

Mornington Peninsula Ratepayers' & Residents' Association Inc
and
McCrae Action Group



Comment on Draft Report:
**A Blueprint for Change -Local Government Rates
Capping & Variation Framework**

August 2015



MORNINGTON PENINSULA RATEPAYERS' AND RESIDENTS' ASSOCIATION INC
and
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Dear Essential Services Commission

Local Government Rates Capping and Variation Framework Review

The Mornington Peninsula Ratepayers' and Residents' Association Inc and its precinct group the McCrae Action Group indicates its strong support for the Essential Services Commission's draft report A Blueprint for Change – Local Government Rates Capping and Variation Framework Review.

We congratulate the Commission for the thoroughness of its research and analysis. It is hoped that Government will accept the report and not 'water down' the recommendations.

While we support the report in its entirety, in particular, we endorse the following recommendations:

- 1. One rate cap.** There should be only one rate cap that applies equally to all councils in Victoria.
- 2. Rate per assessment.** The cap should be applied to the rates and charges paid by the average ratepayer and that this be calculated by dividing a council's total required rate revenue (not including the fire service levy, waste charges and service fees) in a given year by the number of rateable properties in that council area.
- 3. The rate cap calculation.** The rate cap to be calculated according to the formula outlined in the report which comprises 60% of CPI and 40% of WPI (Department of Treasury and Finance forecast) minus a productivity factor.
- 4. Variations and variations process.** The ability of Councils to apply for a variation and for the Essential Services Commission to exercise its judgement on the application.

However we are concerned that some councils will inevitably try and soften or find a way around this recommendation which would devalue the whole purpose of rate capping. The comment as follows on page 24 of the report is significant and must be rigorously enforced by an independent body such as the Commission:

'All things being equal, we do not expect a large number of applications each year. We will expect however, that when we receive an application, it will reflect a situation of genuine need and it will demonstrate that need rigorously.'

5. Monitoring and reporting. The Essential Services Commission being independent of government and local government is the appropriate body to undertake monitoring and reporting. Monitoring should highlight any new or changed services which may have been introduced to get around rate capping.

Further comment. Following are some comments for the Commission's information and consideration.

(a) Managing within a rate cap

The Mornington Peninsula Shire provides **a model** of how local government can approach managing within a rate cap framework.

In late 2014 the Council appointed a new chief executive **from the private sector** who is introducing changes to the organisation to improve efficiencies and deliver better service to the community.

On 23 July 2015 the CEO stated: 'There will be some opportunities for redeployment, but ultimately a number of existing positions will no longer be required under the proposed new, streamlined arrangements'.

At an average cost of \$93,400 a year for a Shire employee we estimate that the long term savings resulting from reduced staff numbers without further streamlining will be in the order of \$3-5 million per annum which is equivalent to a reduction in the Shire's annual cost of 2-4%.

Also, resulting from the appointment of the new CEO whose focus is on efficiency the Shire claims it will save \$700,000 in 2015-16 by tendering its insurance rather renewing with MAV Insurance.

(b) Council budgets are flexible - How imperative is it that works be undertaken immediately?

Our experience with the Mornington Peninsula Shire indicates that council budgets are flexible.

For example, in September 2012 the Shire purchased the Rosebud Central shopping centre despite the fact that there was no provision in the 2011-12 Budget for the \$6 million expenditure. Subsequently it became clear that the Budget was flexible because the 2012-13 Annual Report showed that the purchase was funded by reducing capital expenditure on

buildings, roads and other infrastructure by many millions of dollars as follows:

- The 2012-13 Budget proposed that capital expenditure on property/land purchase be \$50.000, \$8,753 million on buildings, \$18,896 million on roads, and \$4,617 million on other infrastructure.
- However, page 76 of the 2012-13 Annual Report indicated that the actual capital expenditure on land/property purchase was \$7.060 million, \$4.787 million on buildings, \$11.130 million on roads and \$3.137 million on other infrastructure.
- That is, there was an **under spend** on buildings, roads, and other infrastructure of **\$13 million** or **40% of the 2012-13 budget**.

A second example is that a few years ago local residents received a notice indicating that a number of their streets would be resealed within the next few weeks. This did not occur until 12 months later.

A third example is the construction of drainage works in McRae at a cost of over \$1 million which was to be constructed in 14 weeks but took 3 years. An excuse given was that completion was delayed by inclement weather however those of us who are experienced in construction contracts know that inclement weather may extend a contract by a few weeks and not years.

(c) Rate per assessment - How will councils apply the rate cap?

A Blueprint for Change (Volume 2, page 46) indicates that:

‘..... we are recommending that the cap should be applied to the rates and charges paid by the average ratepayer and that this is calculated by dividing a council’s total required rate revenue in a given year, by the number of properties in that council’s area. We expect that both these figures should be readily available to councils and should be readily verifiable.’

In reality, if the rate cap is introduced, we believe that councils will work backwards to arrive at the total rate revenue they will be able to raise for the given year based on the proposed percentage rate cap increase per assessment.

We point to the Mornington Peninsula Shire’s 2015-16 Adopted Budget to support our contention that the rates and charges are not necessarily set by the total **‘required’** expenditure for essential works and services but are influenced by other circumspect factors. Incorrect or missing information from the Budget which indicates that the rate increase could not be set based on the Budget is shown by items (i) to (iii) below:

(i) Inaccurate estimate of employee costs.

The Adopted Budget states (page 52):

‘Employee costs are forecast to increase by \$2.630 million compared to 2014/15.’

'The approved employee establishment in last year's budget was 663.57 Full Time Equivalent (FTE) staff.'

'The recommended employee establishment in this budget is 669.46 FTE staff (permanent full time and part time staff).'

However the new Chief Executive Officer has restructured the organisation which has resulted in a redundancy in 2014-15 of about 20 full time equivalent staff not including other staff that have resigned. The net result is that instead of the budget forecasting an increase of \$2.2630 million there should be a reduction of approximately at least 20 x \$93,400 = \$2 million.

(ii) Essential information missing from the Budget.

Table 2, Analysis of corporate performance (Adopted Budget 2015-16) shows amounts for 'carry forward capital works' and 'non operating items' to the value of around \$28 million have not been included in the budget. In addition to our Association some of the Councillors have complained that without estimates for these items it is impossible to accurately set the extent of the rate increase.

Table 1. Analysis of corporate performance.

	Forecast Actual 2014/15 \$'000	Budget 2015/16 \$'000	Variance \$'000
Operating income	189,725	198,102	8,376
Operating expenditure	155,518	162,138	(6,620)
Funds available	34,208	35,964	1,756
Capital and priority works and services	34,001	35,957	(1,957)
Carry forward capital works	16,262	-	16,262
Operating result	(16,055)	7	16,062
Non-operating items	11,630	-	(11,630)
Projects funded in previous years	562	-	(562)
Result	(3,863)	7	3,870
Carry Overs/ Other Non-cash movements	-	-	-
Cash surplus/(deficit)	(3,863)	7	-

Quite frankly, the combination of the over estimate of employee costs and the missing items confirms our long held suspicions that Councillors and previous administrations have 'pulled a figure out of the air' and selected increases in rates by an amount which they perceive the community will tolerate (i.e., a level of increase which they can get away with). Preliminary budgets are then balanced by adjusting, including or excluding works, services, etc.

It is also interesting to note that for the last three years the Mornington Peninsula Shire's rates increases have been 5.9%. It has been suggested

that this is like retail shops putting a price on an item of \$99.95 because \$100 is seen as being too expensive.

(iii) The inaccurate estimation of revenue from general rates and municipal charges.

Table 1 compares the Mornington Peninsula Shire budgets' predicted revenues from rates (including waste charges but excluding tip fees) compared to the actual revenue shown in the Annual Reports. It can be seen that over the last 8 years the predicted revenue has been under estimated by an average of 0.5% per year.

Table 2. Predicted revenue compared with actual revenue.

MORNINGTON PENINSULA SHIRE			
Financial Year	Budget Predicted Revenue from Rates and Waste Charges	Annual Report Actual Revenue from Rates and Waste Charges	Variation
2007-08	\$83,059,022	\$83,642,000	0.70%
2008-09	\$89,957,903	\$90,473,000	0.57%
2009-10	\$96,873,000	\$97,127,000	0.26%
2010-11	\$104,214,325	\$104,627,000	0.40%
2011-12	\$114,483,000	\$115,374,000	0.78%
2012-13	\$122,057,000	\$122,784,000	0.60%
2013-14	\$131,708,000	\$132,280,000	0.43%
2014-15	\$140,125,034	(Forecast) \$140,639,000	0.37%
2015-16	\$149,063,000	Not available	

(We have not been able to determine why this consistent under estimate of actual revenue occurs. The budget provides details of the anticipated revenues for the components of rates and charges, such as supplementary rates, sustainability rebate, heritage rebate, and valuations objections however these are not itemised in the annual report and therefore it is not possible to determine how or why the under estimate occurs.)

To enable councils to prepare rate notices outlining the charge for each type of class or land regulation it will be necessary to extrapolate the additional revenue from the proposed new rate capped 'average rate per assessment' to determine the general CIV rate in the dollar and Municipal Charge which is shown on rate notices. This calculation will need to take into consideration any other items which influence the rates charges. For example, we believe that the Mornington Peninsula Shire may have a rates agreement with Lysaght and the Flinders Naval base and the agreed amounts may have to be factored into the calculation.

The net result is that as an outcome of these calculations, conversely to the current under estimation, an over estimation of perhaps 0.5% of the general rate and the municipal charge may occur. This may not be intentional but may occur because of a conservative leaning by those preparing the rates calculations.

Therefore, we are concerned that our ratepayers may carry a disproportionate increase in rates and charges in excess of the rate cap. In addition, there could also be a cumulative effect if subsequent rate caps are applied to the previous year's annual revenue from general rates. On the Mornington Peninsula residential rates account for approximately 90% of the revenue from rates and charges and it is this group who may be most affected.

Comments:

- *We would like to see a number of examples included in the Commission's report which show detailed calculations of how the rate per assessment will translate to actual general rates and charges as shown on typical council rate notices.*
- *Consistent with the proposed monitoring and reporting element of the proposed rates capping and variation framework the Commission will need to monitor the **actual increase** in councils' revenues and general rates and charges for residential land and property to ensure that the intent of the rate cap is met.*
- *The Commission will need to ensure that councils calculate general rates and charges in an identical manner every subsequent year so that there is consistency, and the intent of the rate cap is not subverted by enterprising Councils and administrators changing the method of calculation.*
- *Annual Rates Notices should itemise special variation charges so that the cost and timeframe is clearly indicated to ratepayers who would then be able to make an assessment when a variation charge should cease and not continue on.*

(c) The variation process.

We are concerned that the Mornington Peninsula Shire Council may claim it has special circumstances why it should receive a variation from the rate cap because it is one of the lowest rating Council's in Victoria and because of its size and geographic difference Melbourne's urban councils.

We do not object to the Shire having the ability to apply for variations provided that a variation meets the criteria proposed by the Commission. However we are opposed to a general variation which may see rates increasing more than the rate cap as distinct from variations for specific items.

Following are comments in relation to the Mornington Peninsula Shire

which must be taken into consideration in the variation process:

- Up to 40% of the residences on the Sothern Peninsula and other areas of the peninsula holiday homes which have a low occupancy rate except during holiday periods. This means that throughout the year many services usage such as garbage collection etc may be less than those for a denser, inner urban Melbourne council area.
- The Municipal Association of Victoria states that rates and charges per head of population is an increasingly useful measure of local government rates¹. Table 3 shows that based on per head of population the Shire is already one of the highest rating outer metropolitan councils.
- The Victorian Auditor-General² reported that:

'large shire councils [like the Mornington Peninsula] are more reliant on government grant funding than regional city councils to sustain operations and fund capital works, **but also have a greater capacity to utilise rate revenue as an alternative source of income compared with small shire councils**' (The Mornington Peninsula Shire is about the sixth highest revenue earner of Victoria's 79 councils).

Table 3. Rates per head of population for outer metropolitan councils

Highest to Lowest	Council/Shire	Average rates, municipal and garbage charge 2014-15 per head of population
1	Nillumbik	\$61
2	Mornington Peninsula	\$50
3	Brimbank	\$41
4	Wyndham	\$41
5	Cardinia	\$35
6	Yarra Ranges	\$35
7	Melton	\$34
8	Frankston	\$32
9	Knox	\$31
10	Manningham	\$26
11	Casey	\$25
12	Greater Dandenong	\$24
13	Whittlesea	\$16
14	Hume	\$15

Yours faithfully
 Dr Alan Nelsen, President
 Mornington Peninsula Ratepayers' and Residents' Association Inc.

¹ MAV 2009 Rates Package, Media Release, 27 June 2009

² Local government: Results of the 2013-14 Audits