**Capital works the key focus of council budgets**

**Friday 5 July 2013**

This year council budgets across Victoria will lift rates by an average $76 or 4.8 per cent to address critical cost pressures according to a survey by the Municipal Association of Victoria (MAV).

Cr Bill McArthur, MAV President said budget restraint had been a core goal for councils but it was never easy to strike the right balance between affordability and meeting widespread community expectations.

“Cost pressures facing council budgets include the $397 million defined benefit superannuation shortfall, costs to maintain and replace ageing community infrastructure, and steady demand for services.

“Generally people rely more on free and low cost council services when household budgets are strained.

“Many services for families, children and youth; aged care and public libraries are jointly funded by either state or federal governments. However the trend has been for ratepayers to cover a bit more each year because government funding has not kept pace with the cost of delivering these services.

“A number of councils directly asked communities to identify potential service cuts. However, people don’t generally want service cuts - they want more done at a lower cost, and a greater focus on capital works.

“In response, many councils have identified cost savings and ways to do more with less in their budget.

Examples include not replacing staff that leave the organisation, increasing user fees and charges, reducing grants to other organisations to focus on core council service delivery, and directly cutting operating costs.

“Councils have also participated in MAV initiatives such as joint purchasing to get a better deal, improvement programs for asset management and land use planning; and shared service delivery to save money.

“Local government must also maintain a ‘fully funded’ superannuation scheme for people who were part of the compulsory defined benefit plan that closed in 1993. This is in direct contrast to similar state and federal schemes, which remain unfunded to the tune of $28.7 billion and $69 billion respectively.

“While many councils have saved millions of dollars in interest by paying their super shortfall before the 1 July deadline, this challenge has not been without pain,” he said.

The MAV and councils continue to seek a level playing field through returning the Local Authorities Super Fund to an unfunded scheme. Access to cheaper borrowing rates have also been delivered through a joint MAV tender after councils were denied access to cheaper Treasury Corporation of Victoria interest rates.

Cr McArthur said for councils to deliver the same mix and range of services, it generally costs between three to four per cent more each year as cost drivers did not move in line with CPI.

“CPI measures changes in common household goods and services. Council budgets are primarily made up of staff wages to deliver more than 100 community services, plus construction and material costs to maintain $60 billion worth of local roads and facilities.

“Communities should also expect to see the State Government’s fire services property levy on rates notices for the first time as required by legislation. All levies collected will be passed on to fund Victoria’s fire services.

“The MAV has been working with councils to improve ratepayer hardship policies. Anyone who experiences genuine financial stress in paying their rates is urged to contact their council to discuss their circumstances. We can only help you if you talk to us,” he said.

**View 2013-14 Victorian council budget and rates data at** [**www.mav.asn.au**](http://www.mav.asn.au/)

|  | **Total budgeted rate revenue, municipal charge and waste mngt charges for 2013-14** | **Budgeted total revenue for 2013-14** | **Average rates, municipal charges & garbage charge 2013-14 per assessment** | **Change in rates, municipal charge & garbage charge per assessment** | **Average rates, municipal charge & garbage charge 2013-14 per head of population** | **Change in rates, municipal charge & garbage charge per head of population** | **Median valued residential property 2013-14** | **Rates on median valued residential property 2013-14** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ALPINE(S) | $14,198,399 | $26,733,000 | $1,717 | $100 | $1,142 | $108 | $ 242,000 | $ 1,384 |
| ARARAT(RC) | $13,760,238 | $25,654,000 | $1,968 | $107 | $1,212 | $59 | $ 172,500 | $ 1,580 |
| BALLARAT(C) | $83,337,016 | $134,856,000 | $1,749 | $97 | $842 | $43 | $ 254,000 | $ 1,270 |
| BANYULE(C) | $80,289,203 | $121,670,399 | $1,548 | $172 | $649 | $73 | $ 478,000 | $ 1,263 |
| BASS COAST(S) | $43,295,267 | $65,184,000 | $1,478 | $83 | $1,309 | $68 |  |  |
| BAW BAW(S) | $44,712,241 | $64,857,000 | $1,936 | $116 | $1,008 | $66 | $ 282,000 | $ 1,523 |
| BAYSIDE(C) | $74,449,056 | $105,139,000 | $1,781 | $60 | $761 | $27 | $ 920,000 | $ 1,568 |
| BENALLA(C) | No response received | | | | | | | |
| BOROONDARA(C) | $142,728,000 | $189,921,000 | $1,965 | $92 | $832 | $35 | $ 910,000 | $ 1,814 |
| BRIMBANK(C) | $122,041,864 | $165,015,000 | $1,624 | $89 | $629 | $36 | $ 352,000 | $ 1,280 |
| BULOKE(S) | Draft budget yet to be released | | | | | | | |
| CAMPASPE(S) | $33,711,239 | $77,993,000 | $1,680 | $108 | $861 | $53 | $ 219,000 | $ 1,356 |
| CARDINIA(S) | $62,297,931 | $111,916,000 | $1,763 | $76 | $714 | $12 | $ 325,000 | $ 1,363 |
| CASEY(C) | $164,062,379 | $301,526,000 | $1,633 | $108 | $589 | $27 | $ 349,000 | $ 1,396 |
| CENTRAL GOLDFIELDS(S) | $11,394,185 | $29,407,268 | $1,390 | $71 | $881 | $50 | $ 181,000 | $ 1,372 |
| COLAC-OTWAY(S) | $25,219,589 | $42,779,837 | $1,711 | $140 | $1,208 | $88 | $ 231,000 | $ 1,350 |
| CORANGAMITE(S) | $18,180,700 | $43,000,000 | $1,911 | $143 | $1,040 | $79 | $ 216,500 | $ 1,153 |
| DAREBIN(C) | $98,774,932 | $150,158,000 | $1,532 | $75 | $668 | $32 | $ 507,000 | $ 1,242 |
| EAST GIPPSLAND(S) | $44,521,152 | $83,351,000 | $1,461 | $59 | $1,029 | $48 |  |  |
| FRANKSTON(C) | No response received | | | | | | | |
| GANNAWARRA(S) | $10,413,000 | $26,703,556 | $1,537 | $44 | $914 | $62 | $ 155,000 | $ 1,308 |
| GLEN EIRA(C) | $85,927,000 | $136,353,000 | $1,401 | $35 | $624 | $20 | $ 635,000 | $ 1,227 |
| GLENELG(S) | $23,818,228 | $48,009,052 | $1,703 | $94 | $1,119 | $64 | $ 184,000 | $ 1,061 |
| GOLDEN PLAINS(S) | $16,665,230 | $33,316,541 | $1,615 | $92 | $850 | $48 | $ 306,500 | $ 1,517 |
| GREATER BENDIGO(C) | $84,991,542 | $162,845,000 | $1,572 | $17 | $772 | $10 | $ 272,000 | $ 1,273 |
| GREATER DANDENONG(C) | $100,963,927 | $163,985,000 | $1,668 | $61 | $706 | $28 | $ 360,000 | $ 1,028 |
| GREATER GEELONG(C) | $169,030,764 | $275,720,000 | $1,547 | $69 | $769 | $34 | $ 320,000 | $ 1,176 |
| GREATER SHEPPARTON(C) | No response received | | | | | | | |
| HEPBURN(S) | $16,226,000 | $28,185,000 | $1,521 | $36 | $1,113 | $24 | $ 272,000 | $ 1,461 |
| HINDMARSH(S) | $ 6,890,973 | $19,800,000 | $1,363 | $70 | $1,188 | $65 | $ 83,000 | $ 918 |
| HOBSONS BAY(C) | $85,417,000 | $113,267,000 |  |  | $978 | $47 | $ 463,000 | $ 1,391 |
| HORSHAM(RC) | $20,752,521 | $45,565,275 | $1,713 | $116 | $1,005 | $58 | $ 195,000 | $ 1,586 |
| HUME(C) | $117,873,617 | $236,497,000 | $1,668 | $59 | $642 | $28 | $ 330,000 | $ 1,288 |
| INDIGO(S) | $13,065,885 | $25,663,102 | $1,593 | $112 | $1,556 | $98 | $ 243,000 | $ 1,487 |
| KINGSTON(C) | $112,772,000 | $173,027,000 | $1,619 | $77 | $744 | $37 | $ 500,000 | $ 1,450 |
| KNOX(C) | $95,359,819 | $137,730,000 | $1,503 | $69 | $610 | $31 | $ 458,000 | $ 1,229 |
| LATROBE(C)i | $57,980,582 | $121,035,000 | $1,554 | $91 | $777 | $44 | $ 199,000 | $ 1,303 |
| LODDON(S) | $ 8,632,465 | $24,306,046 | $1,135 | $60 | $1,157 | $60 | $ 109,782 | $ 986 |
| MACEDON RANGES(S) | $37,506,702 | $65,982,000 | $1,811 | $100 | $859 | $48 | $ 413,000 | $ 1,691 |
| MANNINGHAM(C) | $83,358,402 | $111,053,000 | $1,792 | $72 | $705 | $32 | $ 620,000 | $ 1,661 |
| MANSFIELD(C) | $11,085,627 | $11,135,627 | $1,532 | $65 | $1,344 | $46 | $ 249,341 | $ 1,307 |
| MARIBYRNONG(C)ii | $75,313,883 | $110,149,000 | $2,115 | $114 | $1,001 | $70 | $ 480,000 | $ 1,677 |
| MAROONDAH(C) | $69,924,969 | $102,310,000 | $1,479 | $45 | $638 | $20 | $ 430,000 | $ 1,362 |
| MELBOURNE(C)ii | $215,068,468 | $379,092,500 | $2,360 | $32 | $1,901 | -$11 | $ 425,000 | $ 863 |
| MELTON(S) | $78,509,148 | $113,000,000 | $1,711 | $65 | $633 | -$3 | $ 333,000 | $ 1,413 |
| MILDURA(RC) | $55,877,797 | $103,337,000 | $1,993 | $120 | $1,067 | $82 | $ 250,000 | $ 2,045 |
| MITCHELL(S) | $30,913,000 | $61,959,000 | $1,768 | $151 | $806 | $60 | $ 282,582 | $ 1,566 |
| MOIRA(S) | No response received | | | | | | | |
| MONASH(C) | $93,180,711 | $155,461,000 | $1,251 | $62 | $506 | $25 | $ 560,000 | $ 1,123 |
| MOONEE VALLEY(C) | $86,871,955 | $127,587,000 | $1,705 | $69 | $741 | $27 | $ 640,000 | $ 1,663 |
| MOORABOOL(S) | $26,146,049 | $41,692,000 | $1,708 | $102 | $856 | $42 | $ 307,000 | $ 1,337 |
| MORELAND(C) | $111,872,281 | $153,899,000 | $1,580 | $44 | $691 | $14 | $ 473,000 | $ 1,424 |
| MORNINGTON PENINSULA(S) | $129,530,532 | $182,153,000 | $1,352 | $86 | $842 | $50 | $ 424,000 | $ 1,014 |
| MOUNT ALEXANDER(S) | $17,976,170 | $31,785,000 | $1,645 | $99 | $1,004 | $53 | $ 300,000 | $ 1,688 |
| MOYNE(S) | $16,760,427 | $44,435,460 | $1,434 | $66 | $1,003 | $49 | $ 319,000 | $ 1,269 |
| MURRINDINDI(S) | $15,646,386 | $31,155,000 | $1,650 | $103 | $1,147 | $74 | $ 229,000 | $ 1,407 |
| NILLUMBIK(S)iii | $52,372,714 | $78,278,000 | $2,319 | $197 | $839 | $75 | $ 500,000 | $ 2,041 |
| NORTHERN GRAMPIANS(S) | $14,348,000 | $31,150,000 | $1,553 | $70 | $1,226 | $68 | $ 134,000 | $ 1,405 |
| PORT PHILLIP(C) | $100,392,410 | $175,411,000 | $1,494 | $58 | $987 | $38 | $ 530,000 | $ 1,076 |
| PYRENEES(S) | $ 7,449,152 | $22,039,000 | $1,279 | $54 | $1,100 | $48 | $ 166,000 | $ 1,000 |
| QUEENSCLIFFE(B) | $ 5,866,072 | $13,365,000 | $1,939 | $88 | $1,898 | $89 | $ 671,000 | $ 1,678 |
| SOUTH GIPPSLAND(S) | $34,108,254 | $58,403,098 | $1,781 | $133 | $1,210 | $88 | $ 246,000 | $ 1,500 |
| SOUTHERN GRAMPIANS(S) | $16,494,604 | $39,198,000 | $1,519 | $108 | $1,010 | $83 |  |  |
| STONNINGTON(C) | $86,006,711 | $143,316,000 | $1,511 | $65 | $835 | $27 | $ 675,000 | $ 1,020 |
| STRATHBOGIE(S) | $15,133,021 | $26,383,000 | $2,137 | $118 | $1,498 | $65 | $ 210,000 | $ 1,795 |
| SURF COAST(S) | $39,893,863 | $59,023,000 | $1,975 | $74 | $1,410 | $32 | $ 544,000 | $ 1,753 |
| SWAN HILL(RC) | $22,973,810 | $56,056,000 | $1,950 | $87 | $1,028 | $48 | $ 167,000 | $ 1,356 |
| TOWONG(S) | $ 6,544,394 | $17,081,000 | $1,511 | $73 | $1,098 | $57 | $ 146,000 | $ 1,119 |
| WANGARATTA(RC) | Draft budget yet to be released | | | | | | | |
| WARRNAMBOOL(C) | $28,952,074 | $83,206,000 | $1,779 | $64 | $833 | $32 | $ 301,000 | $ 1,444 |
| WELLINGTON(S) | $46,393,899 | $62,521,000 | $1,386 | $98 | $1,122 | $78 | $ 220,000 | $ 1,360 |
| WEST WIMMERA(S) | $ 6,027,636 | $17,865,000 | $1,295 | $83 | $1,335 | $88 | $ 77,738 | $ 628 |
| WHITEHORSE(C) | $88,525,813 | $152,894,000 | $1,301 | $36 | $563 | $21 |  | $ 1,177 |
| WHITTLESEA(C) | $111,871,500 | $161,000,000 | $1,538 | $72 | $619 | $23 | $ 386,000 | $ 1,214 |
| WODONGA(C) | $36,819,627 | $65,872,375 | $2,107 | $129 | $1,016 | $65 | $ 232,000 | $ 1,663 |
| WYNDHAM(C) | $136,566,883 | $262,731,000 | $1,794 | $64 | $749 | -$3 |  | $ 1,462 |
| YARRA (C) | $84,876,040 | $152,220,014 | $1,833 | $72 | $1,040 | $49 | $ 610,000 | $ 1,391 |
| YARRA RANGES(S) | $110,656,384 | $158,127,000 | $1,766 | $71 | $740 | $32 | $ 410,000 | $ 1,556 |
| YARRIAMBIACK(S) | $10,008,173 | $21,555,000 | $1,471 | $82 | $1,397 | $116 | $ 76,900 | $ 840 |
| **Total** | **$4,320,198,966** | **$7,194,505,247** | **$1,662** | **$76** | **$791** | **$34** |  |  |

Note: All data provided excludes Victorian Government fire services property levies.

|  |  |
| --- | --- |
| Change in local government revenue | 3.2% |
| Change in rates, municipal charges and waste charges per assessment ($) | $76 |
| Change in rates, municipal charges and waste charges per assessment (%) | 4.8% |
| Change in rates, municipal charges and waste charges per head ($) | $34 |
| Change in rates, municipal charges and waste charges per head (%) | 4.5% |
| Average rates, municipal charges and waste charges per assessment | $1,662 |
| Average rates, municipal charges and waste charges per head | $ 791 |

|  |
| --- |
| i Electricity generators and other rating agreement revenue are excluded from these data. |
| ii The high incidence of industrial and commercial assessments within the municipality means average residential rates per assessment are well below the data presented | | | | |
| iii The limited commercial and industrial activities in the municipality increase the average rates per assessment. | |  |  |  |

**HOW COUNCIL RATES DATA IS PRESENTED**

**Median residential rates**

For the first time in 2012 the MAV collected residential rates data on a median (mid-valued) property for each municipality. This has again been included in our 2013 data.

Median data isn’t used to measure changes in rates from year to year but demonstrates the different rates payable on the mid-valued property for each council area. This measure provides a more meaningful figure to be paid by households (as it excludes industrial, commercial, farm and other property types).

Median property values will differ widely between local government areas, which reflect the diversity of communities, property types, population and house sizes within each municipality.

# Rates per assessment

The MAV has used average rates, municipal charges and waste management charges per assessment to measure rate movements each year from 2005 to 2013. Average rates per assessment are the average rate bill received by all ratepayers (residents and businesses).

Demographic characteristics, plus 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. 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 from 2006 to 2013.

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 so 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 is an increasingly useful measure of local government rates as the services provided by councils expand from property-based to human-based services.

**Further Information:**Council rates data from 2003 to 2013 is available on the [MAV website](http://www.mav.asn.au/about-local-government/local-government-finance/Pages/council-rates-property-valuations.aspx)

**LOCAL GOVERNMENT COST PRESSURES   
A range of cost pressures influence the decisions each council makes about its annual budget and the rates it needs to collect. Some of the major cost pressures include:**

**1. LOCAL GOVERNMENT COST INCREASES**

It will cost councils 3 - 4 per cent more this year to deliver the same level and range of services as 2012. This is due to council services being affected by growth in construction, material and wage costs, rather than changes in common household goods and services as measured by CPI. The main council costs are staff to deliver human-based services; and staff and materials to construct, maintain and upgrade roads and assets.

**2. SUPERANNUATION SHORTFALL**

By 1 July 2013 councils must pay a $396.9 million shortfall to the closed Local Authorities Superannuation Fund Defined Benefit Plan following an actuary review by the scheme’s trustee Vision Super. The former Defined Benefit Plan for local government employees was a compulsory scheme set up by the Victorian Government in 1982 and was closed in 1993. It must be ‘fully funded’ to pay the benefits owed to members now and into the future, unlike state and federal public sector super funds which remain unfunded by $28.7 billion and $69 billion respectively. Councils have funded these compulsory contributions by using cash reserves, borrowing money, selling surplus assets, rates, and redirecting funds from community projects.

**3. INFRASTRUCTURE RENEWAL GAP**Victorian councils are responsible for community infrastructure worth $60 billion but if infrastructure is not adequately maintained, replacement costs will be much higher. When assets deteriorate faster than councils can fund their maintenance and renewal there is an infrastructure renewal gap. Councils have significantly increased capital works budgets in recent years to reduce the infrastructure renewal shortfall from $280 million to $100 million a year. As councils have a limited capacity to raise this additional revenue, they often use a range of funding options such as rate rises, lower service levels, asset rationalisation and borrowings.

**2. COST SHIFTING**Cost shifting occurs when Commonwealth and State programs transfer responsibilities to local government with insufficient funding or grants which don’t keep pace with delivery costs. Rates revenue is commonly used to cover funding shortfalls to meet increasing service demands, new Government policy, rising costs and community expectations. Cost shifting continues to confront councils in the key community service areas of home and community care, public libraries, school crossing supervisors and emergency management.

**4. DECLINING GOVERNMENT GRANTS**

Local government nationally collects 3.5 per cent of the $358.7 billion total taxes raised by all three levels of government. Core financial assistance through Commonwealth tax distribution to local government has declined from 1.2 per cent of Commonwealth revenue in 1993-94 to 0.97 per cent in 1996-97 and 0.62 per cent in 2011-12. Government grants are usually indexed to CPI or less. This means that grants are lower than actual cost movements to deliver the service, leaving councils to fund the gap from rates revenue.

**5. GOVERNMENT LEVIES & FEES**

The Victorian Government requires councils to collect State levies, which are paid by ratepayers but must be passed on in full by councils to the Government. Over four years from 2012 councils will collect an estimated $200 million in municipal landfill levies for the State. For the first time from 1 July 2013, fire services property levies will be collected with council rates. These are set by the Victorian Government.   
While most State fees rise by 2.5 per cent on 1 July each year, State-set planning fees have been frozen since 2009, with ratepayers contributing millions more to cover the revenue shortfall facing councils.

**About the Defined Benefit Superannuation Shortfall**

**The Local Authorities Superannuation Fund (LASF) has been known as Vision Super since 2002. The Local Authorities Superannuation Board has not operated under the MAV since 1961. Vision Super is a regulated industry super fund and is not owned, operated or controlled by the MAV.**

The MAV has two nominees appointed to Vision Super’s eight-person Board. Nominees from the Australian Services Union (ASU) hold four Board positions; the Victorian Water Industry Association (VWIA) holds one Board position; and the Victorian Employers Chamber of Commerce and Industry (VECCI) holds one position.

The MAV CEO has been involved in the Vision Super Board since 2003 at the request of member councils due to previous local government Board nominees having no formal report back requirements to the sector.

**Why is there a Defined Benefit Plan for councils?**

LASF was established by an Act of Parliament in 1947 to provide superannuation to Victorian local government and the water industry. The defined benefit scheme was set up by the Victorian Government in 1982 and was compulsory for all councils until it was closed to new members in 1993.

**Why do councils still have to contribute to Defined Benefit Plans?**

Councils were amalgamated by the Kennett Government in 1994, and in 1998 State legislation governing

LASF was repealed and responsibilities were transferred to the Commonwealth. At this time, authorities (including councils and other employers) were required to sign a legal agreement to continue funding benefits for staff who were members of the Defined Benefit Plan as at 31 December 1993.

The LASF Defined Benefit Plan became a ‘regulated fund’ under Commonwealth legislation on 1 July 1998, which required it to be fully funded. Prior to this date it was exempt from being fully funded, and other public sector (state and federal government) defined benefit super schemes continue to be exempt up to this day.

**How is a defined benefit scheme different to an accumulation fund?**

Defined benefit schemes provide a prescribed benefit based on how long an employee has been a scheme member and their salary at retirement. Employers, rather than employees, must shoulder investment risks.

Accumulation schemes, which are the norm today, reverse this model and when investment market returns are down, the total accumulated super funds in an employee’s account will also decline. Since 1 January 1994 new local government employees have only been able to join a standard accumulation plan.

**What does ‘fully funded’ mean?**

In accordance with Commonwealth regulations, Vision Super must complete an actuarial review at least every three years to ensure that current assets are adequate to meet the benefits previously promised to members now and into the future. If a shortfall arises that cannot be addressed through an investment plan, then employers may be required to make top-up contributions. Unlike other exempt public sector schemes, it must be fully funded to pay the benefits owed to members now and into the future. Unfunded superannuation liabilities for the Victorian Government currently exceed $28.7 billion, while estimates of the unfunded Commonwealth defined benefits liability (excluding the Future Fund) are around $69 billion.

**What is the shortfall?**

In June 2012, the Actuary advised of a $453 million shortfall as at 31 December 2011, with councils sharing $396.9 million plus $9.4 million for regional library corporations.

The Actuary advised that most of the shortfall occurred during the final six months of 2011 due to market volatility, and that this outcome could not have been foreseen. The Actuary has attributed the shortfall to:

* Lower than expected market investment returns (responsible for just over 50% of the shortfall)
* Reduction in expected future earning rates from 8.5% pa to 7.5% pa (around 25% of the shortfall)
* Salaries rising in excess of actuarial assumptions (around 8% of the shortfall)
* Increased longevity of pensioners.

**How will councils pay it back?**

No repayments are due until 1 July 2013. The MAV has worked with Vision Super to reach an agreement with APRA for the shortfall to be repaid over 15 years rather than the regulator’s required five years.

Each council will differ in how it funds its contribution. Options include payments from cash reserves, borrowing with a fixed interest loan, revising budgets to reduce non-core services, raising rates and selling un-used assets.

**Can councils withdraw from the defined benefit scheme?**

In 1998 State legislation was introduced and councils were required to sign a legally binding agreement to continue funding defined benefits for staff that were part of the scheme prior to its closure in 1993.

A council would need to successfully negotiate with each of its existing defined benefit members and pensioners to reach agreement on a pay-out in lieu before it could withdraw from the Plan. This option could be more costly for communities than top up payments when there is a shortfall.

The Defined Benefit Plan is in run-off as members retire. When the scheme closed in 1993 it had almost 38,000 defined benefit members and 7,500 lifetime pensioners. This has since reduced to 4,949 defined benefit members still working for authorities (with an average age of 54 years) and 5,132 lifetime pensioners (with an average age of 79 years). Liabilities will continue to reduce over the next 20 years.

**What action is the MAV taking?**

A taskforce of councillors and council officers was established by the MAV in 2012. Recommendations released in December 2012 include access to cheaper borrowing rates, reviewing the methodology and budget allocations for shortfalls, waiving ancillary government costs on shortfall payments, regulatory reforms, and greater awareness of wages and investment returns that can influence the liability.

Ongoing negotiations with the Department of Treasury and Finance to access borrowing capacity for councils at a cheaper rate through the Treasury Corporation of Victoria has also resulted in a joint procurement program for councils.

We’re seeking a transition back to a state-managed scheme, which would remove the requirement to ensure full funding and would return the LASF Defined Benefit Plan to an equal footing with other exempt public sector schemes. This outcome will require support from both the Victorian and Australian Government’s to repeal the federal legislation and introduce state legislation to give effect to this change.

Other actions being pursued by the MAV that had input from the taskforce include discussions with the Australian and Victorian governments to remove the 15 per cent contribution tax and WorkCover liabilities associated with defined benefits call-ins. This would save councils over $82 million.

**VICTORIAN LOCAL GOVERNMENT SNAPSHOT**

**Local Government Facts**

* Victoria has 79 municipalities:
  + 31 metropolitan (including eight interface councils)
  + 48 rural and regional (including 10 regional cities)
  + Populations range from 3 200 to more than 253 000
  + Land area varies from 8 sq km to 22 000 sq km
  + Each also varies in rate base, needs, infrastructure and resources
* Each municipality manages significantly different budgets:
  + Rural council budgets average $55 million (smallest is approx $13 million)
  + Metropolitan council budgets average $161 million (largest is approx $379 million)
* Governed by 631 democratically elected councillors
* Employs 42 500 people
* Annual revenue of $6.6 billion
* Responsible for $60 billion in community infrastructure and assets
* Spend $7.6 billion on capital works and recurrent services each year

**Service Delivery Statistics**

Each year local government in Victoria:

* Services 129 735 kilometres of roads (approximately 85 per cent of Victoria’s total road network)
* Provides 614 400 maternal and child health consultations
* Delivers 306 600 immunisations to preschool and secondary school children
* Delivers 3.8 million meals a year to home care recipients
* Provides 4 million hours of home assistance, property maintenance, personal and respite care
* Spends over $50 million on public street lighting
* Loans 52 million items from 316 public and mobile libraries to 2.5 million registered users
* Provides internet access for more than 3.4 million bookings
* Decides over 51 100 planning permit applications
* Maintains more than 1 000 grassed sports surfaces
* Collects 2 million tonnes of kerbside waste
* Collects 613 000 tonnes of recyclable materials
* Collects 318 000 tonnes of organic waste
* Conducts 19 400 visits and interactions with tobacco retailers, eating establishments, licensed premises
* Registers more than 49 000 fixed and mobile food businesses.

#### FUNDING OF LOCAL GOVERNMENT

## Australian Taxation System

* The Australian Constitution unequally divides taxation powers and expenditure responsibility between the Commonwealth and state governments
* As a result, the Commonwealth collects around 80.3 per cent (including GST) and the states around 16.2 per cent of the total taxes collected in Australia
* Local government collects 3.5 per cent of the total taxes collected by all levels of government
* To equalise taxation revenues and spending responsibilities, the Commonwealth makes a series of grants to the states and local government.

# Local Government Income Sources

There are several sources of funding for local government in Victoria:

* Rates on property
* Fees, fines and charges (e.g. swimming pool and gymnasium entry fees, waste depot fees, planning permit fees, parking fees and fines)
* Specific purpose grants from State and Commonwealth Governments, for funding specific projects or programs
* General purpose grants from the Commonwealth Government not tied to a specific purpose
* Other sources: borrowings (e.g. to pay for large infrastructure projects), asset sales, donations, contributions, reimbursements and interest earned.  
    
  **Local Government Funding Sources**

The total funding for local government in Victoria in 2011-12 from all sources was $6.6 billion including:

* $3.71 billion or 56 per cent in rates
* $1.14 billion or 17 per cent in fees, fines and charges
* $591 million or 9 per cent in specific purpose grants
* $489 million or 7 per cent in untied revenue from general purpose grants
* $681 million or 10 per cent from other sources

Local government collects around 3.5 cents of every $1 raised in Australian taxes. The Commonwealth collects approximately 80.3 % of total taxation revenue and the States collect 16.2%.

**LOCAL GOVERNMENT RATING PRINCIPLES**

**Property Taxation System**

* Property taxes (rates) are a wealth tax charged by local government municipalities
* Local councils can also apply a municipal charge (of not more than 20 per cent of their total rate revenue); a waste management charge; and other special rates and charges as appropriate within the legislation
* Exemptions from rates apply to Crown land, charitable land, land used for religious purposes, and land used exclusively for mining and forestry
* Rate revenue comprises 56 per cent of Victorian councils’ total revenue
* Council rates do not represent a direct user pays system because local government provides services and infrastructure for public benefit.

**PRINCIPLE: Those with a higher valued property relative to others within a municipality generally contribute a larger amount in rates.**

**Rating Equity**

* Rates are distributed between ratepayers based on the relative value of properties within a municipality
* Properties are revalued every two years to maintain a fair distribution of the rates burden between property owners within a municipality
* There is a direct relationship between property holdings and disadvantage – less wealthy people tend to own lower valued housing stock
* Property owners with higher valued assets generally have a greater capacity to pay
* Property taxes do not take into account individual debt levels or income received by owners – there are other taxes applying to income and expenditure which should be considered when assessing tax equity.
* Differential rates can be used by a council to help determine a fair contribution from each type of property.   
  E.g. residential, commercial, industrial, farm.

**PRINCIPLE: There is no connection between the amount of rates paid and the level of council services received by individuals.**

**Municipal Charges**

* A municipal charge may be used by a council to collect a portion of revenue not linked to property value but paid equally by all ratepayers
* Farm owners with multiple property assessments for rates only attract a single municipal charge.
* User fees imposed by councils (such as municipal and waste management charges) help to redistribute the burden of rates as they are paid equally by all ratepayers and reduce the total property rates required by a council to fund its annual budget.

**PRINCIPLE: The use of a municipal charge reduces the amount that needs to be collected in the form of rates attached to the value of a property.**

### COUNCIL RESPONSIBILITIES

###### **Role of Local Government**

Victoria’s 79 councils provide for the peace, order and good government of their municipal area, deliver services and facilities for their community, and manage the resources of the district.

Local government must operate in accordance with the *Local Government Act* 1989 and has responsibility for implementing many diverse programs, policies and regulations set by the State and Federal Government.

As councils have to respond to local community needs, they also have powers to set their own regulations and by-laws, and to provide a range of discretionary services.

Local laws developed by councils deal with important community safety, peace and order issues such as public health, management of council property, environment and amenity. Local laws often apply to noise, fire hazards, abandoned vehicles, parking permits, disabled parking, furniture on footpaths, graffiti, burning off, animals in public spaces and nuisance pets.

**Services and Infrastructure**

Each Victorian municipality is different – its community may be young or old, established or still developing, rural or urban, and its population may vary from fewer than 3 200 people to more than 266 000.

Each council collects rates from property owners in its municipality to help fund its local community infrastructure and service obligations. Rural council budgets average $55 million (the smallest is $13 million), while metropolitan council budgets average $161 million (the largest is $379 million).

**Victorian councils are responsible for $60 billion of infrastructure including roads, bridges, town halls, recreation and leisure facilities, drains, libraries and parks. They also provide over 100 services for local communities from the cradle to the grave. Every time a person leaves their house they are using services provided by local councils.**

Road assets: local roads, drains, bridges, foot and bike paths, public street lighting, litter bins, school crossings, bus shelters, parking spaces.

Community assets: libraries, internet services, sporting facilities, community halls, parks and gardens, swimming pools, playgrounds, animal shelters, public toilets, public art, cemeteries.

Community services: community banking, public tips, removal of dumped rubbish, youth and family counselling, baby capsule hire, childcare programs, playgroup, preschools and kindergartens, school holiday programs, immunisations, food safety inspections, planning advice and approvals, street cleaning.

In-home services: Family day care, parenting and baby health advice by maternal and child health nurses, multilingual telephone services, recycling and hard waste collections, home maintenance, meals on wheels, gardening services and respite care.

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| **COUNCIL SERVICE** | | | **PROGRAM EXAMPLE** | |
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| **General Public Services** | | |  | |
| Emergency prevention and protection | | | Community disaster / emergency plans | |
| Animal management and control | | | Animal shelters, pet registration | |
| Tourism | | | Visitor Information Centres, marketing plans | |
| Commerce and industry | | | Local industry networks, incentive programs | |
| Community information | | | Community directory, websites / online services, counselling and support groups | |
| **Health and Welfare Services** | | |  | |
| Aged care programs | | | Meals on wheels, home care, home maintenance | |
| Maternal and child health services | | | Health checks, nutrition and parenting advice | |
| Family and children’s services | | | School immunisations, childcare, playgroups, youth services, school holiday programs, aerosol art program | |
| Disability services | | | Wheelchair access, respite care, personal care | |
| Cultural development | | | Festivals, public art, theatre productions, art galleries | |
| Public libraries | | | Book loans, free internet access, reading sessions | |
| Leisure and recreation services | | | Swimming pools, sports ovals, club facilities | |
| Housing | | | Housing diversity through planning schemes | |
| Public health services | | | Food safety inspections, public toilets, tobacco enforcement, pandemic planning | |
| Employment | | | Community jobs program, traineeships | |
| Migrant and indigenous services | | | Language aides, multilingual phone lines | |
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| **Land Use Planning** | | |  | |
| Statutory planning | | | Land use regulation, planning application assessment, zone and overlay controls | |
| Strategic planning | | | Neighbourhood character, heritage overlays | |
| Planning system reform | | Pre-lodgement certification | | |
| Built form sustainability | | Energy efficient housing, siting and design guidelines | | |
| Rural land use management | | Agricultural production, economic development strategy | | |
| Forestry | | Forest regulation enforcement, supervise timber harvest | | |
| Native title, Indigenous cultural heritage | | Recognition of traditional land owners | | |
|  | |  | | |
| **Environment** | |  | | |
| Waste management | | Kerbside recycling, landfills, compost bins, hard waste | | |
| Catchment management | | Tree planting, protection of water catchments | | |
| Stormwater management | | Litter traps, flood and litter management | | |
| Native vegetation management | | Conservation of native vegetation, tree clearance permits | | |
| Salinity and water quality | | Reticulated sewerage, drainage, water re-use programs | | |
| Weed management | | Weed/pest control for roadside reserves, weed officers | | |
| Sustainability | | Solar heating for buildings and pools, walking tracks | | |
|  | |  | | |
| **Infrastructure and Assets** | |  | | |
|  | |  | | |
| Asset maintenance and development | | Town halls, historic buildings | | |
| Road and footpath construction and maintenance | | Roads, roundabouts, bridges, nature strips, bike paths | | |
| Traffic and parking management | | Traffic and parking signs, street cleaning, speed humps | | |
| Public space maintenance | | Parks and gardens, street lighting, cemeteries | | |
| Leisure facilities | | Recreation and community centres | |

# COUNCIL RATES EXPLAINED

**Australia’s tax system uses the payment of taxes to fund a variety of programs, services and infrastructure by all levels of government for the public benefit of all.**

## Property Tax

Council rates are a property tax. Councils use property values as the basis for calculating how much each property owner pays in rates.

In Victoria, council rates can comprise up to three components:

* municipal charge (of not more than 20 per cent of a council’s total rates revenue)
* waste management (garbage) charge
* rate in the dollar.

Exemptions from rates apply to crown land, charitable land, land used for religious purposes, and land used exclusively for mining or forestry.

There is no connection between the amount of rates paid by a property and the level of council services received.

**PRINCIPLE: Those with a higher valued property relative to others within a municipality will contribute more in rates that those with a lower valued property**

###### **Rate Process**

Once a council has identified the total amount it needs to collect in rates (as determined by its prescribed budget process), rates and charges can be calculated. A council begins its rate process each year by determining any municipal and waste management charges that may be needed to recover part of the administrative cost and the cost of providing waste collection and disposal services respectively.

Once these discretionary charges have been accounted for, a council establishes its rate in the dollar by dividing the balance of required budget revenue by the total value of all rateable properties in the municipality.

The rate in the dollar is then multiplied by the value of a property (using one of three valuation bases) to establish the amount to be paid by each property owner. This amount is known as the general rates. General rates are added to any municipal and waste management charges set by a council to determine the total rates payable on a property.

**Example: Calculating General Rates**

The total value of rateable properties within a municipality is $10,000,000,000 and council needs to collect $40,000,000 in rates. The rate in the dollar is 0.004 (40,000,000 ÷ 10,000,000,000). The rates payable on a property valued at $320,000 would be $1280 ($320,000 x 0.004).

**An increase in property values does not cause a rate rise. Council budgets are pre-determined to meet expenditure requirements, and include any potential rate rise. Property valuations are revenue neutral – they are used to distribute how much each ratepayer will pay, according to the value of their property compared to other properties within the municipality.**

# SETTING A COUNCIL BUDGET

# Council Plan

Victoria’s 79 councils operate as separate entities with different local issues, costs and service provision needs.

All councils identify in their Council Plan the needs and issues to be dealt with in their municipality.

This Plan is a statutory requirement which describes the strategic objectives and strategies to be implemented by a council for the coming year, as well as the following four years.

Each council issues a public notice seeking community input to its draft plan for 28 days, before the plan is finalised and adopted by council for submission to the Minister. It must be completed by 30 June each year.

# Strategic Resources Plan

A Council Plan must include a Strategic Resources Plan, which sets out the financial and human resources required to achieve its objectives over five financial years.

The Strategic Resources Plan is updated annually.

###### **Council Budget**

Each council’s budget is different to reflect its local community needs and priorities. However, there is a common legislated framework for setting a budget that each council must follow.

The budget process involves a council setting its priorities, identifying measures and allocating funds that will show how the key strategic objectives outlined in its Council Plan are to be achieved in the coming year.

Through the budget process a council also specifies the annual maintenance, upgrade and renewal needs of its assets and any new or replacement infrastructure; as well as the community services and facilities it will provide in the next financial year, and how much these will cost.

A council budget also estimates the revenue to be collected from other sources such as State and Federal Government funding and from loans. By using these estimates a council can determine the amount it needs to collect in rates revenue to meet its financial responsibilities for the coming year.

This information is adopted as a draft budget, which is advertised and open to public comment for a minimum of 28 days.

All councils are required to submit their budget to the Minister before 31 August each year.

Local government has an open and transparent budget-setting process that seeks community discussion and input to the development of council spending initiatives and priorities for the coming year.

# COUNCIL RATING BASES

Each Victorian council chooses one of three valuation bases for their municipality - Capital Improved Value (CIV), Site Value (SV), or Net Annual Value (NAV).

The common process for calculating each of the three valuation bases is as follows:

* Every two years council valuers have a statutory requirement to conduct a review of property values based on market movements and recent sales trends
* The last revaluation is based on levels as at 1 January 2012
* Council valuers undertake a physical inspection of a sample of properties
* The total value of property in a municipality is used as the base against which that council strikes its rate in the dollar
* The rate in the dollar is multiplied by the CIV, SV or NAV value of the property to determine the general rates due on each property
* The Valuer General is responsible for reviewing the total valuation of each municipality for accuracy before he certifies that the valuations are true and correct.

# Capital Improved Value

* CIV refers to the total market value of the land plus the improved value of the property including the house, other buildings and landscaping

# Site Value

* SV refers to the unimproved market value of the land

# Net Annual Value

* NAV is the annual rental a property would render, less the landlord’s outgoings (such as insurance, land tax and maintenance costs) or 5 per cent of the CIV for residential properties and farms
* The value is higher for commercial/industrial and investment properties.