Mornington Peninsula Ratepayers’ & Residents’ Association Inc

and

McCrae Action Group

Submission

on

Inquiry into Rate Capping Policy

April 2016
The Secretary
Environment and Planning Committee
Parliament House, Spring Street
EAST MELBOURNE VIC 3002
Email: epc@parliament.vic.gov.au

8 March 2016

Dear Secretary, Environment and Planning Committee

Inquiry into Rate Capping Policy – April 2016

The Mornington Peninsula Ratepayers’ and Residents’ Association Inc and its precinct group the McCrae Action Group has pleasure in submitting comments on the inquiry into Rate Capping Policy

The Association was formed in 1996 and we have a membership of approximately 200 people and a database of approximately 600 individuals who have supported us on Mornington Peninsula issues.

Although our submission is based on our experience with 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.

In regard to the Inquiry we make the following general comments:

1. **It is presumptuous to report on the viability and impact at this time.**

   It is presumptuous to report on the outcome of the State Government “policy of local government rate capping on councils' viability, service impacts on local communities and impacts on the provision of local infrastructure” at this time. Rate capping has not been implemented so the impact cannot be measured. It is only 3 months since the rate cap was announced and most councils are still formulating budgets for 2016-17.

2. **Both major Political Parties Support Rate Capping**

   On 22 October 2015 the Herald Sun reported that the government intended to introduce legislation in parliament to cap rates in 2016-17. The Opposition local government spokesperson David Davis was reported as saying: “Premier Daniel Andrews should have capped rates this year (2015-16) and it is imperative that he be forced to keep his promise from here on in, because family budgets depend on it”.


On 5 March 2015 the Herald Sun wrote that former premier Jeff Kennett challenged struggling councils to make hard decisions over their future and said councils need to consider more shared staff services, staff cuts, selling unwanted assets, and amalgamations.

3. What can Councils do if they can't manage within the rate cap?

(a) Follow the lead of the Mornington Peninsula Shire Council which has employed a new Chief Executive from the private sector rather than from the established inward focussed council culture. It is reported that in less than 18 months he has been able to find savings of $3 million per annum. The Shire’s Council has set a long overdue precedent for local government which needs to be followed by many other councils.

(b) As Jeff Kennett has suggested, if councils cannot work within the rate cap budget then they should give serious consideration to amalgamation. Seventy nine councils in a state of the size of Victoria is excessive.

(c) Income is not limited to rates. The rate cap does apply to service rates and charges. Councils also benefit from grants from government. In circumstances where the rate cap is insufficient for specific needs a council can apply to the Essential Services Commission for a higher cap.

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

Yours faithfully

Dr Alan Nelsen,
MPRRA Committee Member
Inquiry into Rate Capping Policy

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.

Since the reintroduction of councils setting their own increases rates have increased out of proportion compared with nearly all other household products and services. 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 exhorbitant rate rises year after year. For the last 15 years rates have risen at a distressing and alarming pace.

Over the last decade the increase 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 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 oversee its implementation.

2 Why rate capping is an imperative

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”.

Over the last 10 years rates have risen by approximately **100%**. The rise is:

- **Three times** more than the Consumer Price Index (CPI)\(^1\) 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.
- The **fourth highest** increase of the 40 household expenditures measured by the Australian Bureau of Statistics.

---

\(^1\) 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.

\(^2\) Victorian Budget actuals and forecast.
• **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.**

![COUNCIL RATES THERMOMETER](image)

**Figure 1. Comparison of rates increase with other consumer products and services.**
3 Rates impact on the socio-economic disadvantaged

Properties on the Mornington Peninsula at the lower end of the market appear to have increased in value more than the upper valued properties, possibly because of the global financial climate. As a result, the lower socio-economic group are disadvantaged by larger rates increases compared to 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 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 has compounded 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](image-url)
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.

![Rate Increase - Last 4 years (lower end of the housing market)](image)

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 in future and a rates policy 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.

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 apply 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 in 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 (e.g. swimming pool/gym centres), parking, fines etc.

Table 1. Mornington Peninsula Shire proposed 2015/16 revenue.

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>Rates</th>
<th>Charges</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential - Improved</td>
<td>$110,575,911</td>
<td>$15,521,220</td>
<td>$126,097,131</td>
<td>86.4%</td>
</tr>
<tr>
<td>Commercial - Improved</td>
<td>$5,943,761</td>
<td>$567,900</td>
<td>$6,511,661</td>
<td>4.5%</td>
</tr>
<tr>
<td>Industrial - Improved</td>
<td>$1,807,853</td>
<td>$277,920</td>
<td>$2,085,773</td>
<td>1.4%</td>
</tr>
<tr>
<td>Other General Rate properties</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>0.0%</td>
</tr>
<tr>
<td>Farm House (Curtledge)</td>
<td>$981,566</td>
<td>$ -</td>
<td>$981,566</td>
<td>0.7%</td>
</tr>
<tr>
<td>Rural - Vacant</td>
<td>$412,258</td>
<td>$46,980</td>
<td>$469,238</td>
<td>0.3%</td>
</tr>
<tr>
<td>Boatsed</td>
<td>$384,031</td>
<td>$235,250</td>
<td>$619,281</td>
<td>0.4%</td>
</tr>
<tr>
<td></td>
<td>$120,110,380</td>
<td>$16,649,280</td>
<td>$136,759,660</td>
<td>33.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>Rates</th>
<th>Charges</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential - Vacant</td>
<td>$4,759,449</td>
<td>$724,320</td>
<td>$5,483,769</td>
<td>3.8%</td>
</tr>
<tr>
<td>Commercial - Vacant</td>
<td>$85,032</td>
<td>$10,260</td>
<td>$95,292</td>
<td>0.1%</td>
</tr>
<tr>
<td>Industrial - Vacant</td>
<td>$217,327</td>
<td>$43,380</td>
<td>$260,707</td>
<td>0.2%</td>
</tr>
<tr>
<td>MP Ag Rate</td>
<td>$2,007,406</td>
<td>$215,820</td>
<td>$2,223,226</td>
<td>1.5%</td>
</tr>
<tr>
<td>Lysaght</td>
<td>$840,000</td>
<td>$ -</td>
<td>$840,000</td>
<td>0.6%</td>
</tr>
<tr>
<td>Naval Base</td>
<td>$45,562</td>
<td>$19,980</td>
<td>$65,542</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cult and Rec</td>
<td>$151,274</td>
<td>$ -</td>
<td>$151,274</td>
<td>0.1%</td>
</tr>
<tr>
<td>Supplementary Rates for year</td>
<td>$800,000</td>
<td>$ -</td>
<td>$800,000</td>
<td></td>
</tr>
<tr>
<td>Land Sustainability Rebate</td>
<td>$ -</td>
<td>$400,000</td>
<td>$400,000</td>
<td></td>
</tr>
<tr>
<td>Heritage Rebate</td>
<td>$ -</td>
<td>$70,000</td>
<td>$70,000</td>
<td></td>
</tr>
<tr>
<td>Valuations Objections for year</td>
<td>$ -</td>
<td>$100,000</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$128,216,430</strong></td>
<td><strong>$17,663,040</strong></td>
<td><strong>$145,879,470</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

| Green Waste Charge      | $2,953,328 | $149,062,798 |

This comment indicates why our Association believes it is an imperative that the Policy 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

---

3 Mornington Peninsula Shire, Proposed Budget 2015/16
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.

5  NSW Rate Pegging

Annual rate pegging has been in place in New South Wales for more than 35 years and is supported by both sides of politics.

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.

<table>
<thead>
<tr>
<th>Rating period</th>
<th>Victoria actual¹</th>
<th>Annual Rate Increase</th>
<th>MAV</th>
<th>NSW</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Victoria CPI</td>
<td>MAV LGCI²</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004/05</td>
<td>5.00%</td>
<td>2.00%</td>
<td>4.80%</td>
<td>3.50%</td>
</tr>
<tr>
<td>2005/06</td>
<td>7.30%</td>
<td>3.10%</td>
<td>3.40%</td>
<td>3.50%</td>
</tr>
<tr>
<td>2006/07</td>
<td>6.30%</td>
<td>2.70%</td>
<td>4.10%</td>
<td>3.60%</td>
</tr>
<tr>
<td>2007/08</td>
<td>5.50%</td>
<td>3.60%</td>
<td>5.20%</td>
<td>3.40%</td>
</tr>
<tr>
<td>2008/09</td>
<td>5.10%</td>
<td>2.80%</td>
<td>5.00%</td>
<td>3.20%</td>
</tr>
<tr>
<td>2009/10</td>
<td>5.20%</td>
<td>2.10%</td>
<td>3.40%</td>
<td>3.50%</td>
</tr>
<tr>
<td>2010/11</td>
<td>6.10%</td>
<td>3.30%</td>
<td>3.50%</td>
<td>2.60%</td>
</tr>
<tr>
<td>2011/12</td>
<td>5.90%</td>
<td>2.10%</td>
<td>3.25%</td>
<td>2.80%</td>
</tr>
<tr>
<td>2012/13</td>
<td>5.00%</td>
<td>2.20%</td>
<td>3.90%</td>
<td>3.60%</td>
</tr>
<tr>
<td>2013/14</td>
<td>4.80%</td>
<td>2.30%</td>
<td>3.40%</td>
<td>3.40%</td>
</tr>
<tr>
<td>2014/15</td>
<td>4.20%</td>
<td>2.30%</td>
<td>3.40%</td>
<td>2.30%</td>
</tr>
<tr>
<td>2004/5 – 2014/15 compounded</td>
<td>80.00%</td>
<td>32.48%</td>
<td>52.95%</td>
<td>42.00%</td>
</tr>
</tbody>
</table>

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.

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 then MAV index and the NSW index could be different 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.”

Table 3. Ratio of employee costs to total expenses

<table>
<thead>
<tr>
<th>Interface Council</th>
<th>Financial year</th>
<th>Employee Costs $m</th>
<th>Total Expenses $m</th>
<th>Employee Expenses %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardinia</td>
<td>2013/14</td>
<td>30.411</td>
<td>92.695</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>2012/13</td>
<td>27.297</td>
<td>93.361</td>
<td>29%</td>
</tr>
<tr>
<td>Casey</td>
<td>2013/14</td>
<td>79.930</td>
<td>229.166</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>2012/13</td>
<td>71.072</td>
<td>212.493</td>
<td>33%</td>
</tr>
<tr>
<td>Hume</td>
<td>2013/14</td>
<td>91.168</td>
<td>198.011</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>2012/13</td>
<td>81.246</td>
<td>181.516</td>
<td>45%</td>
</tr>
<tr>
<td>Mornington</td>
<td>2013/14</td>
<td>63.593</td>
<td>188.455</td>
<td>34%</td>
</tr>
<tr>
<td></td>
<td>2012/13</td>
<td>60.506</td>
<td>194.509</td>
<td>31%</td>
</tr>
<tr>
<td>Nullumbik</td>
<td>2013/14</td>
<td>28.730</td>
<td>76.510</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>2012/13</td>
<td>28.860</td>
<td>76.961</td>
<td>35%</td>
</tr>
<tr>
<td>Whittlesea</td>
<td>2013/14</td>
<td>69.766</td>
<td>166.894</td>
<td>42%</td>
</tr>
<tr>
<td>Melton</td>
<td>2013/14</td>
<td>40.129</td>
<td>122.450</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>2012/13</td>
<td>36.214</td>
<td>111.012</td>
<td>33%</td>
</tr>
<tr>
<td>Wyndham</td>
<td>2013/14</td>
<td>86.082</td>
<td>220.790</td>
<td>39%</td>
</tr>
<tr>
<td></td>
<td>2012/13</td>
<td>80.531</td>
<td>207.548</td>
<td>39%</td>
</tr>
<tr>
<td>Yarra Ranges</td>
<td>2013/14</td>
<td>58.283</td>
<td>155.061</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>2012/13</td>
<td>55.272</td>
<td>150.902</td>
<td>37%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>36%</strong></td>
<td></td>
<td><strong>36%</strong></td>
<td></td>
</tr>
</tbody>
</table>

*2014 Local Government Cost Index, Municipal Association of Victoria.*
5 The Auditor-General’s Report

The 2013 Victorian Auditor-General’s (VAGO) report 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.”

“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 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 “sunset clause”. That is, the increase should not continue ad-infinitum 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 and; financial assistance from the Commonwealth being less than the increasing cost of Commonwealth services provided.

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)\(^6\) 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.

In summary, it is evident that the Intergovernmental Agreement appeared to have little influence on cost-shifting and reducing rate increases in Victoria because it was not administered, reviewed or renegotiated.

---

\(^6\) Inter-Governmental Agreement Establishing Principles Guiding Inter-Governmental Relations on Local Government Matters (April 2006)
Figure 4. Signature to the Memorandum of Understanding
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)\(^7\)

<table>
<thead>
<tr>
<th>Report Title</th>
<th>Contents</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Plan</td>
<td>Includes the strategic objectives of the council, strategies for achieving the objectives for at least the next four years.</td>
<td>Provided to the Minister for Local Government either within six months of a general election or by the next 30 June (whichever is later).</td>
</tr>
<tr>
<td>Strategic Resource Plan</td>
<td>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.</td>
<td>Must be reviewed during preparation of the Council Plan and adopted no later than 30 June each year.</td>
</tr>
<tr>
<td>Annual Budget</td>
<td>Prepared each financial year.</td>
<td>Provided to the Minister for Local Government by 31 August each year.</td>
</tr>
</tbody>
</table>


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”.

---

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**

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

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, the Essential Services Commission must consider the inadequacy of the Inspectorate, ensure that the rates policy mandates clauses 185 and 208 of the Act, and ensure that the Government’s of Victoria will carry out their responsibility in relation to these clauses.
APPENDIX 1

1.1 Rates and Charges

Consistent with the Terms of Reference of the Rate Capping and Framework Review it is our view is that the rates cap should include charges for the reasons outlined in Section 3 of our submission and the comments below.

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 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 past 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 of the excessiveness of this charge that the Shire is now ensuring that emphasis is also placed on the increase in the municipal charge.

---

Figure (i). Local Council revenue composition, 2013-14

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 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 past 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 of 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 previous 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.

Therefore it is an imperative that the Policy 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.

The extent of increase in borrowings should be included in the monitoring of rates and charges by the essential Services Commission 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.

---

**Shire Debt - $millions**

![Graph showing Shire Debt over years]

**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.)
APPENDIX 2

Some examples of our suggestions for reducing rates:

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

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 26th 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 a different rating policy 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