



EVIDENCE FRAMEWORK FOR RATE CAP VARIATIONS



**Victorian Local Governance
Association**

EVIDENCE FRAMEWORK FOR RATE CAP VARIATIONS

The Essential Services Commission (ESC) has developed a draft rates capping framework, which includes a suggested process for seeking variations.

While many aspects of this process are presently unclear, the implications of the information contained in the ESC's two draft reports are that the variations process as described will require significant resources and effort. **This raises the prospect that some councils may find the variation process prohibitive.**

The VLGA Rates Variation Taskforce convened to consider these issues based on these principles:

1. At least initially, **current reporting arrangements provide a sufficient basis to demonstrate to a third party that transparency, community engagement and value for money are being exercised.** This is consistent with the ESC's advice that supporting information should be sourced from existing information databases to avoid imposing another layer of reporting burden
2. Local government is a democratic tier of government – and as noted by the ESC, its **autonomy needs to be respected and supported**
3. The variations process should **have regard to local government diversity** - the size of the council, its resources and the nature of its community.

Out of its discussions, the Taskforce has developed an "evidence framework" to support a rates variation. The framework is consistent with the criteria proposed by the ESC for a variation. It is constructed from the ESC's suggested table of evidential requirements and cites the types of evidence required verbatim.

But it then seeks to realise the above key principles. Thinking about principles one (i.e. current reporting arrangements provide a sufficient basis to demonstrate a variation) and three (i.e. has regard to the local government diversity), the "evidence framework" asks **what evidence councils currently have readily available to demonstrate a variation case now.**

Thinking about principle two (i.e. the autonomy of local government needs to be respected and supported), the "evidence framework" *rearranges the order of the ESC's proposed evidence criteria* to reinforce the integrity of the current planning (and budgeting) process for councils.

Accordingly, the variation 'story' starts with the ESC criteria of the 'integration' and the integrity of councils' long-term strategy, which includes how the planned expenditure fits with council's SRP, Asset Management Plan and financial plan. This then allows councils' to build the case for a variation based on the suite of services (and associated facilities) agreed upon by council rather than seeking community support for a specific rate rise and/or particular project.

This ensures an emphasis in the "evidence framework" on the holistic picture of councils' long-term financial plan and agreed priorities with communities, rather than a narrower variation process on single 'cases' or projects as suggested by the ESC. If the intent of the rate capping framework is to support the autonomy of local government then it follows that the variations process needs to draw on the existing long term planning and budgeting process of councils.

Finally and fundamentally, the "evidence framework" highlights that there may be sector reform issues sitting behind rate capping/rate variations. Councils welcome and have worked to implement improvements in areas such as long term planning. Hence, the last column of the "evidence framework" provides *indicative* examples of the type and quality of information required as part of ongoing improvements for the sector. However, it needs to be improvements that are designed, supported and directed in collaboration with the sector; and not an incidental outcome driven by default through a rates capping process by a regulatory body.

CRITERIA FOR APPLYING FOR A VARIATION		YEAR 1 (16/17)	YEAR 2 (17/18) ONWARD
			WORKING TOWARD LONG TERM SECTOR REEFORM
	What evidence does the ESC suggest is required?	What documentation is currently and readily available to meet the evidence requirements?	<p>In addition to, and building on the left, what developmental work is required and achievable from year 2 onwards?</p> <p>NOTE: these are indicative examples only</p>
<p>INTEGRATION of the proposal within councils' long-term strategy. Covering how the expenditure fits with council's SRP, Asset Management Plan and financial plan</p>	<ul style="list-style-type: none"> Demonstrate the variation application is consistent with the council's Strategic Resource Plan and long-term Asset Management and Financial plans 	<ul style="list-style-type: none"> Current SRP, Asset Management Plan, Financial plans/strategies (Long Term) Rating strategy Community Plan/s, Council Plan Debt/Borrowing Policy/Strategy 	<ul style="list-style-type: none"> Documentation clearly linking a proposal with aims, objectives and agreed priorities in core plans and policies
<p>Consideration of the proposal in relation to SERVICE PRIORITIES and FUNDING OPTIONS. Covering how prioritisation of services has been considered; productivity and efficiency steps that have been taken and whether other suitable funding or financing options have been considered</p>	<ul style="list-style-type: none"> Information showing how the council has considered the possible reprioritisation of services Information showing consideration of differing funding options Information on councils' processes for seeking efficiencies and information on efficiencies used to offset increases in costs that have led to the variation Information showing drivers of cost increases and the extent to which they are non-controllable Community survey results showing preference for rate increases relative to service level reductions Evidence in asset management plan of rationale for timing and extent of projected asset management outlays (e.g. to minimise whole of lifecycle costs) 	<ul style="list-style-type: none"> Performance Reporting Framework data Data equivalent to the level of aggregation in budgets Evidence of cost shifting Commentary on efficiencies made and where savings have been sought, balanced with a consideration of consequences for the community (i.e. evidence of consideration of trade-offs) Service reviews (documented) Debt/Borrowing Policy/Strategy Annual Community Satisfaction Survey results Community engagement on relevant past strategies, policies and plans (such as past budgets, council plans, and SRPs, a long term community plan, including submissions made under S223) 	<ul style="list-style-type: none"> Development of sector-wide definition of 'service' (i.e. level of aggregation) Full service costing and planning Comprehensive, integrated asset management systems Harmonisation of where council's service data is used, by whom and how (reduction of duplication) Debt management strategy

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		<ul style="list-style-type: none"> Council papers supporting discussions/decisions around service prioritisation 	
<p>The VALUE FOR MONEY of the proposal. Covering the processes by which the proposal has been costed, the benefits of the proposal relative to the cost and the context for the analysis (i.e. benchmarks from externally or internally that demonstrate value)</p>	<ul style="list-style-type: none"> Information on how the costs that led to the variation were incurred including tender documents if relevant 	<ul style="list-style-type: none"> Performance Reporting Framework data Business case/ cost benefit analysis (more specific) Council papers supporting tender evaluations and recommendations Industry internal/external benchmarking Multiyear strategies MAV Step Program (asset mgmt.) Evidence of cost shifting Service reviews (documented) 	<ul style="list-style-type: none"> Documented links between business case and key strategies and plans Integrated planning framework able to illustrate alignment between service delivery targets, operational business plans and budgets Mature MAV Step Program (asset mgmt.) Project to establish and change finance systems to capture revenue, expense and overheads for agreed level of "service". Undertake finance systems changes to allow reporting of full year actual results to agreed level of "service"
<p>The account that has been taken of RATEPAYER and COMMUNITY VIEWS. Covering how councils has identified the views of ratepayers and communities, what information provision has the engagement involved, what has the engagement shown</p>	<ul style="list-style-type: none"> A document setting out the council's consultation/engagement processes with ratepayers and communities including how the council gathers, records and incorporates the views gathered (incl. rating strategy) Information on results of past consultation/engagement relevant to the variation application Information on the engagement consultation on the current variation application 	<ul style="list-style-type: none"> Community engagement policy/strategy/framework Annual Community Satisfaction survey results Community engagement on relevant past strategies, policies and plans (such as past budgets, council plans, and SRPs, a long term community plan, including submissions made under S223) Evidence on the engagement/ consultation with the community which 	<ul style="list-style-type: none"> Development of the use of targeted and effective community engagement (new deliberative methods) Database of prior consultation focus and results Project to develop service planning - then rollout of service planning across organisation Alignment of Service Planning with Asset mgmt. Planning, with Council plan, SRP and LTFP

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about the views of the community and the role the engagement has played in council's decision to seek a variation	<ul style="list-style-type: none"> Evidence of modelling of the financial impacts of asset management needs, including options for varying service level specifications 	<p>is specific to the proposal (includes the information provided to the community, how views were sought and the outcomes)</p> <ul style="list-style-type: none"> Advisory Group feedback Asset management plans based on asset condition and current provided services (vs service planning) 	
The REASON for a variation from the cap. Covering the driver of the need, and the amount; and the consistency of the proposal with council's revenue strategy and policy on funding and financing	<ul style="list-style-type: none"> Documents justifying the cause of the variation Documents justifying the costs associated with the cause of the variation Financial statements showing the council's financial performance and position for previous period Budgeted financial statements for current period A strategic resource plan and asset management and long-term financial plan Documented policies and strategies regarding a mix of own-source revenue raising and funding and financing (role of debt) 	<ul style="list-style-type: none"> Current and previous financial statements Revenue strategy/policy on funding and finance Performance Reporting Framework data Capital plans High level service portfolios and direct costings Grants received vs actual cost of service delivery Tender/Grant advise/new Legislation/form written advise Budget (services at department/program level of aggregation) Council Plan Strategic Resource Plan Long Term Financial Plan Rating Strategy Reserves principles of use Internal budget development instructions Major Projects Business Case methodology Asset management plans 5 year capital works program by project High level capital program to 10 years 	<ul style="list-style-type: none"> Prepare full year actual results to match budget aggregation level of service Document major projects funding strategy – formalise current practise for debt Refine SRP and LTFP methodology to aggregate up impacts of multiyear strategies Refine SRP and LTFP methodology to lower levels of capital works types to enhance alignment with asset mgmt. plans Refine SRP and LTFP to a lower level of department/program (from current whole of organisation). This may require purchase or development of a new financial model. Further alignment with asset mgmt. plans and service planning

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			WORKING TOWARD LONG TERM SECTOR REEFORM
		<ul style="list-style-type: none"> • Adopted multiyear strategies • Debt/Borrowing Policy/Strategy • Evidence of cost shifting 	