

Contributors

The following eastern Melbourne and state-wide groups have collaborated and prepared this response to the ESC Rates Capping consultation paper:

1. Monash Ratepayers Inc (MRI) - <https://monashratepayers.wordpress.com/>
2. Knox Ratepayers Association (KRA) - <http://www.knoxratepayers.com/>
3. Ratepayers Victoria Inc (RVI) - <http://www.ratepayersvictoria.com.au/>.

Issues

1. The Autonomy of Councils should not be compromised by rates capping

The meaning of autonomy needs clarification first:

- 1) MAV, VLGA¹ and councils say autonomy is about respecting and recognising LG as the third tier of government;
- 2) LGV¹ battles to understand who is really in charge of LG and to take control;
- 3) Ratepayers say MAV, VLGA and councils are not recognised as a tier of government under the Australian Constitution, therefore LGV heads the chain of command in the LG sector, which means the LG is a subordinate to the Victorian Government, via LGV.

The facts:

- The Australian Constitution only recognises two tiers of government in Australia - federal and state. Therefore, it regards that LGs are subordinates to their State Governments ([The Annotated Australian Constitution, page 935-936](#)).
- Twomey (2013) also confirmed this standing of LG under the Australian constitution. She stated that "the States in the exercise of their plenary legislative powers, have the power to establish local government in whatever form they wish and give it such powers, functions and responsibilities as they choose" but they are still subordinates of their States. This statement is reflected in:
 - [Section 74A of the Victorian Constitution](#), which establishes municipal local government as a distinct and essential tier of under the Victorian government, to ensure peace, order and good government in their municipal cities;
 - [Section 74B of the Victorian Constitution](#) gives the LGV the plenary power over LG, hence it is LGV that holds ultimate responsibility and accountability of LG performance, outcomes and community impacts.

Twomey also stressed that LG "has no status or powers of its own. It does not exist as a spontaneous or independent creation of the people. Its existence and powers are derived from State legislation. Local government is a subordinate body of the State, exercising its powers by delegation from the State and under the State's supervision and authority". The LG Act and the Municipal Association Act are purposed to describe the

¹ MAV stands for the Municipal Association of Victoria, VLGA the Victorian Local Government Association; LG abbreviates Local Government and LGV is Local Government Victoria.

rules of engagement for this subordinated municipal function of the Victorian Government.

The conflict:

MAV, VLGA and councils interpret the Victorian Constitution established LG to be an independent tier of government and have acted as such for decades, also supported by some politicians. To officiate this ethos, these LG agencies have been pursuing to seek referendums (all have failed so far) to have LG be recognised in the Australian Constitution. Regardless whether this referendum goal is achieved or not, LG agencies continue to act on the assumption that the autonomy of councils must be respected and they have the independent authority and flexibility to do what they believe are the priorities and needs their communities should require.

Over the years, ratepayers had been disheartened by their councils' resolve and lack of good governance in their decision making and genuine commitment to do things right with their communities. Today they have become increasingly discontented when their councils continue to show increasing authoritarian leadership and tokenistic community engagement. Ratepayers are seeing decision outcomes that are more institutionally benefiting, eroding community liveability, and are now causing increasing financial hardship because of escalating high rates.

Ratepayers continues to support the Australian and Victorian Constitutions that state LG is a subordinate to the Victorian Government. This means LGV is in charge of LG and the autonomy of councils is merely reflecting a decentralised structure of how LGV prefers to manage and run municipal operations. The autonomy of councils does not give LG agencies independent government status to override or defy LGV's priority for implementing rates capping.

2. CPI is not the appropriate index of council costs

The Local Government Cost Index (LGCI) is not an appropriate index of council costs. It is a biased MAV benchmark and has limitations, "including its inability to adequately reflect cost variations such as increased or improved service costs, new levies from the state government, or new responsibilities arising from legislative or regulatory changes" ([VAGO, 2013](#), page 8). Since the VAGO audit in 2013, there is no visibility that these shortfalls have been addressed.

CPI measures the overall inflation in the prices of goods and services, indicating the cost of living or purchasing power. These measures indicates the economic performance of Australia according to international standards and is based on strong and proven data collection and compilation methodologies ([ABS, 2014](#)). The LGCI had not been established on such grounded concepts and methods.

The Australian Bureau of Statistics (ABS) also produces a range of price indexes, such as the Selected Living Cost Indexes (SLCIs), Producer Price Index (PPI) Wage Price Index (WPI), Domestic Final Demand (DFD). These tools are unbiased, proven and robust, when compared to the MAV's LGCI.

These cost and price indices are measured based on goods and services acquisition approaches. This means when there are acquisition inefficiencies, the quality of resulting indices would be affected.

Council operating inefficiencies had been and are still inflating financial costs and hence revenues, resulting in sustaining and escalating high rates. The inefficiencies of councils are long standing and are also partly caused by MAV, as MAV provides councils many services, including bulk procurement. The recent VAGO report ([2015](#)) confirmed that MAV has not proven evidence of giving value for money to councils, and that their procurement services to councils are exposed to the potentials of fraud or corruption. If ESC adopts MAV's LGCI, then its solution is nothing more shifting deck chairs on the Titanic.

Ratepayers view that the ultimate purpose of the rates capping policy is to have LGV be the ultimate authority for managing the burden of LG cost on the community. Today, this burden of cost is growing and lacking its management is creating many social and economic imbalances that widening the divide between the rich migrants and poor locals, and complicated by the political correctness of multiculturalism, which is fuelling reverse racialism.

A proposed solution:

Rates capping is for LGV to manage the burden of cost on communities, painfully felt through escalating and sustaining high rates over the last ten years.

This means rates capping is a pricing and cost controlling strategy, which involves identifying and managing the major cost drivers of high rates.

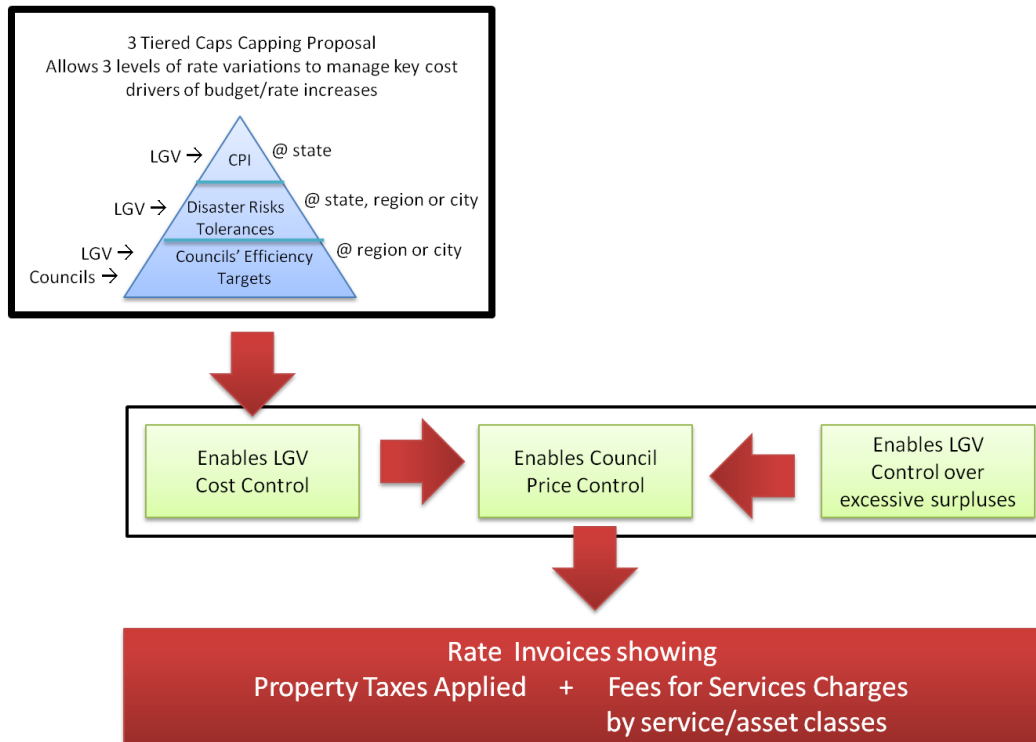
The question is what are the major cost drivers of rates increases?

- 1) Inflation is one, hence requiring budgets to align with future CPI movements/forecasts;
- 2) Provision for disaster risks management, such as bush fires and man-made crisis incidents, as when and if required.
- 3) The varying efficacy performance levels of councils, which relates to each council's capacity to be:
 - financially efficient;
 - provide services that are genuinely responsive to the needs and interests of its community.

This translate to a conceptual solution that allows a 3 tiered rate capping approach:

- LGV can set /control (for at least 4 years (strategic cycle term) or more):
 - a) State wide CPI forecasts, eg from the Reserve Bank of Australia
 - b) State wide, regional or city specific levies for providing disaster risks management, such as fire levies
 - c) State wide, regional or city tolerated ranges of councils' (cost) efficiency improvement targets.
- Councils can choose the specific efficiency improvement targets or sub-range they can aim to achieve within strategic cycle or longer. They can be allowed to have autonomous discretion to determine the mix of revenue sources and strategies to fund their target SRP and annual expenditure forecasts (ie pricing autonomy). If they

set efficiency targets outside the LGV recommended range, then they will have to justify with sound business case evidence and get official consensus support from their ratepayers.



This proposition will require LGV to:

- Set the standard for CPI forecasts
- Define the criteria for provisioning disaster risks management at state, regional and city levels
- Specify the appropriate and good practice tolerated range of budget efficiency (and underlying service appropriateness) measures that councils have to demonstrate continuously improvement and hence achievement of efficiency targets each year by strategic cycle.

This solution's 3 tiered rates variation methodology will enable ratepayers to clearly see rates rises are justified by CPI movements; provision for risk management and the commitment of their councils in trying to improve service costs and revenue fundraising mix across years within strategic cycles.

This solution is readily implementable if rates are considered fees for service charges. However rates in its true context is property tax, but councils also charge fees for services in rates invoices, complicating the composition-elements of "rates" beyond property taxes. This open a can of worms, as rate invoices should inform a property owner what are the associated property taxes (depending on the property type) and the fees for identified municipal services charged. The breakdown of service charges by service and asset classes will show the quality of service responsiveness of councils to their communities.

Currently, taxes are imposed on the capital improvement value (CIV) of properties and rates calculations also include fees for service charges/ This has resulted in rates charging that do not

comply with good practice taxation principles. People who live highly sought suburbs are discriminated in paying higher rates because of CIV. ATO taxation methods do not tax people on notional values of rental income or capital improvements that never took place, but CIV rates tax people on the notional (unrealised) market, capital improvement and potential rental values of their properties. The parties that benefit most from CIV are investors, developers and councils.

3. Quality and level of service will deteriorate and infrastructure will run down if rates and charges are capped at CPI

The above statement is a tactical threat used by MAV, VLGA and councils for resisting LGV's rates capping policy. They are also sending a message of defiance to LGV / Andrew Government and signalling who is/are really controlling the LG sector.

These LG agencies are collectively persistent and strong in using [media manipulation](#) strategies to influence public opinions to not support rates capping. Councils have provided no sound evidence to back up their claims. However, they have been actively, consistently and persistently coordinating and sending out their collective and public influencing message against rates capping, for example in May:

- Councils' propaganda - [Herald Sun, 4 May 2015](#),
- MAV's propaganda - [Government News, 6 May 2015](#),
- VLGA's propaganda - [Herald Sun, 8 May 2015](#)).

If and when communities are hurt or compromised by such political incited resistance tactics and propagandas, councils, MAV and VLGA are not exempt from the Trades Practice Act ([CBP Lawyers, 2015](#)).

NSW has more than 30 years of experience in rates pegging, which reportedly resulted in councils deferring road infrastructure maintenance and renewal. These issues are caused by underlying systematic issues, not because of pegged rates. MAV, VLGA and councils' claims of perverse consequences on their communities when rates are capped, reflect their problem solving is about addressing the symptoms, not the causes, of systematic failures.

Ratepayers are increasingly aware that media manipulation and political power plays are being used to influence public opinion to support a LGV defiant cause. We will not be surprised to see future incidents play out to conveniently back up the fallacy claims that rates capping would result in deteriorating the quality and performance of service and infrastructure amenity delivery.

4. Rates capping may create perverse incentives

This "concern" is hoped to be the key catch phrase for justifying no support for rates capping by LG power brokers.

LG agencies have not consulted their local communities to ascertain their support against rates capping. This signals community engagement has been missed and that the no support for rates capping is the agenda of the LG agencies.

For example, VLGA held a free public forum in April, which excluded ratepayers from attending.

It is important that ESC understand that power distance is high in community engagement. Despite many councils claiming adoption of the [IAP2 standard](#), they have always controlled and steered community participation to result in the decision outcomes they desire. Ratepayers had been and are still treated as the underdog stakeholder group, despite being the main beneficiaries of municipal services, intended by the LG Act. LG agencies will not welcome ratepayers' support for LGV's rates capping policy. It is foreseeable that genuine democratic community engagement in councils' decision making relating to the matter is unlikely to happen. Cultural change do not happen overnight.

Furthermore, it is common knowledge that their decision making in many Councils is often biased and lacks natural justice. Decisions are commonly made on the basis of emotional persuasion, irrelevant or biased information, and carried through by pre-meditated groupthink voting, either by dominating / bullying Councillors or CEOs. Community engagement in decision making are heavily controlled and is often tokenistic to meet procedural compliance to the LG Act. There is no spirit of the laws in community engagement outcomes. Often, we also observed there is often lacking or poor quality business case justification and rationality in Councillors' debates, sometimes including officers' recommendations. When both community engagement and decision making practices have shortfalls, it is easy for LG agencies to control community engagement and steer decision making directions to suit their interests first.

ESC needs to ensure both community engagement and decision making practices are improved to enable sustainable transparency and accountability in all councils' decision making, starting with budget decisions. Using good practice decision making methods like [Kepnor Tregoe](#) can repair most councils' poor capacity in showing rational, transparent and unbiased decision making and fostering accountable decision implementation readiness.



5. There are lessons learnt from NSW's rate pegging

NSW's rates pegging has been around for more than 30 years, as is Victoria's decentralised rates setting. Both states are suffering from systematic failures, not because of the rates setting methodologies they used. Systematic failures are a result of people/culture, process/governance, information/transparency and other mismanagement causes. The table

below shows that Victorian LG have contributed to far worst rate increases than their NSW counterparts.

Rating period	Annual Rate Increase	
	Victoria	NSW
2004/05	5.00%	3.50%
2005/06	7.30%	3.50%
2006/07	6.30%	3.60%
2007/08	5.50%	3.40%
2008/09	5.10%	3.20%
2009/10	5.20%	3.50%
2010/11	6.10%	2.60%
2011/12	5.90%	2.80%
2012/13	5.00%	3.60%
2013/14	4.80%	3.40%
2014/15	4.20%	2.30%
2004/5 – 2014/15 compounded	80.00%	42.00%

Source: Mornington Peninsula Ratepayers' & Residents' Association and McCrae Action Group, 2015

Clearly there is mismanagement in the LG system, which started in 2009:



Source: "Something is wrong in Victoria", David Morris MP, 2010, in Mornington Peninsula Ratepayers' & Residents' Association and McCrae Action Group's Research Findings, 2015.

We are clearly aware that [statistics can be used to mislead](#). Council communications, especially relating to justifying rate increases, need to be more honest as their local communities are not as stupid as they would like them to be.

Ratepayers view that lessons learnt from NSW's over 30 years of rates pegging is valuable for re-designing/innovating Victoria's rate setting and improving Councils' operating systems. The mistakes made in NSW should not be deterrents to rates capping, but instead be reanalysed to

reveal untapped learning insights into improving/increasing sustainable efficiency in Victorian LG operations.

6. An additional layer added to Council budgetary and planning cycle

Excuses and more excuses to block rates capping.

Continuously quality and performance improvement is a 21st enterprise necessity for ensuring best value and requires additional effort that cannot be disregarded or considered wasteful.

The costs of effort can be reduced if ratepayers are harnessed to help in the cause. Ratepayers, especially new and coming retirees, many from the professional fields, are a source of untapped talents that the ESC can train and skill to help implement and govern the rates capping policy.

How public hospitals manage and leverage best value from their community advisory committees and active volunteers can be the case studies to help ESC identify the proven organisation structures and strategies for involving ratepayers as implementation resources.

7. Ratepayers are concerned with high historically high rates and wasteful or unnecessary spending by some councils

These are very valid and long standing unresolved ratepayers concerns. Most councils would have the mechanistic and ICT capabilities to reprioritize services and improve their delivery. However, the key concern and weakness is linked to organisational cultural barriers and the organisational skills/competencies of elected Councillors, the main and final decision makers.

Ratepayers will do whatever they can to ensure ESC can:

- develop and implement a well designed cap and variation solution,
- address organisational and cultural barriers to policy implementation and sustainability
- demonstrate traceability of compliance to the 7 [good governance principles](#).

We are committed to support LGV implement and sustain the rates capping policy.

8. VAGO delivered a critical assessment of 12 councils' rating practices

All VAGO reports alerting to systematic causes in Victorian councils' rating and operating practices are important references for identifying causal drivers to the issues blocking or compromising the policy's implementation. The success criteria for rates capping is linked to recognising the causes of systematic shortfalls and is about not fixing the resulting symptoms as suggested in the many recommendations of MAV, VLGA and councils.

Ratepayers commend and strongly support ESC's commitment to facilitate resolution of the rates setting and operating issues VAGO had identified in councils.

Comments about Principles

We support all the principles in general. However we have some comments regarding:

1. Principle 1 - Local communities differ in their needs, priorities and resources

In good corporate practices, demographics deal with the people side of managing services to produce the best possible outcomes. Organisational decisions require some understanding of demographic principles and trends to quantify service and asset management requirements.

Improving by integrating the use of demographics in councils' service and asset management practices (including underlying decision making) will help implement and sustain application of this principle in budgeting and rates setting practices. Such process and information improvements are no rocket science and are readily doable.

2. Principle 2 - Local communities and ratepayers are entitled to hold their councils to the highest standards of accountability and transparency when setting rates.

This principle is a top implementation priority. There are 2 suggestions for demonstrating budget accountability, which affects rates setting:

1. LGPRF efficiency indicators can be used to develop cost accountability measures and councils are expected to budget and manage costs to achieve these targets over 4 years or lesser. ESC's value add is to help identify these measures.
2. A ratepayers peak body is proposed. There are too many and often duplicating peak bodies (eg VLGA) representing Councils. VAGO has audited the legislated peak body, MAV, and questioned its good governance capacity and whether it has given councils value for money. Local communities and ratepayers have always been underdogs in LG. Now is the time to recognise these groups as the funding and consumer stakeholders of LG and provide them a formal functional role portfolio, to help oversee and ensure good governance in councils, to help increase success in achieving the objectives underpinning LVG's rates capping policy.

3. Principle 3 - The framework should support the autonomy of councils to make decisions in the long term interests of their community and ratepayers

See responses to Issue 1 and 2.

4. Principle 4 - Councils will need to satisfy the burden of proof outlined in the framework when seeking a variation above the cap

See response to Issue 2.

5. Principle 5 - Rate increase should be considered only after all other variable options have been explored.

See response to Issue 2.

6. Principle 6 - The framework should support best practice planning, management systems and information sharing to uphold council decision making

ESC needs to comply with the Council of Australian Governments' [principles for best practice regulation](#) to ensure resisting LG agencies do not influence the development (and implementation) of this best practice framework to be biased, as they are likely to steer outcomes that better support their institutional interests first.

If groupthink biasness and influence are allowed to dominate in the development and implementation of the rates capping framework, it is a regressive change management solution for the worst future of every Victorian ratepayer.

7. Principle 7 - The framework should be flexible and adaptable

See response to Issue 2.

8. Principle 8 - There should be few surprises for ratepayers and councils in the implementation of the framework

One aspect is missing. If ratepayers are to be considered as a key stakeholder in the LG sector, a LGV recognised ratepayers peak body is warranted, to not only ensure the balance interests of all stakeholders, but to assure the real needs and interests of ratepayers and other community members are explicitly guaranteed in the good governance implementation and ongoing oversee of the future rates capping solution.

Questions

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?

See response to Issue 2.

The critical **success factors** for implementing the solution proposition include:

- Adopting zero based budgeting;
- Using common service and asset classification aka management structures;
- The integration of service and asset management structures in councils' chart of accounts;
- Adopting a common rational decision making model that can trace decision criteria are linked to council's objectives, KPIs and risk management tolerances eg Kepnor Tregoe;
- Making community engagement more explicitly traceable to and accountable by the levels of the IAP2 standard;
- Establishing a ratepayers peak body to restore balance in stakeholders' involvement and value-add contribution to governing and continuously improving the LG sector;
- Re-educating MAV, VLGA and councils that they constitute the municipal department of the Victorian Government, subject to LGV's final say and are responsible for showing traceable local compliance to LGV's policies, standards

and guidelines in addition to the LG Act and other laws. This means they have some degree of localisation as decided by LGV, not total autonomy as though they are another independent tier of government.

2. What are some ways to refine the cap (for example, alternative indices), in line with the Government's objectives?

see response to Question 1.

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?

Under the proposed valuation solution:

- CPI can be capped annually
- Provision for disaster risks management can be adjusted as when and if needed
- Provision for tolerated efficiency range can be assigned annually or by strategic term of 4 years.

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

The proposed solution's tiered rates can be capped on appropriate forecasts, however reporting their historical movements, to identify their patterns and trends, will help make better judgements and decisions in future rates setting endeavours.

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

No - see answers to Q1 to 4.

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?

Rates in its current practice form, blurs what is property tax and fees for services.

Property taxation needs to be separate from managing pricing and costing of fees for service charges, which the recommended valuation solution can handle.

The [Local Government Act Section 155](#) specifically states the different types of rates and charges, so compliant rates setting will need to set caps on these different sub taxes and charges. What is then consider a base cap will depend on how ESC would recommend to LGV to group or average some or all of these different sub taxes and charges. Capital improvement valuation of properties creates tax inequality and maximises advantage for investors, developers and councils. The CIV method discriminates ratepayers depending

on where they live and taxes them on notional capital improvement and rental income that are not realised. Pensioners, low income and rural farming ratepayers are the worst affected and escalating and accumulating future rates will drive them out of their homes (and livelihoods for farmers) to better benefit investors and developers, and councils.

A ratepayer should be able to see clearly in the rates invoice:

- The real differential and supplementary property taxes applied depending on the type of property
- Fees for services, the charges broken down by service and asset classes, showing the real relevance of service responsiveness to genuine communities' needs and interests.

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

How Councils raise revenue to fund capped expenses will show their financial management competency and resolve for supporting transparent and accountable financial management. By all means, give Councils leeway to determining their revenue mix and rates pricing levels, however remembering that LGV can still intervene to cap revenue when operating surpluses and unrestricted cash reserves become too excessive and not justifiable.

8. How should we treat supplementary rates? How do they vary from council to council?

We assume supplementary rates are types of differential rates.

Because rates invoices mix differential property taxes and fees for services, we expect the same issues and resolution ideas discussed in the answers to Q 1 to 7 to apply.

In 2013, VAGO already identified the weakness in Councils' capacity to handling differential rates:

Conclusions

While councils work within a common rating framework comprising the Act and existing sector guidance, these lack clarity, detail and direction. In addition, the guidance material does not reflect all current practices or recent changes to the Act. This has contributed to inconsistencies in the rating practices of councils and the quality and soundness of council rating decisions. The Department of Planning and Community Development does not proactively support or guide councils and cannot provide assurance that the legislation is being applied by councils as required.

Source: [VAGO's Rating Practices in Local Government, 2013](#)

To this day, many Councils have not shown to their ratepayers how they have resolved VAGO's findings about councils' treatment of differential rates to reflect sound taxation principles.

9. What are the challenges arising from the re-valuation of properties every 2 years?

Location value is real estate and investment strategy, not a taxation strategy for imposing municipal rates. CIV penalises homeowners for improvements to their homes, while encouraging land speculation to push up market rates and hence council rates for people living in most sought areas and also put pressure on councils' budgets to build more infrastructure. Revaluating CIV rates every two years increases the opportunistic leverage of this biased strategy for land speculators and developers to progressively entice and force ratepayers out from their single dwelling homes. CIV and differential rate setting lets councils give special favours to special interests ([Land Values Research Group, 2009](#)). As it is now, the stronghold support for CIV is dominated by many councils giving special preferences for high rise developments, hence supporting property investors and developers more than their communities.

SIV is a better and fairer rates valuation system because it can still allow those who better locations pay a little more than those living next to the freeway, or determine rates based on ATO income levels. SIV also makes it easier for LGV to use a common base tax rate for setting property taxes across all Councils, as done so for State land tax, and recommended by the [Henry Review of Australia's Future Tax System \(2011, page 12\)](#). SIV rating, supported by differential rates for residential, commercial and industrial properties, is considered an effective strategy for mitigating urban sprawl ([Land Values Research Group, 2009](#)).

10. What should the base year be?

Annual budgets are supposed to be linked to 4 years Council plan cycles. In this context, it makes sense to align base year to the first year of a Council plan / 4 years strategy cycle, ensuring budget spends and hence revenue for realising the Council plan are reflected in rates setting over the next 4 years.

Currently, the performance management of Council plans is short-sighted, focusing only on tracking annual budget increases and not gauging council plan performance over the specified 4 years term. Adjustments to council plans' performance measures, including budget forecasts, are discretionary rolled over each year, losing focus and control on originally planned Strategic Resource Plan (SRP) targets. The community have no idea of their councils' SRP variances from the first original 4 years of SRP forecasts, making strategic or council planning a meaningless, bureaucratic and tokenistic exercise.

THE VARIATION PROCESS

11. How should the variation process work?

See response to all earlier Qs, especially Q1.

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

See response to all earlier Qs, especially Q1.

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?

See response to issue 2.

14. 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:

- the council has effectively engaged with its community
- there is a legitimate case for additional funds by the council
- the proposed increase in rates and charges is reasonable to meet the need
- the proposed increase in rates and charges fits into its longer term plan for funding and services
- the council has made continuous efforts to keep costs down.

We would like stakeholders' views on whether the above requirements are adequate.

We agree with ESC recommendations, however ESC needs to consider putting into place the critical success factors we suggested in the answer to Q1.

COMMUNITY ENGAGEMENT

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

Refer to IAP2 standard/spectrum - see <https://www.iap2.org.au/> and include new LGPRF measures to qualify and report councils' commitment and performance levels of community engagement.

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?

The CEO and executives' performance appraisal should be linked to include achieving budget efficiency improvement targets within the specified range described in the rates capping solution proposal.

Performance appraisal needs to include Councillors, because their leadership and decisions can impact a council's culture and performance. Councillors' performance appraisals need to be based on measurable performance targets, and appraised by

independent parties, preferably with feedback from the community, CEOs and executives. This multi-party appraisal will help ensure unbiased evaluation of Councillors' leadership, decision making and community engagement performance and mitigation of hierarchy power imposition on staff. The information is useful for voters, during Council elections, especially when assessing returning and long standing Councillors.

Another suggestion is to set up a common compliant system, as consistently captured complaint information is enriching and provides valuable insights into council performance evaluation and also helps to foster a continuously quality improvement workforce. The complaint analysis findings will also help to make better future policies and management control that would continuously improve and sustain efficiency, transparency and accountability in the LG system. It also gives ratepayers an unbiased channel for addressing local issues with lesser institutional biasness and manipulation.

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 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.

The critical success factors to make this work have been identified in earlier discussions (see Q1). The show stopper is groupthink resistance to make this rates capping policy work, and if ESC can come up with an effective change management strategy to mitigate this people barrier, the rest are just mechanistic matters, easily implemented through supporting teams among councils and ratepayers. Ratepayers can play a critical role in breaking this groupthink strong hold, and establishing a peak body function for ratepayers can enable LGV to harness them as collaborating change agents, to make the rates capping policy work and be sustainable.

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?

A 80/20 Pareto rule can be applied to pilot the first implementation of the solution in 2015/16 year. LGV can select a number of Councils to be the pilot and ask for other Councils to self trial their own effort independently and share experience information. Councils with healthy financial positions and have capacity to lower rates can be considered to be in the pilot. Monash and Knox Councils are such candidates.

If a ratepayers peak body is to be considered, then the selection of appropriate representatives and training need to take place asap, to balance stakeholders' collaboration and increase success likelihood.

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?

Ratepayers view that ESC's recommendations, via the support of LGV, be deterministic. Because MAV, VLGA And Councils are the greatest resistors to this policy, they cannot be relied as suitable leaders to develop and implement the policy.

ESC's implementation style can be collaborative and supports consensus but soundly justified decisions to be made by all stakeholders affected by the policy. This also includes recognising a peak body function for ratepayers to contributing to governance of policy's implementation activities, if not active participation in implementation. Rates setting will then become community centred, breaking away from a provider centred model that has caused and is increasing rates affordability issues.

OTHER MATTERS

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

The 2016/17 strategic cycle begins nearing and after the next Council election. The rates capping framework should be reviewed every strategic cycle or lesser, but councils' performance must be managed each year and annually reported to show visible incremental and continuous performance improvements. These annual and four years reviews will also help create and shape the LG capability maturity management framework over time.

21. How should the costs of administrating an ongoing framework be recovered?

The program funding can come partially from LGV budget, incremental cost savings from the first few years of solution implementation. Ratepayers is willing to innovate new ideas of fundraising, if ESC wants to pursue further discussions on this idea.

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.**

Ratepayers strongly support ESC in making rates capping work and sustaining into the long future. We hope our inputs help to consider new ideas that develop a solution that serve to

manage the current and future cost burdens of high and escalating rates increases on communities.