

## ▼ Rate Capping Framework “What does it mean and how can you prepare?”

The Essential Service Commission (ESC) has released its draft Local Government Rates Capping & Variation Framework. In summary:

1. A single rate cap will be applied to general rates and municipal charges commencing 2016-17. The indicative forecast annual rate cap is as follows:

	2016-17	2017-18	2018-19
Forecast Annual Rate Cap	3.05	2.85	2.80

2. Councils will now need to ascertain the impact on future revenues and long term financial plans. Should the council face budgetary pressures, they can seek a rate variation.

As a guiding principle, the ESC has indicated that councils should only require an increase in rates above the cap when long run operating revenue is insufficient to offset long run operating expenses and has made it clear, councils will need to have considered:

1. Scrutinising their suite of operations and planning investments for opportunities to deliver outcomes more efficiently
2. Ensuring the range of services they are delivering align with their community's highest priorities
3. Assessing the possibility and merits of alternative funding or financing options for different activities and investments and
4. Increasing their revenues through higher rates and charges.

In their application, Councils will need to demonstrate that the views of ratepayers and communities have been identified and describe how their concerns have been addressed.

### Short Timeframe to Prepare Creates Major Risk

*It is important councils immediately start to prepare for the new rate capping regime. The timelines outlined by the ESC are very tight. By January 2016 all councils will be required to complete an annual ‘baseline information’ template and, if a council intends to seek a variation, indicate this to the ESC.*

*Consequently councils have less than four months to evaluate the impact of the cap, create new financial data for each service delivered, brief Councillors and engage the community.*

Assess impact of Rate Cap				Draft Annual Budget to Council	Council Annual Budget planning session		Final Budget
2015				2016			
Sept	Oct	Nov	Dec	Jan	March	June	
Final ESC Rate Capping Report				Submit Baseline data	Submit variation		
				Submit intention to seek a variation			

# Strategies and Actions

1. Design a Master Services Financial Spreadsheet -
  - By Council Plan theme, by Service (parent) by sub-service (child)
  - Ideally have financial information such as expense, revenue, assets, employee numbers
  - Identify the initial “funding gap”
  - Show overall “before” and “after” financial position.
2. Create a risk intelligent rate capping response framework and supporting methodology tool kit to facilitate decision making. Framework should consider:
  - How to identify/categorise what services the council provides and catalogue them as either core (regulatory/community/social) or non-core (commercial/discretionary)
  - How to determine the net cost of each major service – revenue, expenditure and applied assets per service. Need to consider the ability and constraints of the financial system to create an activity based costing approach
  - Revenue strategy and policy on funding and finance/debt
  - How to collect information across the business in a timely and effective manner to ensure consistent data and alignment
  - How to determine if service delivery is efficient, i.e. create a Service Review program for major services to evaluate whether the service delivery is efficient and effective, (e.g. outsourced, shared service, leverages IT/social media, benchmark against peers). An evaluation tool will need to be designed to enable quick independent assessments that meet ESC standards for proving efficiency

- How to prepare a case for a rate variation if necessary. This will be dependent on the ESC requirements
- For “discretionary” services, how to assess the risks of not providing them. This may include a survey of a sample of rate payers
- How to update the Strategic Resource Plan and 10 Year Long Term Financial Plan to take into account changes and any savings identified through the Service Reviews.
3. Councillor reporting – Councillors will need to be confident Management can appropriately adjust its business models. To facilitate this they should receive the right information. Templates should be designed to enable Councillors to:
  - Easily assess financial impacts of rate capping
  - Provide a risk base lens regarding service delivery and potential cost reductions
  - Facilitate their decision process including community consultation
  - Consider whether a request for a variation should be pursued.
4. Develop and implement a ratepayer and community engagement strategy. This plan should address the ESC’s four engagement principles:
  - Provide clear, accessible and comprehensive information
  - Be ongoing and tailored to community needs
  - Prioritise matters of significance and impact
  - Lead to communities becoming more informed about council decision-making.

***Our team have been working with the ESC and industry bodies on the rate capping framework. Please feel free to contact us should you wish to have a conversation about how we could assist you with creating a transparent, efficient and effective process that informs the Councillors, the community and the ESC.***



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