

TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Frankston — 5 April 2016

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The CHAIR — I welcome Dr Alan Nelsen. This is the environment and planning committee's inquiry into rate capping. Anything you say here will be protected by parliamentary privilege. What you say outside will not necessarily be protected. This is all being recorded by Hansard, and you will get a transcript in a week or two with the opportunity to make corrections of numbers and details. That will form part of the record. If you would like to begin with a short presentation, then we will ask some questions.

Dr NELSEN — Thank you, Chair. I am Dr Alan Nelsen, and I am a member of the committee of the Mornington Peninsula Ratepayers and Residents Association. I am authorised to speak on behalf of the association. Our association has been in existence for 18 years. We have a membership of around 200 individuals and a database of around 600 who have supported us on various issues.

At the outset I must say that we strongly support the capping of rates. We compliment the Essential Services Commission on the extent of the consultation with the community, its transparency and the thoroughness of the research behind the report which it presented to government. Here in Victoria both major political parties appear to support rate capping. On 22 October last year the Chair of today's inquiry was quoted in the *Herald Sun* as saying:

... Premier Daniel Andrews should have capped rates this year, and it was 'imperative that he be forced to keep his promise from here on in because family budgets depend on it'.

We certainly agree with that statement.

In support of the need for the capping of council rates we would like to draw your attention to our handout. The first page shows that over the last ten years rates have risen by approximately 100 per cent. The rise is three times more than the consumer price index, two and a half times the increase in wage earnings and approximately double the increase in age pension for a couple. The increase is the fourth highest of 40 household expenditures measured by the Australian Bureau of Statistics. The increase is 50 per cent more than the actual increase in the cost incurred by councils, as calculated by the Municipal Association of Victoria. As shown by our rates thermometer on page 2, over the last 10 years the only household incomes which have increased in price more than council rates are electricity, water and sewerage, and tobacco. Again, a point worth noting is that council rates have increased by approximately twice the amount the MAV estimates that councils' actual costs have increased.

On the Mornington Peninsula the increasing rates over the decade have been exacerbated for those in the low socio-economic group because of the financial climate, where properties at the lower end of the market have increased in value more than the upper-value properties. As a result, lower socio-economic groups in areas such as Rosebud, Rosewood West and parts of Hastings, which are rated as some of Victoria's most disadvantaged, have been further impacted by larger percentage rate increases. We would not be surprised if this is widespread across Victorian councils.

We note that councils can apply to the Essential Services Commission for a variation in circumstances where the cap is insufficient for a specific council's needs. The commission indicated yesterday on its website that only 10 of Victoria's 79 councils had applied for a higher cap by the closing date of 31 March. It is our view that councils can provide adequate services to the community within the rate cap. For too long councils have had a bucket of cash obtained by imputing annual increases without any accountability or competitive pressure.

We are pleased that the Mornington Peninsula shire has not applied for an increase. We also point out to the inquiry that the shire is an important example of the impact of rate capping because it is in the top six Victorian councils with the highest revenue income. It has diverse industry and a large geographic area. Oftentimes Mornington is not taken as being as important as some of the suburban councils, but in terms of, as I say, its geographic area and its revenue it is in the top six.

As the shire's draft budget for 2016–17 has not been exhibited at this time, it is difficult for us to comment on the effect of the rate cap. I would suggest that this could also apply to many other councils. Therefore it is difficult for us to assess whether there will be an impact on services. However, under the leadership of the new chief executive, Carl Cowie, we believe the shire is well placed to continue meeting its obligations to the community under the rate cap.

What can councils do if they cannot manage within the rate cap? We suggest they can 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-focused local government culture. It is reported that in less than 18 months the new CEO has been able to find savings of \$3 million per annum. We have not noticed any lessening of council services in that time, and, most noticeably, the shire staff have become more responsive to our inquiries. The council has set a long-overdue precedent for local government which needs to be followed by other councils.

Last year the local government performance monitoring framework was introduced. This is an invaluable aid in providing councils with an indication of areas where they can improve efficiency. For example, it clearly shows what our association has been telling the council for some time: the operation of its Hastings aquatics centre needs to be reviewed because it is losing \$1 million per annum and its operation costs are 30 per cent higher than similar councils. Finally, as Jeff Kennett has recently suggested, if councils cannot work within the rate cap by sticking to their core business, then they should give serious consideration to amalgamation. Seventy-nine councils in a state the size of Victoria is excessive. Thank you, Chair.

The CHAIR — I thank you for your important commentary. We are very pleased to have ratepayers providing evidence to the inquiry. I note for the Hansard record — but it is in my parliamentary register — that I am a ratepayer in the Mornington municipality, so I understand your views. I also note that the new CEO has been a very effective broom.

There are two points I want to ask you about. It would seem to me that the important thing for household budgets and for ratepayers is the difference between the CPI and what council rates increase by. It is that wedge, if I can put it that way, that is the critical thing. No-one I think — you can tell me if I am wrong on this — expects that council rates will not increase by any amount, and there is some recognition I think in the community that the CPI is a figure. The government's election promise was that they would cap rates at the CPI. It seems to me that in the first year they did not cap rates at the CPI, and this year they did not cap rates at the CPI either. The CPI, to 30 June, full-year CPI was 1.1 per cent, and the rate cap for the forthcoming year is 2.5 per cent. Again, not the CPI. I just thought that you might have a view about that first year where many councils had increases well over the CPI, and the second year, which we are about to head into, where councils will go for a number also over the CPI.

Dr NELSEN — Our association would not expect that there would not be rate increases. What we are saying is that rate increases are excessive. My recollection is that the Essential Services Commission suggested that the rate increase for 16–17 might have been 2.8 per cent. I cannot remember exactly the formula they used, but it is certainly primarily based on CPI.

The CHAIR — I think actually the Essential Services Commission is based on a set of estimates and then a wage price calculation, and, as you said, around 2.8 per cent is what they recommended.

Dr NELSEN — Predicted.

The CHAIR — But that is not the CPI. If I can be blunt, the CPI is necessarily a historical measure.

Dr NELSEN — Yes, CPI, as you say, is a historical measure. I guess you are faced with basing it on what it has previously been or what is predicted. My assessment is that the 2.8 per cent was pretty much in line with what the Victorian budget was predicting — around that figure — for quite some time into the future. You then have an issue, and I think the Essential Services Commission tried to address this issue: do you base your rate increase on tradition — what has been done previously — or on what is predicted? I think they chose to look at what might have been predicted. It may not be exactly CPI but it is within a reasonable distance, and the difference between 2.5 and 2.8, if it was — —

The CHAIR — Except the 2.5 per cent is not the CPI. It was an estimate. The most recent full-year CPI was 1.1. The government's election promise was to cap rates at the CPI. So it is quite a big wedge. It is more than double.

Dr NELSEN — I cannot comment on that. If that is what the government's figure is —

The CHAIR — Does that concern you?

Dr NELSEN — that is what the government's figure is.

The CHAIR — No, but I am just saying, does that concern you that the election promise was the CPI?

Dr NELSEN — I would not have thought our association would ever have expected it to be 1.5 per cent.

The CHAIR — For example, the CPI is an actual figure that is collected by the ABS. It is beyond dispute.

Dr NELSEN — Yes.

The CHAIR — Whereas budget estimates by Treasury, if I can be unkind, they come, they go, they change, they jump, they go down. Goodness!

Dr NELSEN — What you are suggesting is that if you become government, you will base it on — —

The CHAIR — I am asking you what you think about — —

Dr NELSEN — We will expect then that you base it on what the previous CPI figure was.

The CHAIR — That was the current government's promise, that they would base it on CPI — be capped at the CPI — and it has not been.

Dr NELSEN — No.

The CHAIR — Do you think it is a good thing or a bad thing that it has not been?

Dr NELSEN — Being realistic, I would think 1.5 per cent is probably unrealistic. I am not saying that I approve of the government changing its —

The CHAIR — Promise.

Dr NELSEN — promise, no. I just might add here that our association is non-political, and I have particularly tried to make it non-political. We certainly have people very much to the left and very much to the right. I personally have tried to deal with issues — and I think that has happened in more recent times with our association — rather than on, perhaps, a political basis.

The CHAIR — Although, it is not political to hold any government to its actual promise.

Dr NELSEN — That is right.

Mr DALLA-RIVA — I am just trying to get an idea of the association. It was formed in 1996, so what was the purpose of its formation?

Dr NELSEN — It was long before my time, but I understand it was about waste collection on the peninsula — people's rubbish. They were not happy, so the association formed as a result of that. There is quite a number now of associations on the Mornington Peninsula. There is the Nepean ratepayers, there is one at Tyabb and there is Flinders. We cooperate with the others. We generally are in agreement on issues, but the main focus of our association is from Mount Martha to Rye, and sometimes up at Red Hill and that area there.

We are the longest running and probably the most active, and we tend to keep council more accountable. We see that as being one of our roles, making sure that council is accountable to the community. I think we are probably the most active. Certainly we have more committee members attending almost every council meeting, so we are generally fairly familiar with the council's procedures. In turn, our treasurer was a forensic accountant — unfortunately he passed away recently — so we were very able to look at detail, at council's performance and at the council's budget over the years.

Mr DALLA-RIVA — And is the issue around rate capping something that has been a recent issue within the ratepayers association, or is it something that has been longstanding to your knowledge?

Dr NELSEN — Rate capping is new, in a sense, but every year we have gone to the council and looked at providing ways in which we believe they could have reduced rates. I think I have made six or eight submissions to section 223 hearings. Oftentimes councils say that they undertake community consultation — they certainly do — but whether they listen and do what is asked is another matter. Councils are certainly very good at

promotion. They have quite a large budget of cash to publicise what their wants might be, whereas an association like ours has very little capacity to counter any strong arguments that a council might put forward.

I might add that I have been aware for some time that under the Local Government Act the minister does have the power to question councils about rates, and I am unaware of that happening. Sometimes just by questioning councils they can look hard and actually find a dollar. Under both governments I am not aware of that happening. In fact under the previous Liberal government I sent a letter to the Minister for Local Government with about 30 suggestions of how rates could be reduced. I think I might have even mentioned in that that it would not have been a bad idea, I know politically it might not be acceptable, to have an inquiry into how rates could be reduced.

There are a couple of other points I would like to make. There has been very little talk about productivity. Costs do not necessarily go up by the labour costs. The reason things do not go up by labour cost is productivity. In councils it might be a new road-making method; it might be a new road-making machine that does twice the quantity that was previously done. Sometimes with labour you can put three people on a job, whereas previously you had two, but get twice the productivity. I got the impression here this morning that some of those councils do not quite understand that the reason that prices do not go up with labour cost is productivity.

Mr DALLA-RIVA — So is that your assessment, in listening to the evidence today, which is a public hearing? Were you here from the first?

Dr NELSEN — Not for the first one; I was here for the second.

Mr DALLA-RIVA — So is that your general feel? I would not say 'feel', because that is an opinion, but is that where your ratepayers association senses things should be looked at; and if that is the case, is it the ESC's responsibility to be looking at productivity improvements?

Dr NELSEN — In future rate capping, I think the ESC proposed a 0.5 per cent allowance for productivity reduction.

The CHAIR — Seems very modest.

Dr NELSEN — So not in the first rate cap, but I think they recommended it in future rate caps. Now, of course if the minister is going to set the rate cap, then whether that will apply or not, I do not know.

I also made a statement about the buckets of cash. Quite frankly my experience is that councils do not necessarily set their increase in rates on their budget. I think what enters into it is that they often look and say, 'Well, if we increase our rates at 5.9 per cent or 5.95 per cent the community will accept that'. I think there is a bit of that also in setting their budget.

I can give you an example from the Mornington Peninsula shire. There was an issue on whether a pool should go on the foreshore or not. Anyway, the council got in quite a bind. We suggested 12 months earlier that they should look at buying the Rosebud Central shopping centre, which was up for sale, because the cost to build on the foreshore because of foundations and whatever was \$5 million, and they could buy the complex for \$6 million and gain an asset. We were told, no, that was not appropriate, purely because they wanted to build on the foreshore, for whatever reason. Just before the last council election (the caretaker period) — it was only in the month before, almost the last council meeting before it went into recess, or whatever it is called — the council went and bought Rosebud Central for \$6 million. Now, it was not budgeted for — it was nowhere in the budget — but in one year council found \$6 million.

I really think councils need some sort of financial pressure to make them think about how they manage and what they do. There was a classic example today. I thought the CEO for Casey — I thought it was him — said that since rate capping had come in they had looked and they had found a \$1 million saving. Then he also said, 'But it is costing \$200 000 or \$300 000 to put this submission in'. He saved \$700 000, possibly because of rate capping — possibly because there is some pressure coming on their finances. I think over the years councils have had it, in my experience, a little too easy.

Mr LEANE — Thanks, Dr Nelsen, for your evidence. You touched on Nepean, praising Nepean council for being able to save \$3 million per annum. Have you got any examples of the nuts and bolts of how they actually did that, how they found that \$3 million?

Dr NELSEN — I know that they, together with some other councils, decided to take out their own insurance rather than through the MAV, and I think that saved \$650 000. The CEO has, I think, almost eliminated one tier of management at the top level. I know there were about 20 people who were given redundancy, and on top of that of course others have decided that they perhaps do not want to stay.

Mr LEANE — Natural attrition, yes.

Dr NELSEN — Natural attrition. Now, in some respects people say that is quite hard, but in our view I will be honest with you and say that we were not upset about many of those that left.

The CHAIR — I note the work of the new CEO, and I think he has set a bit of a benchmark around the state for extracting efficiencies and outcomes. I mean, we heard an example this morning — I do not know whether you were here — with Frankston giving a rendition of how they worked through, line by line, and achieved some real efficiencies as well.

But I wanted to ask you about the other side of the equation. Councils have got revenue coming in from state government, the commonwealth and importantly from their rates, and that is the section that is going to be capped. But councils also have another source of revenue, which is fees and charges. Do you think that it would breach the spirit of the rate capping if, despite rates being capped, councils were to jack up fees and charges, which — perhaps if I can put it to you — are ultimately costs on the community in any event?

Dr NELSEN — The answer to that is yes. I think the Mornington Peninsula shire's revenue has come 70 per cent from rates; the other 30 per cent comes, as you say, from grants, special charge schemes, charging campers on the foreshore and those sorts of things. I understand that the Essential Services Commission is going to monitor those to ensure on the one hand that councils do not jack up those to compensate for the fact of rate capping. Let us face it, there are some very intelligent people working for councils. In fact I had one director at the Mornington Peninsula shire tell me, 'A rates cap is coming in. We'll have to find other ways of raising revenue'.

The CHAIR — That is my point.

Dr NELSEN — So I think it is important, and I hope that the Essential Services Commission monitor to ensure that there is reasonableness in those increasing charges.

The CHAIR — So, for example, in the Mornington Peninsula shire area, new charges have been levied on planning applications that relate to flood plains. This has become very controversial, but it appears to be generating additional revenue for the Mornington shire. Would that sort of increase, parallel with control on rates, concern you?

Dr NELSEN — The answer is yes. I am not sure who sets those charges.

The CHAIR — The council.

Dr NELSEN — The council, do they? Well, certainly I would be concerned, and now that you have drawn it to my attention, our association will monitor it.

The CHAIR — You might want to ask some of the building surveyors on the peninsula. There are different views on this, but I only quote that as one local example. But your view as a ratepayer monitor or as a council monitor is that councils ought not to be able to jack up their fees and charges beyond CPI, beyond normal indexation.

Dr NELSEN — Look, there is a facility for councils to go to the Essential Services Commission, and one would think if they really have a good argument — if Mornington Peninsula shire wanted to build a new swimming pool —

The CHAIR — Or even another council, whatever council.

Dr NELSEN — then they can put that argument to the Essential Services Commission. A point we have made is that when they are paid for that pool they do not just keep charging for that item — and that tends to happen. An excuse often used in council is that, 'Oh, we have to go and do all the toilets'. But they seem to

forget that last year they finished building the new halls, so it is always an add-on. When you hear an explanation, it is never that something is finished, and whatever they are having to do this year is often a replacement of what they did not need to do.

Mr DALLA-RIVA — What happened to the pool?

The CHAIR — There was a rethink.

Mr DALLA-RIVA — You left me in suspense.

Dr NELSEN — Fortunately the minister for the environment under the previous government, at the request of the council, withdrew coastal consent. There was a change in the balance of the council, and so — —

Mr DALLA-RIVA — That is all right. I was just curious. It is always good to have a pool next to the beach! You would go to the beach, I would have thought.

Dr NELSEN — That is exactly right.

The CHAIR — Thank you, and can you pass our thanks on to your association.

Dr NELSEN — Thank you, Mr Chairman.

Witness withdrew.