of some key issues
- Our approach for the review
  - Our proposed principles
  - Other important considerations
- How do we plan to engage
- Timelines and process



# Who we are

- Independent economic regulator for Victoria
  - energy, water, ports, taxis and rail freight, tow trucks
  - price regulation, performance monitoring, codes, licensing, inquiry
- Structure:
  - Chairperson and two part-time Commissioners
  - 65 staff led by a CEO and an executive team
- Staff is qualified in economics, accounting, law, engineering and other analytical disciplines
- Supported as necessary by specialist/technical contractors and consultants



# ESC's role in Local Government

## Previous role (2010-11)

- Local government services reporting framework – 2010
- Reducing the reporting burden on local government – 2011

## 2015

- Rates capping and variation framework review
  - Terms of reference received from the Ministers
  - Design a rates capping and variation framework (to apply starting 2016-17)



# Government's objectives

## State Government's objectives (as per TOR):

*" ... 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 the councils' financial capacity and council infrastructure, thereby promoting the best outcomes for all Victorians."*



# Our understanding of some key issues

- Autonomy of councils
- CPI not reflective of council costs
- Quality and level of service will deteriorate and infrastructure will run down if rates are capped at CPI
- NSW's rate pegging experience
- Additional layer to councils' budgetary and planning cycle
- Ratepayers are concerned with historical high rates increases and wasteful or unnecessary spending by some councils
- VAGO's assessment of 12 councils' rating practices



# Matters we need to provide advice on

## Cap

- Evidence on the magnitude and impact on ratepayers of successive above-CPI rate increases
- Cap what?
  - Rates, municipal charges, service rates/charges, special rates/charges
  - how to treat supplementary rates
- Any refinements to the cap that could better meet the Government's objectives
  - A more cost reflective cap?
- Other issues
  - Cap on revenue or per assessment
  - Initial base year
  - Based on historical movement or forecast
  - A single cap only?

## Variation

- What are legitimate factors for a variation? eg population, cut in government grants, increased statutory responsibilities, extraordinary circumstances, other sources of income, and others
- Workable processes and timelines for variation:
  - Any technical and information requirements
  - Guidance to give effect to the framework and to improve accountability and transparency
  - Benchmarking
  - Any transitional arrangement (phase-in?)
  - How do we assess the effectiveness of the regime
- Any complementary monitoring of service and financial performance?
- Cost recovery

## Review will have regard to

- Role of local government in providing services and infrastructure; council autonomy
- Councils' diversity
- DELWP's LGPRF and revenue and rating strategy best practice guide
- Matters raised by VAGO (rating practices and asset renewal gap)
- Insights from NSW's experience
- DTF's Guide to Regulation and Cost Recovery Guidelines
- **Requires wide consultation; sector consultative panel**



# Our approach for the review

- Better understand the key issues and major challenges
- Develop a framework that:
  - aligns with the Government’s objectives and intended outcomes
  - is beneficial for Communities, Ratepayers & Councils
  - “Makes things as simple as possible, but no simpler”
- Adopt a principled approach
- Consult
- Consult some more
- And then, consult even more



# Our proposed principles

## Principle 1: “DIVERSITY”

Local communities differ in their needs, priorities and resources.

## Principle 2: “ACCOUNTABILITY”

Local communities and ratepayers are entitled to hold their councils to the highest standards of accountability and transparency when setting rates.

## Principle 3: “RESPONSIBILITY”

The framework should support the autonomy of councils to make decisions in the long term interests of their community and ratepayers.



# Our proposed principles (cont'd)

## Principle 4: “RIGOUR”

Councils will need to satisfy the burden of proof outlined in the framework when seeking a variation above the cap.

## Principle 5: “PRIORITIES”

Rate increases should be considered only after all other viable options have been explored.

## Principles 6: “PROCESSES”

The framework should support best practice planning, management systems and information sharing to uphold council decision making.



# Our proposed principles (cont'd)

## Principle 7: “FLEXIBILITY”

The framework should be flexible and adaptable.

## Principle 8: “ROBUST”

There should be few surprises for ratepayers and councils in the implementation of the framework.



# Other important considerations

## Other important considerations:

- Alignment with councils' planning and budgeting cycle, council plan, strategic resource plan, and long term operational plan
- There will need to be a greater linkage between rates and **services**, and robust measures of **infrastructure renewal gap**



# How do we plan to engage

## Stakeholders

- Councils, peak bodies, ratepayers and ratepayers associations, unions, relevant departments, sector consultative panel, community

## Form of engagement

- Meetings with councils, peak bodies, sector consultative panel, union and ratepayers associations
- Written submissions to our position paper and draft report
- A number of public meetings (metro and regional)
- Regular newsletters and updates from the ESC Chairperson
- Website: [www.esc.vic.gov.au](http://www.esc.vic.gov.au) ( see 'Local Government' )



# Timelines and process

Activity	Timing
Consultation Paper released	17 April 2015
1 <sup>st</sup> meeting with the sector consultative panel	2 June 2015
Submissions to Consultation Paper close	15 May 2015
Consultations	April – June 2015
2 <sup>nd</sup> meeting with the sector consultative panel	July/August 2015
Draft Report release	July 2015
Consultations and public meetings	July – August 2015
Submissions to Draft Report close	August 2015
3 <sup>rd</sup> meeting with sector consultative panel	September 2015
Final report to Ministers (Local Government & Finance)	October 2015
Final report public release	November 2015

