



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

PO Box 4087
Rosebud Vic 3939
E-mail: alanne@ihug.com.au
Tel: 0413 457 092

WHY COUNCIL RATES RISES NEED TO BE CAPPED

Previous history

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 and this established the practice of substantial rate rises year after year. However some 15 years later Councils are still increasing rates at a distressing and alarming pace.

Over the last 15 years 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 is no price control or pressure applied on Councils to keep rates down.

The Essential Services Commission has been requested by the State Government to develop a framework under which future rate increases will be capped and is requesting comment on a consultation paper which can be found on the Commission's website:
<http://www.esc.vic.gov.au/Home>

This is a **"once in a lifetime"** opportunity for the community to voice its opinion that in future unreasonable and "over the top" rate rises of the past must be brought under control.

Comments close on 15 May 2015 and can be made by:

Email: localgovernment@esc.vic.gov.au

Post: Local Government Rates Capping and Variation Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

The annual rate increases of the past are unsustainable in future

Now is the time for some form of control to be introduced on Councils' rate increases.

The exorbitant annual rise in rates is simply not sustainable in the future. With most other Australian goods and services there is some form of regulation or control however increases in Victorian Councils' rates and charges fall between the cracks.

For example the Australian Competition & Consumer Commission (ACCC) regulates national infrastructure services and has the primary responsibility to ensure that individuals and businesses comply with Australian competition, fair trading, and consumer protection laws

Attachment 1 highlights the increase since 2000/01 and also shows which Councils are the **worst performers**.

Rate rise over the last 10 years

Over the last 10 years Council rates have risen by approximately **100%**¹.

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 this period the rise in Council rates as shown in Figure 2 is:

- **Three times** more than the Consumer Price Index (CPI)² 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.
- **Double** 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. 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**.

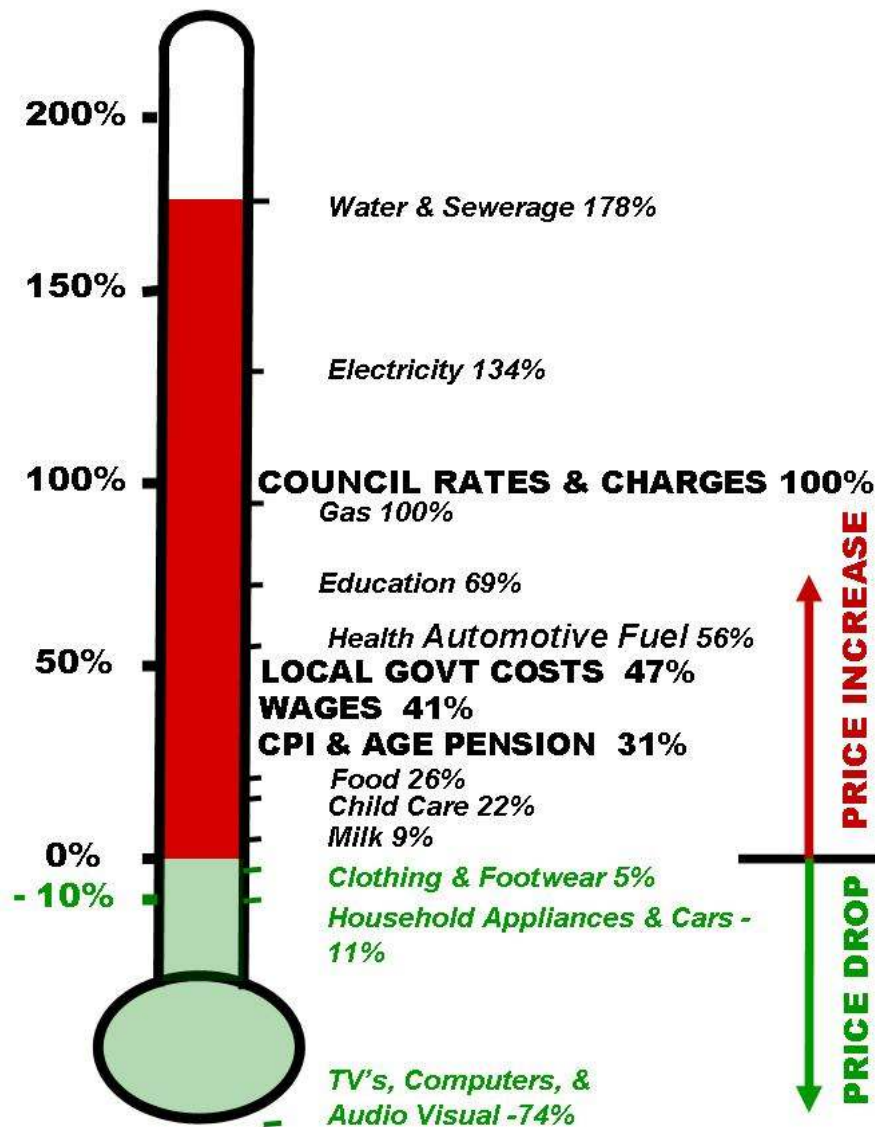
Rate rises impact on those least able to pay in the community such as: those on low or fixed income, pensioners, the unemployed, and retirees. They also impact on business competitiveness.

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.

COUNCIL RATES THERMOMETER

Price increases over 10 years



Product prices source: ABS 6410

Figure 2. Comparison of rates increase with other consumer products and services.

Councils have shown little compassion at a time when many in the community have been affected by the global recession and low interest rates that is impacting on savings and superannuation benefits, and families are facing rising house prices and mortgages.

Each year, over the last 10 years, Councils have been steadily and incrementally increasing rates by an amount “which they can get way with” rather than minimising increases, focussing on cost control, and providing value-for-money.

The question must be asked: is the culture of local government self indulgent? That is, are new or expanded services provided by a Council essential, have services expanded as a response to the community, or is it as a result of the organisations/staff self-serving their own aspirations?



Figure 3. Rate increase in Victoria compared with other states.

Source: Something is wrong in Victoria, David Morris MP, 2010

Figure 3 provides a comparison of rate rises over a 10 year period from 1999 to 2009. It shows that rate increases of Melbourne's Councils are the highest of the major cities of Australia's eastern states.

Rate pegging in New South Wales

Rate pegging has been in place in New South Wales for **more than 35 years and is supported by both sides of politics**. The government's Independent Pricing & Regulatory Tribunal determines the maximum percentage amount by which a Council may increase its general income for the year. Table 1 clearly demonstrates that Victoria's rate increases without rate capping are excessive compared to New South Wales.

The NSW rate peg is based on the 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 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.

Table 1. Comparison of rate increases between Vic and NSW.

Rating period	Annual Rate Increase	
	Victoria ¹	NSW ²
2004/05	5.00%	3.50%
2005/06	7.30%	3.50%
2006/07	6.30%	3.60%
2007/08	5.50%	3.40%
2008/09	5.10%	3.20%
2009/10	5.20%	3.50%
2010/11	6.10%	2.60%
2011/12	5.90%	2.80%
2012/13	5.00%	3.60%
2013/14	4.80%	3.40%
2014/15	4.20%	2.30%
2004/5 – 2014/15 compounded	80.00%	42.00%

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

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

Victorian Local Government Cost Index

Each year the Municipal Association of Victoria forecasts the increase in local government costs which, like NSW, is called the Local Government Cost Index. The Index is based on a range of indicators with the Average Weekly Earnings (AWE) and a composite measure of AWE and the Bureau of Transport and Regional Economics' Road Construction and Maintenance Index which the MAV believes are the most appropriate indices for tracking local government costs.

However 2013 the Victorian Auditor-General's report³ indicated that Councils are generally dissatisfied with the existing Local Government Cost Index and said: "A validly measured and widely accepted cost index is an important sector benchmark for assessing whether council rate increases are reasonable and efficient. A suitable and agreed sector cost index should be developed and used by all councils to promote greater transparency and comparability of increases in rates and charges".

Table 1 shows that rates have increased by **50%** more than Council costs according to the Municipal Association of Victoria's estimates⁴. Despite this, each year we hear the same old lame excuses by the president of the Municipal Association of Victoria attempting to justify the rate increase which, over a 10 year period, is **double** the estimate of the Association's increase in Council costs.

³ Rating Practices in Local Government. Victorian Auditor-General (Feb 2013).

⁴ Municipal Association of Victoria's Local Government Cost Index Reports (2004-2014).

Table 2. Comparison of actual rate increases with the MAV Local Government Cost Index.

Rating period	Annual Rate Increase	
	Victorian Councils ¹	MAV Cost Index
2004/05	5.00%	3.50%
2005/06	7.30%	4.30%
2006/07	6.30%	5.00%
2007/08	5.50%	5.00%
2008/09	5.10%	4.40%
2009/10	5.20%	3.00%
2010/11	6.10%	4.00%
2011/12	5.90%	3.45%
2012/13	5.00%	4.36%
2013/14	4.80%	3.39%
2014/15	4.20%	3.39%
2004/5 – 2014/15 compounded	80.00%	53.60%

Note: 1. MAV's Victorian Local Government Survey.
2. MAV's Local Government Cost Index Reports (2004-2014)

Cost-shifting by other sectors of government

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)⁵ 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 little influence on cost-shifting and reducing rate increases in Victoria. It was not been administered, reviewed or

⁵ Inter-Governmental Agreement Establishing Principles Guiding Inter-Governmental Relations on Local Government Matters (April 2006)

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

The Minister for Local Government's responsibility

All Councils are required to submit their budget to the Minister before 31 August each year 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 and unfortunately by the lack of awareness by the general public.

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, and achieve continuous improvement in the provision of services for its community, be responsive to the needs of its community, and must take into account an assessment of value for money in service delivery.

The Victorian Auditor-General's 2013 report on rating practices in local government concluded that 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.

The Essential Services Commission must ensure that Framework mandates clauses 185 and 208 of the *Act* and includes a provision which will ensure that Local Government Victoria will carry out its responsibility in relation to these clauses and the Framework.

Dr Alan Nelsen
President, MPRRA Inc.
April 2015

ATTACHMENT 1

Council Rates Increases from 2000/1 to 2014/15

Council/Shire	Average rates, municipal and waste management charges per assessment		Percentage Increase
	2000/01 ^a	2014/15 ^b	
GOLDEN PLAINS(S)	\$479	\$1,740	263%
STRATHBOGIE(S)	\$705	\$2,236	217%
MOUNT ALEXANDER(S)	\$557	\$1,761	216%
BASS COAST(S)	\$505	\$1,577	212%
SURF COAST(S)	\$743	\$2,099	183%
CENTRAL GOLDFIELDS(S)	\$543	\$1,476	172%
FRANKSTON(C)	\$616	\$1,653	168%
SOUTH GIPPSLAND(S)	\$687	\$1,843	168%
NORTHERN GRAMPIANS(S)	\$609	\$1,620	166%
KNOX(C)	\$597	\$1,580	165%
NILLUMBIK(S)	\$939	\$2,472	163%
WANGARATTA(RC)	\$670	\$1,758	162%
MITCHELL(S)	\$693	\$1,797	159%
GANNAWARRA(S)	\$633	\$1,623	156%
MOONEE VALLEY(C)	\$718	\$1,825	154%
MOORABOOL(S)	\$711	\$1,805	154%
MORELAND(C)	\$648	\$1,645	154%
CARDINIA(S)	\$722	\$1,828	153%
HUME(C)	\$687	\$1,737	153%
MORNINGTON PENINSULA(S)	\$562	\$1,417	152%
ALPINE(S)	\$748	\$1,878	151%
GREATER DANDENONG(C)	\$704	\$1,766	151%
MAROONDAH(C)	\$617	\$1,543	150%
BAW BAW(S)	\$778	\$1,931	148%
WHITEHORSE(C)	\$559	\$1,376	146%
BANYULE(C)	\$666	\$1,639	146%
QUEENSCLIFFE(B)	\$827	\$2,028	145%
BAYSIDE(C)	\$752	\$1,838	144%
HINDMARSH(S)	\$590	\$1,434	143%
CAMPASPE(S)	\$736	\$1,787	143%
MOYNE(S)	\$617	\$1,492	142%
GLEN EIRA(C)	\$608	\$1,469	142%
GLENELG(S)	\$743	\$1,794	141%
BOROONDARA(C)	\$850	\$2,052	141%
COLAC-OTWAY(S)	\$744	\$1,787	140%
YARRIAMBIA(S)	\$649	\$1,551	139%
PYRENEES(S)	\$562	\$1,342	139%

Council/Shire	Average rates, municipal and waste management charges per assessment		Percentage Increase
	2000/01 ^a	2014/15 ^b	
BALLARAT(C)	\$803	\$1,899	136%
WODONGA(RC)	\$885	\$2,083	135%
MACEDON RANGES(S)	\$801	\$1,862	132%
GREATER BENDIGO(C)	\$730	\$1,690	132%
CORANGAMITE(S)	\$845	\$1,944	130%
YARRA RANGES(S)	\$809	\$1,854	129%
GREATER GEELONG(C)	\$705	\$1,615	129%
WEST WIMMERA(S)	\$591	\$1,352	129%
MANNINGHAM(C)	\$822	\$1,864	127%
SOUTHERN GRAMPPIANS(S)	\$708	\$1,594	125%
WELLINGTON(S)	\$657	\$1,466	123%
DAREBIN(C)	\$726	\$1,598	120%
MONASH(C)	\$601	\$1,320	120%
EAST GIPPSLAND(S)	\$692	\$1,508	118%
MOIRA(S)	\$732	\$1,587	117%
STONNINGTON(C)	\$746	\$1,616	117%
MELTON(S)	\$823	\$1,745	112%
WHITTLESEA(C)	\$821	\$1,577	92%
WYNDHAM(C)	\$1,012	\$1,902	88%
YARRA (C)	\$1,036	\$1,915	85%
LATROBE(C)	\$871	\$1,607	85%
PORT PHILLIP(C)	\$855	\$1,555	82%
ARARAT(RC)		\$2,062	Not available
BENALLA (S)		\$1,901	Not available
BRIMBANK(C)		\$1,731	Not available
BULOKE(S)		\$1,851	Not available
GREATER SHEPPARTON(C)	\$883		Not available
CASEY(C)		\$1,722	Not available
HEPBURN(S)		\$1,566	Not available
HOBSON'S BAY(C)		\$2,290	Not available
HORSHAM(RC)	\$683		Not available
INDIGO(S)	\$673		Not available
KINGSTON(C)		\$1,676	Not available
LODDON(S)	\$575		Not available
MANSFIELD (S)	\$644		Not available
MARIBYRNONG(C)	\$1,011		Not available
MELBOURNE(C)		\$2,316	Not available
MILDURA(RC)	\$753		Not available
MURRINDINDI(S)		\$1,761	Not available
SWAN HILL(RC)		\$2,019	Not available
TOWONG(S)		\$1,492	Not available

Council/Shire	Average rates, municipal and waste management charges per assessment		Percentage Increase
	2000/01 ^a	2014/15 ^b	
WARRNAMBOOL(C)	\$769		Not available
Average for all councils	\$717	\$1,743	144%

Source: ^a Local Government in Victoria 2001 (Attachments), Local Government Division, Department of Infrastructure.

^b Local Government Cost Index, Municipal Association of Victoria 2014