

**Mornington Peninsula Ratepayers' & Residents' Association Inc**  
and  
**McCrea Action Group**



**Submission**

**Local Government — Rates Capping & Variation  
Framework**

**May 2015**



**MORNINGTON PENINSULA RATEPAYERS' AND RESIDENTS' ASSOCIATION INC**  
and  
**McCRAE ACTION GROUP**

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15 May 2015

Dear Essential Services Commission

**Local Government - Rates Capping and Variation Framework**

The Mornington Peninsula Ratepayers' and Residents' Association Inc and its precinct group the McCrae Action Group has pleasure in submitting comments on the Rates Capping and Variation Framework, Consultation Paper. We strongly support the proposal for rates and charges to be capped to the rate of inflation.

The Mornington Peninsula Ratepayers' and Residents' Association was formed in 1996. We have a membership of approximately 200 residents and community individuals, and a database of approximately 600 who have supported us on Mornington Peninsula issues.

Although our submission is based on our experience with the the Mornington Peninsula Shire, anecdotally from communication with other ratepayers and members/supporters who are resident in the wider Victorian community, we believe that much of our comment is relevant to the broader local government.

Recently the Council appointed a new CEO from private industry who was not from the entrenched local government culture. In just a few months the number of reduced council staff will provide an annual saving of around \$2 million. The appointment is an interesting development. No doubt he will have protractors however we are hoping that in the long term this will ensure a much more efficient and transparent Shire organisation, and set a long overdue precedent for local government.

Our detailed submission is outlined in the following pages. Should further information or clarification be required please do not hesitate to contact our president by email or telephone.

Yours faithfully  
Dr Alan Nelsen, President

# Local Government - Rates Capping and Variation Framework

## Summary

### 1 Introduction

Under the *Local Government Act 1989*, the Victorian Minister for Local Government has the power to control local government rate setting. The power was last used under the Kennett Government in 1993 to 1995 as part of the policy to reduce the number of Victorian councils. Over this period the number of councils was reduced from 210 to 79 and the total gross rate revenue of councils was reduced by 20 per cent.

No further increases in rates were allowed until 1997/98 when the current policy of allowing councils to strike their own rate commenced.

Rates have risen significantly since the reintroduction of councils setting their own increases. It has been suggested that because the Kennett Government's rate capping cut services so severely that councils had to play catch up. This established the practice of substantial rate rises year after year. Some 15 years later councils are still increasing rates at a distressing and alarming pace.

The increase in rates over this period is disproportionate compared with the increase in the cost of goods, services and incomes of Victorian households. It can be argued this has occurred, unlike other consumer goods and services, because there is no price control or accountability to ensure councils keep rates increases to a justifiable level.

We support rate capping and an independent government organisation, such as the Essential Services Commission, to establish the rate cap as occurs in New South Wales through the Independent Pricing and Regulatory Tribunal (IPART).

### 2 Why rate capping is an imperative

Over the last 10 years council rates have risen by approximately **100%**<sup>1</sup>.

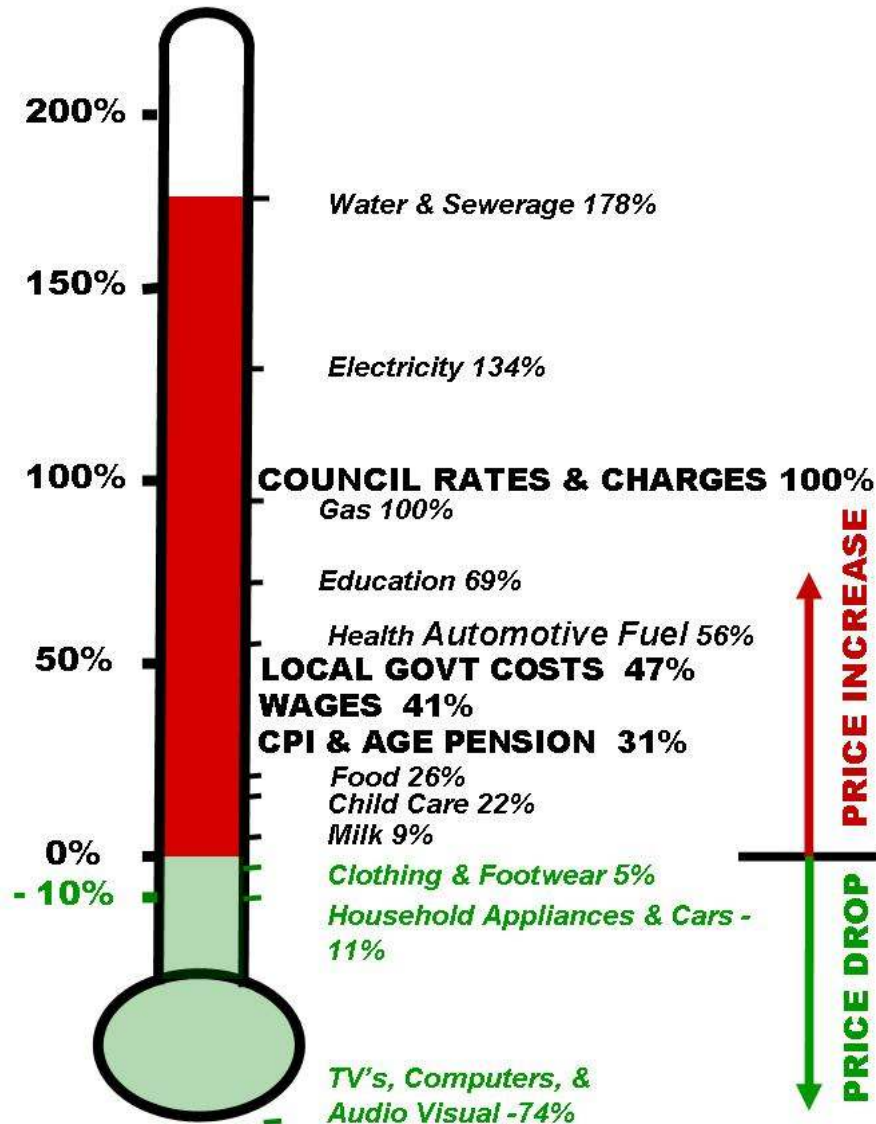
The Herald Sun (18 March 2014) reported that "Councils have stung Victorians with rate rises totalling more than \$2 billion above the rate of inflation over 10 years".

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<sup>1</sup> Australian Bureau of Statistics Time Series Workbook, 6401.0 Consumer Price Index, Australia, Table 11. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City.

# COUNCIL RATES THERMOMETER

Price increases over 10 years



Product prices source: ABS 6410

**Figure 1. Comparison of rates increase with other consumer products and services.**

Over the decade the rise in council rates is:

- **Three times** more than the Consumer Price Index (CPI)<sup>2</sup> and Analytical Living Cost Index (employee households).
- **Two and a half times** the increase in wage earnings.
- Approximately **double** the increase in age pension for a couple.

<sup>2</sup> Victorian Budget actuals and forecast.

- The **fourth highest** increase of the 40 household expenditures measured by the Australian Bureau of Statistics.
- **Fifty per cent** more than the actual increase in cost incurred by councils as indicated by the Municipal Association of Victoria's, Local Government Cost Index.

The Australian Bureau of Statistics measures the price increases of 40 consumer items or household commodities. As shown in Figure 1 over the last 10 years rates have risen more than the cost of hospital and medical services, health services, education, food, alcohol, petrol, gas, restaurant meals, take away food, domestic and international holidays, clothing and footwear, household appliances, and cars. The only items which have increased in price more than council rates are **electricity, water and sewerage, and tobacco.**

### 3 Rates impact on the socio-economic disadvantaged

Rate increases are commonly expressed as an average percentage rise in revenue derived from varying the CIV charge across the whole of a local government area. Similarly, the increase in rates, municipal and garbage charge per assessment is expressed as an average increase across the whole of a local government area.

However, this does not reflect what may be happening in a neighbourhood or township within the local government area.

Because of the global financial climate on the Mornington Peninsula the properties at the lower end of the market appear to have increased in value more than the upper valued properties. As a result the lower socio-economic group are disadvantaged by larger rates increases than those who can afford to own and maintain more expensive properties. While we have not investigated the change in value of higher/lower properties in other local government areas it would be expected that the gap would also be widening in those areas.

Figure 2 depicts valuation movements across Peninsula townships. The "red line" is the Shire average.

It can be seen that the some of the lowest socio-economically disadvantaged areas in the Shire (Rosebud/Rosebud West) are among those that have been impacted the most in the 2014/15 and previous property revaluations. They are amongst those that have the highest increase in CIV and therefore suffered the highest rate increases. Increasing the fixed municipal charge compounds the problem.

Rate rises also impact on those least able to pay in the community such as: those on low or fixed incomes, pensioners, the unemployed, and retirees. They also impact on business competitiveness.

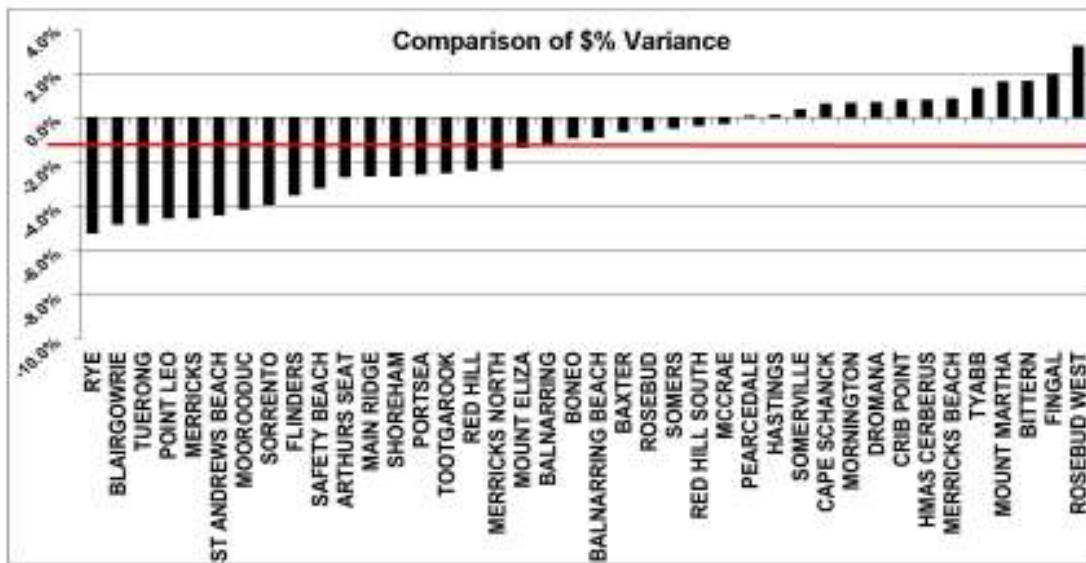


Figure 2. Rate change for Peninsula townships – 2014/15 revaluation year

Figure 3 shows the rate increase over the 4 year period (2010/11 to 2014/15) for a selection of Peninsula townships in the lower end of the housing market.

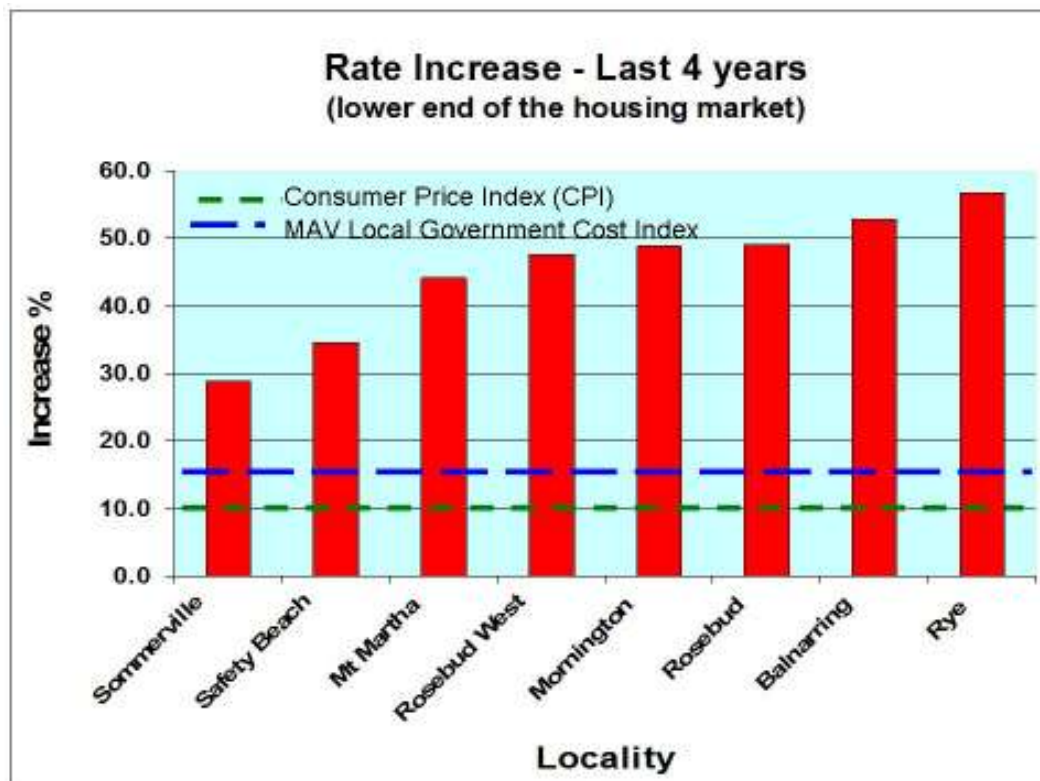


Figure 3. Rate increase from 2010/11 to 2014/15 in the lower end of the housing market.

The level of annual increase in rates of the past are not sustainable and in future and the Essential Services Commission must bring the “over the top” rate rises of the past under control.

## 4 Rates and charges

There is much confusion within the community as to how rates are calculated and in particular in a property revaluation year which occurs every two years. The community does not seem to understand that in a revaluation year that the rate in the dollar charge on the capital improved value (CIV) reduces if the overall value of properties in the local government area increases. That is so that total revenue received by a council only increases by the percentage rise approved by the council.

However, depending on how properties are affected by the change in CIV, there are some winners and losers. On the Mornington Peninsula this has been compounded by significant increases in the municipal charge.

Many councils try their best to explain how rates are calculated and the effect in a property revaluation year but it appears only those in the community who are intricately involved understand the rating system. Unfortunately we do not have any ideas as to how councils can address this issue.

Rates are not the only means by which councils obtain annual revenue from property owners.

For example, councils also receive the benefit of supplementary income from rates and charges as new subdivisions and/or new houses and developments are completed. These additional sources of revenue should be considered in the development of the Framework.

Our review of approximately 20 councils found that in addition to a charge based on a rate in the dollar applied to the CIV about half of the councils also apply a fixed charge (the municipal charge) to each property.

Table 1 provides an example of the different types of rates and charges which can be applied to a property type by a council. It should be noted in the Table that the fixed municipal charge is included in the rates and charges. On the Peninsula there is an additional charge for an optional "green waste bin".

The Table does not include revenue from fees and charges of a statutory and non-statutory nature which are charged in respect to various goods and services such as tip fees, foreshore camping, use of recreation leisure facilities (eg swimming pool/gym centres), parking, fines etc.

When recently discussing the Government's policy of rate capping with a senior employee of the Shire the response was that the council may have to find other ways of increasing its revenue. Unfortunately this officer just did not understand that the intention of rate capping is to control the cost burden of council charges on the community.

This comment indicates why it is an imperative that the Framework not

only applies to rates but also **to other charges and income**. That is, to the total council income (excluding government grants, etc) otherwise enterprising councillors and council officers will subvert rate capping by increasing items such as fees and charges for services and rate capping will become **a useless exercise**.

**Table 1. Mornington Peninsula Shire proposed 2015/16 revenue<sup>3</sup>.**

PROPERTY TYPE	RATES AND CHARGES			
	Rates	Charges	Total	%
Residential - Improved	\$ 110,575,911	\$ 15,521,220	\$ 126,097,131	86.4%
Commercial - Improved	\$ 5,943,761	\$ 567,900	\$ 6,511,661	4.5%
Industrial - Improved	\$ 1,807,853	\$ 277,920	\$ 2,085,773	1.4%
Other General Rate properties	\$ -	\$ -	\$ -	0.0%
Farm House (Curtledge)	\$ 981,566	\$ -	\$ 981,566	0.7%
Rural - Vacant	\$ 417,258	\$ 46,980	\$ 464,238	0.3%
Boatshed	\$ 384,031	\$ 235,260	\$ 619,291	0.4%
	\$ 120,110,380	\$ 16,649,280	\$ 136,759,660	93.7%
Residential - Vacant	\$ 4,759,449	\$ 724,320	\$ 5,483,769	3.8%
Commercial - Vacant	\$ 85,032	\$ 10,260	\$ 95,292	0.1%
Industrial - Vacant	\$ 217,327	\$ 43,380	\$ 260,707	0.2%
MP Ag Rate	\$ 2,007,406	\$ 215,820	\$ 2,223,226	1.5%
Lysaght	\$ 840,000	\$ -	\$ 840,000	0.6%
Naval Base	\$ 45,562	\$ 19,980	\$ 65,542	0.0%
Cult and Rec	\$ 151,274	\$ -	\$ 151,274	0.1%
	\$ 128,216,430	\$ 17,663,040	\$ 145,879,470	100.0%
Supplementary Rates for year			\$ 800,000	
Land Sustainability Rebate			-\$ 400,000	
Heritage Rebate			-\$ 70,000	
Valuations Objections for year			-\$ 100,000	
<b>TOTAL</b>	<b>\$ 128,216,430</b>	<b>\$ 17,663,040</b>	<b>\$ 146,109,470</b>	
Green Waste Charge			\$ 2,953,328	
			<b>\$ 149,062,798</b>	

## 5 NSW Rate Pegging

Annual rate pegging has been in place in New South Wales for more than 35 years, is supported by both sides of politics, and provides a **workable model** on which a rate's capping framework can be based. The rate peg is set by NSW Independent Pricing & Regulatory Panel (IPART) which determines the maximum percentage amount by which a council may increase its general income for the year.

The NSW rate peg is based on a Local Government Cost Index (LGCI) which measures price changes over the past year for goods, materials and labour used by an average council. **A productivity factor is deducted**

<sup>3</sup> Mornington Peninsula Shire, Proposed Budget 2015/16



from the LGCI to strike a balance between ensuring that councils can meet the increased costs of delivering services resulting from price changes and ensuring that councils share productivity gains with ratepayers.

The rate peg for 2015/16 was calculated by:

- taking the increase in the LGCI for the year to September 2014 of 2.47%
- deducting a **productivity factor of 0.04%**.

This resulted in a rate peg of 2.43% which was rounded to 2.4% for 2015/16.

IPART comments on the difference between CPI and LGCI as follows:

"The CPI 'basket' is based on the spending patterns of households in Australia's capital cities. The LGCI 'basket' is based on the spending patterns of NSW councils. The South Australian LGPI measures a similar basket for South Australian councils<sup>4</sup>".

The Municipal Association of Victoria (MAV) also prepares a Local Government Cost Index which is used as a benchmark to measure rate increases. However as shown in Table 2 the MAV's LGCI **is substantially higher** than the Index calculated by IPART in NSW.

**Table 2. Comparison of rate increases between Vic and NSW.**

Rating period	Annual Rate Increase			
	Victoria actual <sup>1</sup>	Victoria	MAV	NSW
		CPI	LGCI <sup>2</sup>	LGCI <sup>3</sup>
2004/05	5.00%	2.00%	4.80%	3.50%
2005/06	7.30%	3.10%	3.40%	3.50%
2006/07	6.30%	2.70%	4.10%	3.60%
2007/08	5.50%	3.60%	5.20%	3.40%
2008/09	5.10%	2.80%	5.00%	3.20%
2009/10	5.20%	2.10%	3.40%	3.50%
2010/11	6.10%	3.30%	3.50%	2.60%
2011/12	5.90%	2.10%	3.25%	2.80%
2012/13	5.00%	2.20%	3.90%	3.60%
2013/14	4.80%	2.30%	3.40%	3.40%
2014/15	4.20%	2.30%	3.40%	2.30%
<b>2004/5 – 2014/15 compounded</b>	<b>80.00%</b>	<b>32.48%</b>	<b>52.95%</b>	<b>42.00%</b>

Note: 1. MAV's Victorian Local Government Survey.

2. MAV Local Cost Index

3. NSW Independent Pricing & Regulatory Panel. The rate peg does not apply to stormwater, waste collection, water and sewerage charges.

<sup>4</sup> IPART Fact Sheet, Rate peg for NSW councils 2015/16. Page 1.

Table 2 shows that the actual increase in Victorian councils' rates and charges over a 10 year period is **51% higher** than the MAV's Index. That is, **councils do not take any notice** of the MAV's Index.

At the Essential Services Commission's community consultation meeting it was indicated that the difference between the MAV index and the NSW index could be because the MAV used a labour component of 60% while in NSW the labour component is 40%.

Table 3 compiled from the Annual Reports of the interface councils shows that the labour component is closer to that which was indicated is used in the calculation of the NSW index. The MAV says:

"The LG Cost Index uses a combination of established Government and industry indexes to reflect average wages, construction and materials costs that best represent councils' spending profile<sup>5</sup>."

While we are not party to the detailed indices used in the MAV or IPART calculations our Association would expect that the other indices used in calculating the index, in addition to the labour component index, such as a construction index, would already include a labour component. Therefore our Association suggests that the Essential Services Commission should give serious consideration to IPART's methodology.

**Table 3. Ratio of employee costs to total expenses**

<b>Interface Council</b>	<b>Financial year</b>	<b>Employee Costs \$m</b>	<b>Total Expenses \$m</b>	<b>Employee Expenses %</b>
<b>Cardinia</b>	2013/14	30.411	92.995	33%
	2012/13	27.297	93.361	29%
<b>Casey</b>	2013/14	79.930	229.166	35%
	2012/13	71.072	212.493	33%
<b>Hume</b>	2013/14	91.168	198.011	46%
	2012/13	81.246	181.516	45%
<b>Mornington</b>	2013/14	63.593	188.455	34%
	2012/13	60.506	194.509	31%
<b>Nullumbik</b>	2013/14	28.730	76.510	38%
	2012/13	26.860	76.961	35%
<b>Whittlesea</b>	2013/14	69.766	166.894	42%
<b>Melton</b>	2013/14	40.129	122.450	33%
	2012/13	36.214	111.012	33%
<b>Wyndham</b>	2013/14	86.092	220.790	39%
	2012/13	80.531	207.548	39%
<b>Yarra Ranges</b>	2013/14	58.283	155.061	38%
	2012/13	55.272	150.902	37%
<b>Average</b>				<b>36%</b>

<sup>5</sup> 2014 Local Government Cost Index, Municipal Association of Victoria.

## 5 The Auditor-General's Report

The 2013 Victorian Auditor-General's (VAGO) report<sup>6</sup> on Rating Practices in Local Government indicated that councils are generally dissatisfied with the MAV Local Government Cost Index. The report states:

"Many councils are dissatisfied with both CPI and LGCI as benchmarks. They argue that the scale of rate increases needs to be understood in the context of large, externally imposed costs, and factors over which councils have little control, that are currently not reflected in the construction of the LGCI.

More specifically, they suggest the LGCI does not adequately reflect actual wage costs for councils, external market forces, and the actions of the Victorian and Australian governments, which combine to increase service delivery and infrastructure costs, while diminishing external funding."

In its conclusions VAGO states:

"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." and

"There is limited assurance that all councils:

- adequately understand the impact of their rating proposals on their communities
- adequately consider the principles of stability, equity, efficiency and transparency in their rating decisions, although this is difficult due to rating framework issues
- consistently calculate, and transparently report, key rates and charges data in a manner that allows scrutiny of decisions, and comparability between councils.

We concur with the Auditor-General's comments above and the Essential Services Commission's Framework for capping of rates should be consistent with the VAGO report and must allow for a **reduction of a productivity factor** as is allowed in NSW.

## 6 The Variation Process

If councils have special circumstances and wish to increase rates more than the Index then they should have to **fully justify** the increase. It should not be open slather like it is now. Any such increase should have a

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<sup>6</sup> Rating Practices in Local Government, Victorian Auditor-General Report Feb 2013

“sunset clause”. That is, the increase should not continue ad-indefinitum but should be specific for the term of the special circumstance.

Annual Rates Notices should itemise these special circumstances charges so that the cost is clearly indicated to ratepayers who would also be able to determine when the special charges should cease.

The Essential Services Commission should also ensure that councils cannot subvert rate capping measures by increasing charges for services or borrowings in lieu of increasing rates more than the Index.

## 7 Cost-shifting by other government sectors

Local Government cost increases occur for a variety of reasons including: cost-shifting by other sectors of government; financial assistance from the Commonwealth being less than the increasing cost of Commonwealth services provided; and council costs do not move in line with cost of living.

The Municipal Association of Victoria reported that:

“In April 2006, nearly two years after negotiations commenced between the three levels of government, an Intergovernmental Agreement (IGA)<sup>7</sup> was signed by the Federal Minister for Local Government, all state and territory Ministers for Local Government and the Australian Local Government Association on behalf of the local government sector.

The IGA was to operate for five years - until 2011 - when it will be reviewed. It commits all three levels of government to achieving productive and open relations, to provide communities with services in an efficient and effective manner, and to consider the financial impact of service responsibility and delivery transfers to local councils.

It also sets out a framework for future service agreements between different levels of government where program or service responsibilities are shared.”

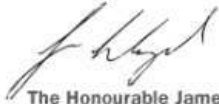
In May 2014 the MAV membership resolved to engage with the State Government to develop a Memorandum of Understanding covering cost shifting from state to local governments.

It is evident that the Intergovernmental Agreement appears to have had **little influence** on cost-shifting and **reducing rate increases** in Victoria. It appears that it was **not administered, reviewed or renegotiated**.

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<sup>7</sup> Inter-Governmental Agreement Establishing Principles Guiding Inter-Governmental Relations on Local Government Matters (April 2006)

**SIGNED BY:**



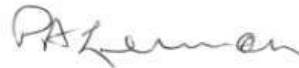
**The Honourable James Eric Lloyd MP**  
Minister for Local Government  
of the Commonwealth of Australia,  
On the 12th day of April 2006



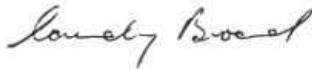
**The Honourable Jennifer Mary Rankine MP**  
Minister for State/Local Government  
Relations of the State of South Australia,  
On the 12th day of April 2006



**The Honourable Kerry Arthur Hickey MP**  
Minister for Local Government  
of the State of New South Wales,  
On the 12th day of April 2006



**The Honourable Paul Anthony Lennon MHA**  
Premier and Minister for Local Government  
of the State of Tasmania,  
On the 24th day of April 2006



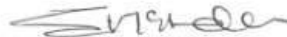
**The Honourable Candy Celeste Broad MLC**  
Minister for Local Government  
of the State of Victoria,  
On the 12th day of April 2006



**Mr Andrew James Barr MLA**  
Acting Minister for Urban Services  
of the Australian Capital Territory,  
On the 12th day of April 2006



**The Honourable Desley Boyle MP**  
Minister for Local Government  
of the State of Queensland,  
On the 12th day of April 2006



**Mr Elliot McAdam MLA**  
Minister for Local Government  
of the Northern Territory of Australia,  
On the 12th day of April 2006



**The Honourable Jonathan Robert Ford MLC**  
Minister for Local Government and Regional  
Development of the State of Western Australia,  
On the 21st day of April 2006



**Councillor Paul Bell AM**  
President of the Australian  
Local Government Association,  
On the 12th day of April 2006

**Figure 4. Signature to the Memorandum of Understanding**

The Essential Services Commission needs to ensure that its Framework addresses cost shifting and how this should be controlled and administered.

## 8 Governments' failure to act

All councils are required to submit their budget to the Minister before 31 August each year (see Table 4) and the *Local Government Act 1989* (Part 8A, clauses 185B and 185C pages 254-256) states that the Minister may limit income from rates and charges, and councils must comply with the Minister's direction.

However councils have been able to increase rates because of the lack of any intervention or questioning by successive governments since 1997/98.

**Table 4. Local government planning and accountability reports (VAGO)<sup>8</sup>**

Report Title	Contents	Requirements
Council Plan	Includes the strategic objectives of the council, strategies for achieving the objectives for at least the next four years.	Provided to the Minister for Local Government either within six months of a general election or by the next 30 June (whichever is later).
Strategic Resource Plan	Sets out the required financial and non-financial resources for at least the next four years to achieve the strategic objectives in the Council Plan.	Must be reviewed during preparation of the Council Plan and adopted no later than 30 June each year.
Annual Budget	Prepared each financial year.	Provided to the Minister for Local Government by 31 August each year.

Source: Rating Practices in Local Government, Victorian Auditor-General Report Feb 2013

The *Local Government Act 1989* (Division 3, clause 208) also requires that a council must comply with Best Value Principles which includes meeting with quality and cost standards, be responsive to the needs of the community, achieve continuous improvement in the provision of services for its community, and must take into account an assessment of value for money in service delivery.

A clear example of the failure of the Department of Transport, Planning and Local Infrastructure's Local Government Investigations and Compliance Inspectorate (Inspectorate) is the comment in the Victorian Auditor-General's 2013 report "that Local Government Victoria does not proactively support councils in their rating activities, or **monitor and report compliance with the Act**".

<sup>8</sup> Rating Practices in Local Government, Victorian Auditor-General Report Feb 2013, Page 3

A further example of the failure of the Inspectorate to monitor and report compliance with the *Act* is the failure of the Mornington Peninsula Shire to comply with the Council Plan (Strategic Plan) over a period of years as shown in Table 5.

As can be seen from the Table the proposed increase in rates and charges does not relate to the actual increase. Obviously the Inspectorate does not monitor the proposed Shire Budget in relation to the Council Plan. If this did occur then the more recent Council Plans would better reflect the likely revenue and the Budgets would comply with the Plan. The farcical variation is such that the question must be asked - **what is the value of the Council Plan?**

**Table 5. Comparison of Strategic Plan with Annual Report**

Financial Year	Strategic Plan	Annual Report
	Proposed Rate and Charges Increase	Actual Increase in Rates & Charges
2004/05	2.00%	10.81%
2005/06	2.80%	6.84%
2006/07	5.20%	15.53%
2007/08	5.20%	8.97%
2008/09	4.00%	8.17%
2009/10	5.70%	7.35%
2010/11	4.30%	7.80%
2011/12	4.30%	10.20%
2012/13	4.45%	5.95%
2013/14	5.00%	7.73%
<b>Cumulative Increase</b>	<b>52.19%</b>	<b>117.85%</b>

In our submission to the Shire's 223, June 2014 Budget Hearing we made the following comment:

"In summary we are disappointed that once again the Shire's budgeting appears to be incompetent. Consistently over the last 10 years (except when the Strategic Plan and Budget coincide) and as late as 6 months ago the Shire's look-a-head budgeting has been (purposely?) underestimated."

The 2013 VAGO report stated:

"The Department of Planning and Community Development should:

- consider how best to achieve the objectives of the Act, including reviewing the adequacy of the Act and existing sector guidance material (page 17)".

We have serious concerns about the performance of the Inspectorate, not only in regard to the issue raise above but with a number of other unrelated issues.

It is our view that the responsibility for monitoring council performance **should be devolved** from the Department of Transport, Planning and Local Infrastructure **and divided between** the independent organisations of the Essential Services Commission and the Independent Broad-based Anti-corruption Commission.

It is our view, consistent with the 2013 VAGO report that the Essential Services Commission must consider the inadequacy of the Inspectorate, ensure that the Framework mandates clauses 185 and 208 of the *Act* and includes a provision which will ensure that the Government's of Victoria will carry out their responsibility in relation to these clauses and the Framework.



## APPENDIX 1

Below are specific responses to the Consultation Paper, Section 5, "What are the relevant questions for the review?"

### THE FORM OF THE CAP

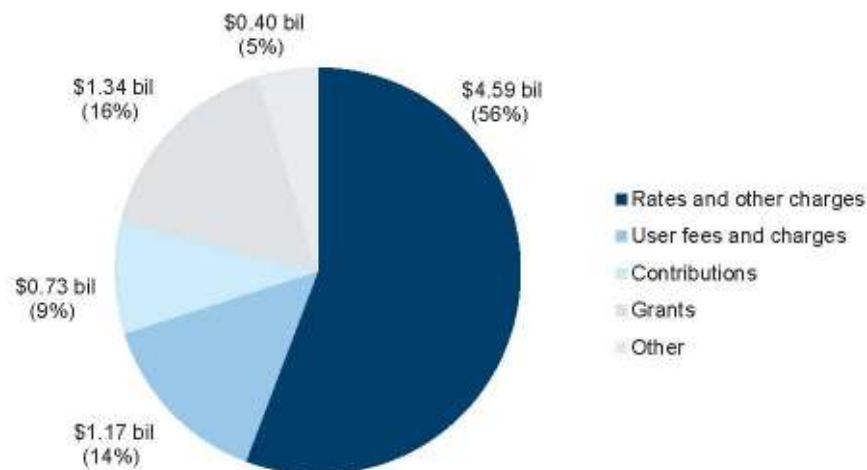
1. While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?

#### 1.1 Rates and Charges

The Terms of Reference require the Essential Services Commission to:

"give advice to the Minister which should include and/or take into account..... other sources of income available to councils" (for example, the ability to raise user fees and charges from non-residents).

Consistent with the Terms of Reference it is our view is that the rates cap should include charges for the reasons outlined in Section 4 of our submission and the comments below.



Source: Victorian Auditor-General's Office.

#### Figure (i). Local Council revenue composition, 2013-14<sup>9</sup>

Figure (i) shows the sources of Councils' income in addition to rates and charges.

In 2015/16 the Mornington Peninsula Shire proposed budget shows that it will receive \$128 million from rates and \$49 million from charges which includes, the municipal charge, user fees and fines, charge for green

<sup>9</sup> Victorian Auditor-General's Office 2014, *Local Government Results of the 2013-14 Audits*, p.17.

waste bins. That is, these charges amount to almost **40%** of the income from rates and charges

Our review of approximately 20 councils found that in addition to a charge based on a rate in the dollar applied to the capital improved value (CIV) about half apply a fixed charge (the municipal charge) to each property.

An issue we have had with the Mornington Peninsula Shire in the past was that when its annual rate increase was announced the emphasis and publicity was on the percentage increase in the CIV rate in the dollar (say 5.9%). There was little or no mention that there was also an increase in the municipal charge (which, when added to the rate increase, took the total increase to say 6.9%).

Unfortunately there are very few in the community who fully understand how rates are assessed and in our view previously this was a deliberate attempt by the shire administration to mask the real increase in rates and charges. From 2000/01 until 2013/14 the shire increased the municipal charge by **a whopping 462.5%**. It was only through our Association's lobbying and making the local newspapers aware the excessiveness of this charge that the Shire is now ensuring that emphasis is also placed on the increase in the municipal charge.

Increased revenue (supplementary rates) is also received each year as new residences and developments are completed.

When recently discussing the Government's policy of rate capping with a senior employee of the Shire the response was that the Council **may have to find other ways of increasing its revenue**. Unfortunately this officer just did not understand the intention of rate capping is to control the burden of council costs on the community. That is not just the rates but rates and charges.

Therefore it is an imperative that the Framework not only applies to rates but also **to other charges and income** otherwise enterprising councillors and council officers will subvert rate capping by increasing items such as fees and charges for services and rate capping will become **a useless exercise**.

## **1.2 Rating Mix – Differential Rates**

The following comments on differential rates in the Mornington Peninsula Shire's Proposed 2015/16 Budget are helpful (page 71):

"The existing rating structure also comprises a number of differential rates.

The Local Government Act allows Councils to "differentiate" rates based on the use of the land, the geographic locality of the land or the use and locality of the land. Different rates in the dollar of CIV can be applied to

different classes of property. These classes of property must be clearly differentiated and the setting of the differentials must be used to improve equity and efficiency.

Council's differential rates include –

- For properties determined to comply with the requirements of the Valuation of Lands Act for MP Ag rate (proposed to be 35% of General Rate)
- For residential, commercial and industrial vacant land (proposed to be 120% of General rate)

Additionally, under the Cultural and Recreational Lands Act 1963, provision is made for a Council to grant a rating concession to any 'recreational lands' which meet the test of being 'rateable land' under the Act.

Unlike many other Councils, there is no separate waste collection charge or recycling charge (except for the optional green waste bin).

Council also offers two rebates, the Land Sustainability Rebate and the Heritage Rebate as a further incentive to certain classes of property owners."

*Summary. (a) The Framework needs to cap all Council rates and charges otherwise enterprising councillors and council officers will find ways of subverting the cap.*

*(b) The rate cap increase needs to be expressed as a percentage increase in the total revenue in rates and charges from the previous year.*

*(c) A change in a council's differential rating system should be a reallocation of charges within the cap and not a means to raise revenue by subverting the rate cap.*

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

See Section 2 of our submission

*Summary. (a) The NSW rate peg is provides an excellent basis for calculation of the rate cap.*

*(b) Our assessment of the expenditure of the interface councils is that the labour component is approximately 40% and this figure should be used in the calculation of an index.*

*(c) Consistent with the approach in NSW a deduction for productivity should be deducted in the rate cap*

*calculation.*

*(d) The rate cap should be calculated by an independent government organisation such as the Essential Services Commission.*

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?

It is our view that the rate cap should be set every three years.

In New South Wales the Land and Property Information, a division of the Office of Finance and services provides new land values to councils on behalf of the Valuer General every three to four years for rating. The majority of councils receive values for rating every three years.

Some councils in Victoria have advocated extending the valuation cycle. This would reduce councils' costs.

If the Cap was in place for 3 year periods then it would provide clear evidence to consumers of the extent of the increase. It would also provide certainty for council planning and encourage them to invest more thought and time into forward planning.

J Comrie (2013)<sup>10</sup> comments on the New South Wales rating system:

Less frequent revaluations mean that at any point in time the valuation base used for rating and taxing purposes is less reliable. This means that some entities that have experienced a relative increase in value will be required to pay less than they otherwise would have and vice versa. The optimal frequency of the revaluation cycle therefore boils down to an equity/cost trade-off.

Normally less frequent revaluations will have negligible overall equity impacts but the exception is in periods where there is significant movement (up or down) in property prices. Even in such cases the long-run equity impacts are likely to be minor because the problem is resolved at the next revaluation. Nevertheless such situations can generate considerable ratepayer disquiet.

*Summary. (a) The valuation cycle should be extended from every two years to three years.*

*(b) The rate cap should apply for three years.*

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<sup>10</sup> New South Wales Rating and Charging Systems and Practices JAC Comrie Pty Ltd April 2013, Page 7.

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

*Comment. (a) We would prefer that the cap is based on CPI however we would accept a cap based on the NSW LGCI rate peg system (see Section 5).*

*(b) We do not have worked examples of the NSW LGCI to comment on whether their component indices are based on historical movement or forecast movements*

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

*Comment. We are aware that the demographics of councils vary widely and some consideration may need to be given to special circumstances.*

## 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?

*Comment. The CAP should apply to rates revenue, service rates/charges, municipal charges and special rates charges, fees and fines (for explanation see Section 4).*

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

We are not in favour of the cap applying to average rates and charges per assessment. This measure should only be used as a guide for comparison.

The MAV suggests that rates and charges per head of population is an increasingly useful measure of local government rates. Following are comments from MAV 2009 Rates Package<sup>11</sup>.

### **"HOW COUNCIL RATES DATA IS PRESENTED**

#### **Rates per assessment**

The MAV has used average rates, municipal charges and garbage charges per assessment to measure rate movements in 2005, 2006, 2007, 2008 and 2009.

Average rates per assessment are an estimate of the average rate bill received by households.

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<sup>11</sup> MAV 2009 Rates Package, Media Release, 27 June 2009

Demographic characteristics and the economic and industry profile of the community affect the quantum average rates per assessment.

For example, councils with high levels of commercial and industrial businesses tend to have higher rates per assessment than other councils do, irrespective of the residential rates.

For these councils, the residential rates per assessment are likely to be lower than the municipal wide average.

Likewise, councils with little or no commercial and industrial activities and with large households will also tend to have higher rates per assessment. In addition, a single farm enterprise may include several assessments, which will skew the data.

### **Rates per head of population**

The MAV has adopted average rates, municipal charges and garbage charges per head of population to measure rates for 2006, 2007, 2008 and 2009.

Average rates per head are a good measure of the comparative tax burden placed on the communities with other levels of government.

Many of the taxes levied by the Commonwealth and State Government are compared on a per head basis; this measure enables a valid comparison with these figures.

It is also a useful measure in gaining a clearer picture of the rates structures of councils that have little or no industrial activities and large households.

Rates per head as the services provided by councils expand from property-based to human based services."

*Summary. (a) The CAP should apply to rates revenue, service rates/charges, municipal charges and special rates charges, fees and fines (for explanation see Section 4)*

*(b) Rates per assessment and per head of population should only be used for information purposes.*

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

*Comment. We are aware that the number of planning approvals and therefore the number of residents and developments which are completed annually varies widely across councils. In the Mornington Peninsula Shire the amount of revenue allowed in the 2015/16 Budget is \$800,000 or 0.53% of the total rates and charges revenue.*

*Because a variation would not be a significant amount we would not be concerned if this was estimated each year by the Shire.*

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

*Comment. See Form of the CAP, item 3 above*

**10. What should the base year be?**

*Comment. If the rates cap is in the form of an increase then our expectation is that it would commence in 2016/17 and be an increase on the 2015/16 level of rates and charges.*

*However it appears that some councils are not complying with the advice of the Minister that the increase in 2015/16 should not attempt to abuse the introduction of the rate cap next financial year.*

*Perhaps in accordance with the Act the Minister should limit any rate increase by councils who are attempting to defy the government's advice or alternately review any government funding to those councils.*

## **THE VARIATION PROCESS**

**11. How should the variation process work?**

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

*Comment. See Section 6 of our submission.*

*Summary. (a) Councils should have to **fully justify** any variation.*

*(b) Councils should not be able to subvert the rate cap by unnecessarily **increasing borrowings**.*

*(c) Annual Rates Notices should special circumstances charges and also indicate when the special charges will cease.*

**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?**

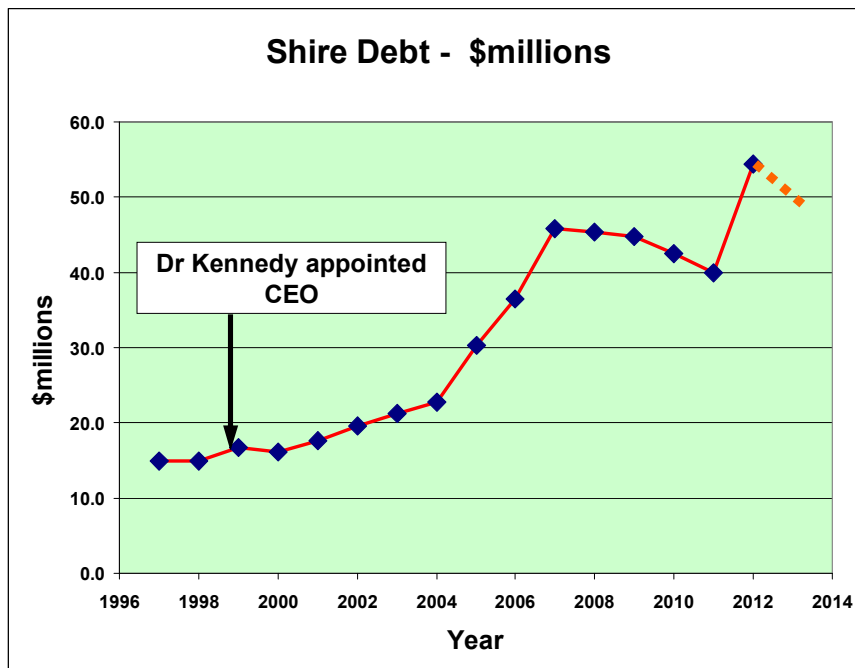
14. What should councils need to demonstrate to get a variation approved? What baseline information should be required for councils to request a variation? A possible set of requirements could include:

- 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 are generally satisfied with the above however we would like to the extent of increase in borrowings included in the above list so that borrowings are not used as a way of subverting the rate cap.

The Figure below shows how debt can be used to avoid increasing rates and charges



**Figure shows the Mornington Peninsula Shire debt based on the best available information from Shire Budgets and Annual Reports.**

Our review of the 2010/11 Annual Reports of all of Victoria's 79 Councils 12 months ago showed that the Mornington Peninsula Shire was in the top three with the highest level of debt. While this may have changed since then the Shire would still remain in the upper echelon group.

(Since 2012 the Council has actively been reducing debt and recently



voted to reduce the component of debt related to the Defined Superannuation Benefit Scheme by \$10 million over 5 years.)

## COMMUNITY ENGAGEMENT

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

The Mornington Peninsula Shire has improved its annual budget consultation over recent years. It now:

- calls for submissions before development of the draft annual budget in February (recently introduced);
- allows a 3 minute presentation to all councillors at a Development Assessment Committee meeting. (Prior to this recent improvement presentations were made to only two councillors at a 223 Hearing. This was pointless as these councillors had no authority to act on behalf of the full council who made the decisions on whether or not submitters' comments/requests were accepted. [However 3 minutes does not allow sufficient time for a reasonable presentation to be made]);
- following consideration of the submissions a Proposed Budget is prepared and formally exhibited for 3-4 weeks;
- further submissions and a presentation can be made to a 223 Budget Hearing. (it is not clear as yet as to whether all councillors will attend the 223 Hearing); and
- 223 Hearing submissions are considered and the budget is finalised and brought to a full council meeting for debate and recommendation.

A common complaint is that previously the Budget was virtually finalised before the 223 Hearing and as a result there was a reluctance to seriously consider submissions from the community. Hopefully, with the recent change in the budget process and council numbers, and the appointment of a new Chief Executive Officer who has indicated that he intends greater engagement of the community, the process will be further improved.

A more detailed explanation of the Mornington Peninsula Shire's process and the proposed timetable for development of the 2015/16 budget is shown on page 9 of the Proposed Budget 2015/16

## INCENTIVES

16. How should the framework is designed to provide councils with incentives to pursue ongoing efficiencies and respond to community needs? How could any unintended consequences be minimised?

## 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.

## **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?

## **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?

*Comment: Determinative like the Independent Pricing and Regulatory Tribunal in New South Wales*

## **OTHER MATTERS**

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

*Comment: Yes*

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

*Comment: (a) Councils now have a budgeting process. If the current budget process is properly undertaken then we fail to see how the introduction of a rate cap would add a significant cost (if any) to the council.*

*(b) We are not familiar with the funding of the Essential Services Commission and therefore how the extra cost of preparing and monitoring the rate cap can be recovered from government.*

## **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.

Our comments are as follows:

### **Cost-shifting by Other Sectors of Government**

The MAV claims that council cost increases occur for a variety of reasons including: cost-shifting by other sectors of government; financial assistance from the Commonwealth is less than the increasing cost of Commonwealth services provided; and costs do not move in line with CPI.

Based on our experience with the Mornington Peninsula Shire we make the following observations on cost-shifting:

- The Inter-Governmental Agreement Establishing Principles Guiding Inter-Governmental relations on Local Government Matters (April 2006) appears to have little influence on cost-shifting and reducing rate increases in Victoria.

This is confirmed by the by the Mornington Peninsula Shire's comment:

"The fact [is] that Local Government is often left 'holding the bag' for potential 'funding black holes' such as for kindergarten facilities over the next two years if Victoria is to meet the new national policy of 15 hours kinder for four-year olds." (Agenda for the Section 223 Budget Submission Hearing, Tuesday, July 16, 2010)

- Cost shifting is not always the fault of governments. Sometimes councils and council staff have their own agenda. As an example, both the Mornington Peninsula and Bass Coast Shires elected to each contribute \$250,000 to a study of the Stony Point to Cowes Vehicular Ferry Project when public transport is a state government responsibility.

## APPENDIX 2

Some examples of our suggestions for reducing rates:

The Association suggested to the Mornington Shire Peninsula Council that it could reduce rates in 2015/16 by:

- Utilising the windfall from the under expenditure on the Southern Peninsula Aquatic Centre (SPA). It is noted that the revised Strategic Resources Plan allowed for \$17.9 million to be spent on SPA in 2015-16. As this expenditure is unlikely to occur next financial year this should enable rates for 2015-16 to be substantially reduced.
- Engaging a professional organisation to operate the Pelican Park (Aquatic Centre).
- Savings resulting from the removal of the carbon tax and recent reduced cost of fuel.
- Disposing of excess land as soon as practical and not waiting until SPA is constructed.
- Forming an internal Task Force to obtain input from the staff as to how the Shire could be run more efficiently.
- Simplifying the monthly report by reducing the written component to four times per year (quarterly), reducing publication of Peninsula-Wide to twice per year, and producing a lean 4 year Council Strategic Plan.
- Passing some of the claimed \$65 million from the Safer Local Roads Program onto ratepayers.
- Returning the management of the Rosebud Foreshore to Parks Victoria.
- Reviewing the need for the extensive use of consultants and advisors (on which the Shire spent \$6 million).

The final suggestion was for further improvement of the 223 Budget process by the full Council attending the Hearing and for unedited submissions, rather than précis, to be attached to the 223 Budget Hearing report.

### **Reduce the cost of Pelican Park Aquatic Centre**

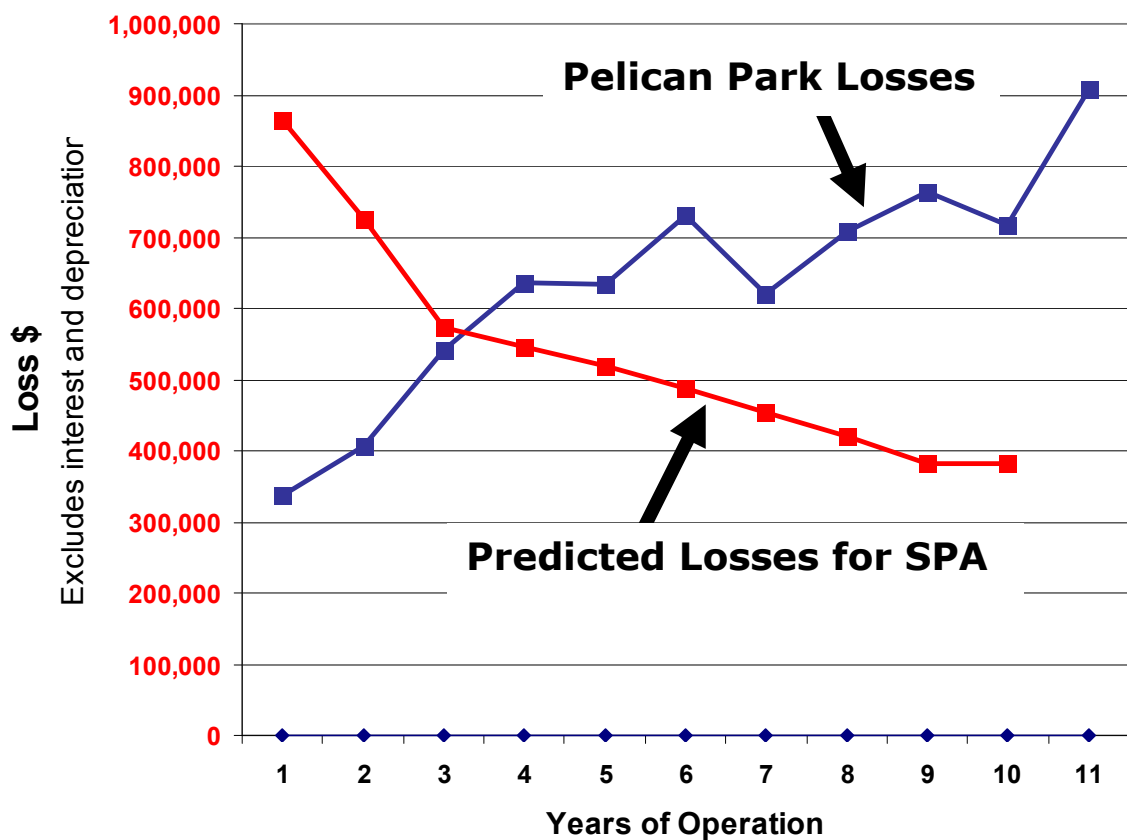
Reduce the cost of Pelican Park by engaging a professional organisation to operate the Leisure Centre (e.g. YMCA which manages over 50 health and fitness centres in Victoria).

For a number of years the Ratepayers' Association and its members have indicated concern with the losses of the aquatic-leisure section of Pelican Park. Despite repeated requests the Shire has refused to investigate the possibility of appointing a professional manager to operate the Centre.

Excuses given are woeful and totally opposite to those claimed by other sections of the Shire who maintain the Council is a leader in outsourcing.

When the Pelican Park Aquatic Centre was proposed and the Council made the decision to proceed, the consultants indicated that it "could possibly break even". The graph below shows that the aquatic-leisure centre will have cumulative losses of approximately **\$8 million** over 10 years.

### SPA versus Pelican Park



The graph also shows that the Pelican Park’s losses are increasing while the Shire’s expert consultants SGL Group claim that the proposed new Southern Peninsula Aquatic Centre’s losses will reduce over a similar 10 year period. You don’t need to be a rocket scientist to figure out there is an inconsistency between the two aquatic centre business plans and that something is drastically wrong with either the management of Pelican Park or the prediction for SPA.

Following is a copy of a letter sent to the previous Minister for Local Government in 2011 in which we outlined some suggestions for reducing rates.



**MORNINGTON PENINSULA RATEPAYERS' AND RESIDENTS' ASSOCIATION INC**  
and  
**McCRAE ACTION GROUP**

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23 February 2011

The Hon. Jeanette Powell, MP  
Minister for Local Government  
5 Vaughan Street  
Shepparton VIC 3630

Dear Minister

**Re: Uncontrolled increase in local government rates**

Thank you for your letter of 26<sup>th</sup> October 2010 to our Association expressing your concern with the uncontrolled increase in local government rates over the last ten years.

We would like to congratulate the Coalition and Premier Ted Baillieu's success at the recent election. We also congratulate you on your appointment to the challenging role of Minister for Local Government.

We are appreciative of the comments by the Premier, Deputy Premier and yourself which indicate that the Coalition understands and acknowledges that local government rates are putting pressure on households' rising costs (The Age, 19 November 2010) and also that the government proposes to "give more money for councils, helping to keep rates down" (Herald Sun, 1 December 2010)

While we are aware that some small rural councils are have funding difficulties and the current flooding will impact on others we have concerns that this financial year some ratepayers in the lower end of the socio-economic scale suffered rate increases of over 20 per cent. This did not make a joyful Christmas for many and does not help to make a 2011 happy new year for these people or those on fixed incomes such as retirees.

It is also likely that many of the country people who are affected by flood damage are in the lower end of the socio-economic scale and further excessive rate increases would be another thoughtless cost burden.

Unfortunately, in the ten years since the Coalition previously governed a culture has developed in local government under Labor where ratepayers are now taken for granted and administrators consider it is perfectly normal to increase rates every year by the maximum amount they believe they "can get away with" without an outcry from the general public.

Our concern is that despite the Coalition's welcome intention to provide additional assistance that the attitude of local government will not change and councils will still increase rates in exactly the same manner as they have for the past 10 years. **That is, the government's assistance will be gratefully accepted without any corresponding reduction in the level of rate increases.**

In the next few months councils will be setting their budgets and calculating rate increases. It is **imperative** that action be taken immediately before it is too late for 2011-12.

We are aware that rate pegging, as applies in New South Wales, may not be an option but would like to make some suggestions which are of a positive nature that indicate the government is keen to work with local government to find ways to reduce the rate burden on the community.

We hope that you find some of our suggestions below helpful. We have categorised these into short term and long term suggestions:

## **1. Short Term**

- **Open letter to Councillors and Chief Executive Officers.**  
Our perception is that not many councillors are aware of the Coalition's comments concerning rates. Therefore we suggest that a letter be sent to all mayors, councilors and CEO's advising them of the government's concern for rate increases over the past decade, that the government would like councils to be conscious of the burden of increasing rates on the community when reviewing budgets and setting rates for 2011-12, and that the government is looking to assist councils through initiatives such as the Regional Infrastructure Development Fund.
- **Letter to Councils from the Department of Local Government.**  
The Local Government Act requires that each council must submit their proposed rate increase to the Minister each year. Perhaps the Department of Local Government could write to councils indicating that the Government is eager to keep rate rises to a minimum and in their submission to Government this year the councils' include a report on the economy/efficiency measures they propose to ensure rate rises are kept to an absolute minimum. (Simply asking the

question and causing councils to think about economy measures can result in a positive outcome.)

## 2. Long Term

- **Parliamentary Inquiry into rating systems**

Perhaps the government could consider holding a public parliamentary inquiry in conjunction with local councils and the public to look at council rating methods and how the government and councils could work together to reduce costs/rates to the community.

We note that various councils have different rating policies which raises questions such as whether rating across the broader community is fair and equitable and should there be greater consistency?

A rating review could look at the advantages and disadvantages of council policy differences and whether there is merit in standardisation of items such as:

(a) Already some councils apply a surcharge to vacant lots. This may encourage owners to sell vacant land resulting in more land becoming available for housing when there is a land shortage.

(b) How can rating be fair and equitable when a farmer in one municipality receives a 70 per cent reduction and the neighbouring farmer in the next municipality does not receive a rebate? Is the 70 per cent rebate fair and equitable when in some instances it is subsidised by residential ratepayers who are at the lower end of the socio-economic scale?

(c) Is the relativity between commercial and residential rates appropriate? For example, why should a major retailer operating in a municipality that is subject to a surcharge be exempt from a surcharge in the adjacent municipality?

(d) Are some council service charging policies better than others and could these be better applied across a wider range of councils?

- **Annual award to councils for outstanding financial performance**

Perhaps the government could give an annual award to a council(s) which have demonstrated considerable cost saving and/or efficiency improvements.

- **Seminars on "Achieving Outstanding Financial Performance in Local Government"**

Hold a seminar (or number of seminars) managed by the Department of Local Government in conjunction with councils where



attendees are invited to demonstrate or submit papers on cost savings and/or efficiency improvements measures.

- **Newsletter**

Perhaps the Department of Local Government could invite councils to submit articles on how they have improved efficiency and/or introduced cost saving measures and these be published in a regular newsletter.

- **Annual scholarship to a young council officer**

Perhaps the government could finance a scholarship each year to a young council officer to travel and visit overseas or interstate councils to discuss and produce a report on new cost initiatives and/or measure undertaken to improve cost efficiency.

- **Annual Forum/Conference**

Perhaps the Department of Local Government could hold an annual forum to be attended by council mayors and CEO's with a theme of "Recent developments in cost cutting and measures to improve efficiency in local government".

We hope that the above provides some stimulation for further thought and discussion.

Yours faithfully

Dr Alan Nelsen, Secretary MPRRA

cc David Morris MP, Suite 2, 364 Main Street, Mornington, 3931