



# Rate Capping – First Year Experience and Future Outlook

FinPro Conference 2016

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Essential Services Commission

# presentation today

## A. Learnings

- 2016 higher cap application and assessment
- Peter Brown's findings and recommendations
- Our response

## B. The journey continues

- The 2017 Guidance for councils
- Other ESC work streams in the next few months



# A. Learnings

## 2016 higher cap application and assessment

- 22 notified; 10 applied (1 withdrew)
- **ESC decisions:** 2 approvals, 3 qualified approvals, 1 part approval, 3 rejections
- **Magnitude:** 6.34 to 3.05 per cent; \$2.9m to 56k
- **Reasons:** capex, renewals, services, debt repayment, growth, financial sustainability
- **Some gaps in applications:** gaps in engagement, narrative, adequacy of supporting information, long term planning, short term funding need, gaps or inconsistencies in plans, policies and processes
- Tight timelines
- Quality of applications varied between applicant councils
- Each application was decided on its own merit and on “balance of factors”
- Overall assessment framework appeared workable – councils with good budgeting, policies, plans and engagement practices were best placed to demonstrate the case for higher caps



# A. Learnings (con't)

## Independent external review by Peter Brown

1. Usefulness of the Guidance
2. Interactions between ESC and councils during the review
3. Burden placed on councils seeking a higher cap
4. Relevance of information sought by the ESC
5. ESC approach appropriate?
6. Workability of timelines
7. Clarity of ESC's final decisions

❖ **Report and ESC's Response are now on the ESC website**



# A. Learnings (con't)

## PB's recommendations and our response:

### 1. Usefulness of the Guidance

Recommendation	ESC Response
i. The FGRS guidelines to provide advice on the financial ratios that Councils should use to assist the ESC assessment	<b>Accept in part</b>
ii. A worked example of a higher cap application be available and that it be annotated to indicate how the ESC uses the information for its assessment purposes	<b>Accept in part</b>
iii. Clear guidance that the ESC will use the LGPRF information for assessment purposes	<b>Accept</b>
iv. A review is undertaken into any special financial issues associated with growth area councils	<b>Accept</b>



# A. Learnings (con't)

## PB's recommendations and our response:

### 2. Interactions between ESC and councils (incl relevance of information sought by ESC)

Recommendation	ESC Response
i. Consideration is given by the ESC to allow staff exchanges with councils to assist with the understanding of ESC and Council staff of their respective roles and challenges	<b>Accept</b>
ii. The ESC considers allowing councils to make a presentation to the ESC at the pre-application or submission stage of the application process	<b>Accept</b>
iii. The ESC advises councils if there is media interest and before the public release of information concerning council's expression of interest, application and/or the final decision on the application by the ESC	<b>Accept</b>
iv. The ESC provide councils with a copy of the final decision and an opportunity for a debrief and comment prior to public release	<b>Accept in part</b>



# A. Learnings (con't)

## PB's recommendations and our response:

### 3. Burden placed on councils

Recommendation	ESC Response
i. The ESC considers what assistance they could give smaller rural councils in applying for a higher rate cap	<b>Accept</b>



# A. Learnings (con't)

## PB's recommendations and our response:

### 5. ESC approach appropriate?

Recommendation	ESC Response
i. The ESC release all information that was used to determine a council's application including any independent consultant review reports	<b>Accept</b>
ii. When the proposal outlined within the draft of the new Act concerning the adoption by councils of a community endorsed consultation framework is enacted and councils have implemented, the ESC accept that if the Mayor on behalf of the Council sign off that the criterion concerning community consultation on the higher rate cap has been undertaken in accordance to the framework that this criterion is met	<b>Deferred</b>
iii. The ESC clearly indicates what does not constitute a financial case for a higher rate cap and this information is in the form of guidelines to councils	<b>Accept in principle</b>





# A. Learnings (con't)

## PB's recommendations and our response:

### 6. Workability of timelines

Recommendation	ESC Response
i. The ESC introduce two submission dates for higher rate cap submissions, one as currently applied, 31 March and another at 30 September	<b>Accept in principle</b>
ii. The ESC advise the Minister of the proposed rate cap by August of the year preceding the financial year of use to assist the community consultation and budget planning process of councils	<b>Accept in principle</b>



# A. Learnings (con't)

## PB's recommendations and our response:

### 7. Clarity of ESC's final decision

Recommendation	ESC Response
i. That the ESC places on their website all relevant information they used to form their decision on a council higher rate cap application, including any consultant or advisor review	<b>Accept</b>

### 8. Miscellaneous

Recommendation	ESC Response
i. That the ESC determines, in what form and format applications are to be presented and where the ESC wants the application sent to	<b>Accept</b>
ii. That all application forms be able to be filled in electronically	<b>Accept</b>
iii. That the ESC requires all councils to nominate a contact position and person within council to receive information and that copied in are the CEO and records area of council	<b>Accept</b>



## B. The Journey continues (con't)

### The 2017 Guidance: why changes are needed?

- To provide guidance on multi-year cap applications
- To address the key matters raised by Peter Brown
- To address issues raised in the recent workshops with the sector
- To include advice made by two technical working groups (financial and community engagement)
- To address matters (related to ESC's roles) raised by the Parliamentary Committee's inquiry into rate capping policy



## B. The Journey continues (con't)

### The 2017 Guidance: key themes

- greater clarity on our approach: addressing legislative matters, defining long-term need and good long term planning
- ESC's position on debt
- clarify guidance on community engagement
- Baseline information
- Challenges on timelines to apply for a higher cap
- Capacity building



## B. The Journey continues (con't)

### The 2017 Guidance: key changes

- **New section outlining assessment approach**
  - Demonstrating long-term need through robust long-term planning
  - List of circumstances a higher cap would not be approved
- **Clarifying expectations on community engagement**
  - Acknowledges challenges of engagement
  - Emphasis on integrating engagement into planning
  - Emphasis on the need to show engagement plan, how councils took account of ratepayer views
  - Engagement case studies/tips/tools developed and included in reference material



What Council must demonstrate →

# Long-term funding need (demonstrated through robust long-term planning and engagement)

Key questions →

What is the starting position of the Council?	What actions has Council taken to address the need?	How robust are the plans, policies and strategies?	Is the need short-term?
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Legislative basis →

Financial Capacity of Council S.185A(b)	Quantum of increase and reasons specified S. 185E(3)(a)-(b)	Engagement S.185E(3)(c)	Efficiency and Value for Money S.185E(3)(d)	Alternative funding and offsets S.185E(3)(e)	Long-term planning S.185E(3)(f) S.185E(3)(c)-(e) S.185A(a)	Reasons S. 185E(3)(b) Long-term interests of ratepayers S.185A(a)
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How it can be demonstrated (evidence) →

Adjusted underlying result	LGPRF Financial indicators (historical and projected) & VAGO historical performance	Relevant asset information if application is for a renewal backlog (AMPs)	Budget baseline information	Relevant service level data (if applying on the basis of improving service levels)	How the Council engaged with the Community and what information they provided. An explanation of how they took account of views	Evidence of efforts to reduce cost/align services with preferences of the community, dispose of unproductive assets, procurement and tendering practices etc.	Discussion of why this is they most appropriate funding source and evidence that Council has sought to explore reasonable alternatives at their disposal	Budget Baseline data, Long-term financial plan, Council plan, Asset Management Plans, debt policy	Budget Baseline data, Long-term financial plan, Council plan, Asset Management Plans, debt policy
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## B. The Journey continues (con't)

### The 2017 Guidance: key changes (con't)

- **Reference to discrete projects removed**
  - Emphasis on long-term planning and managing short-term needs without higher cap
  - Applications should focus on the capacity to fund a council's capex program over the long term
- **New section clarifying ESC position on debt**
  - Clear debt policy
  - Responsible use of debt to be considered as an option



## B. The Journey continues (con't)

### The 2017 Guidance: key changes (con't)

- **Guidance on multi-year cap applications**

- To address the legislative matters in multi-year applications, councils should:
  - Provide forecast income statement, balance sheet and capital works statement over the period of the proposed higher cap (up to 4 years)
  - List the assumptions underlying their financial forecasts
  - Forecast rateable property and supplementary revenue growth over the higher cap period
  - Outline clearly the budget scenarios considered and consulted on
- Only revisit a higher cap where there has been an unforeseen and material change in circumstances





## B. The Journey continues (con't)

### The 2017 Guidance: key changes (con't)

- **Other minor/process changes**
  - Guidance clarifies:
    - Treatment of ratepayer submissions
    - Use of expert technical advice (including publication of advice)
    - Reduced reporting burden (budget baseline template)



## B. The Journey continues (con't)

### Future Guidance:

- **Matters requiring further consideration (with others)**
  - PB's recommendation on timelines
  - PB's recommendation on how we should assess engagement post adoption of the Act review changes
  - PB's recommendation to develop a chart of accounts/rationalisation of reporting
  - PB's recommendation to develop common definitions of rate revenue and other revenue streams
  - PB's recommendation on standard methods to assess asset renewal gap for financial sustainability



## B. The Journey continues (con't)

### Other ESC work streams after release of Guidance:

- Further workshops with councils (mid Nov-early Dec)
- Release of compliance report (end Nov)
- Rate cap advice to the Minister (by Dec)
- ESC's internal growth study (by March 2017)
- Productivity study (by June 2017)



## B. The Journey continues (con't)

### Key dates for the 2017-18 rating year

Stage of the FGRS Process	Timeframe
Minister announces cap(s)	By 31 December 2016
A council seeking approval for a higher cap notifies the ESC	By 31 January 2017
Council applies for a higher cap, submits Budget Baseline Information	1 February – 31 March 2017
ESC assesses council applications	February – May 2017
ESC notifies councils of decisions	Within 2 months of receipt of application
Councils formally adopt budget	June 2017
All council submit Annual Baseline Information	31 October 2017
ESC publishes Compliance Report	November 2017



## C. Feedback/questions

# FEEDBACK/QUESTIONS

