TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Melbourne — 18 October 2016

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Mr Robert Spence, chief executive officer (affirmed), Municipal Association of Victoria.
The CHAIR — Can I welcome Rob Spence, the CEO of the MAV, to our inquiry on rate capping. I indicate that evidence given here is protected by parliamentary privilege but may not be outside. Rob, you might want to start off with an update on any points that you think are relevant with respect to our inquiry into rate capping.

Mr SPENCE — Okay. So thanks for the opportunity of talking to you again. Of course in local government land at the moment we are in election mode, so — —

Ms SHING — Are there elections on at the moment? We did not know.

Mr SPENCE — Oh yes, there are. I hope you have voted. Vote quickly.

Mr DALLA-RIVA — I have voted often.

Ms SHING — No, not often.

Ms DUNN — No, do not vote often.

Mr DALLA-RIVA — I have voted — often.

Mr SPENCE — No, you have only got six — —

Ms SHING — A certain Mr Trump is concerned about that occurring right now as we speak.

Mr SPENCE — You have only got six municipalities where you can vote often. All the others are postal vote.

Ms DUNN — But we do not recommend it anyway.

Mr SPENCE — We do not recommend it?

Ms BATH — Just the once.

Ms SHING — So, elections. I am sorry. I hijacked your discussion.

Mr SPENCE — Elections are sort of the focus at the moment. But what I just wanted to quickly talk about is the submission we made to the inquiry into rural and regional councils, which I hope you have been able to connect with, but if you have not, we can send you a copy of our submission. I think it is useful to look at it in the context of the work you are doing, because it highlights a number of issues. It highlights that with financial assistance grants there is a real decline over time in the funding. That is particularly affecting rural councils.

One of the things that our analysis has shown that has surprised us — and one would have thought we would have noticed this before — is that in fact per council the allocation of financial assistance grants jumps around significantly year on year, so what we are not seeing is a sort of consistent flow of grants. The numbers move a lot.

The CHAIR — Do you have any assessment of the reason for that?

Mr SPENCE — I think it is the drivers and potentially, I think, the variability in the material that goes to the grants commission in doing their analysis. We know the methodology used by the grants commission is well tested. Another piece of work, I think, is trying to work out why these movements do occur. If you look at the report, you will see that movement year on year is for some councils quite significant, particularly with the smaller councils.

The other thing we note out of the financial assistance grants is that those financial assistance grants are moving under CPI and the councils’ costs are tracking with average weekly earnings, which is something we have seen historically over time.

Another point to make is that the MAV has been focused on our four critical targets: maternal and child health funding, SES, school crossing supervisors funding and planning fees. Those of the first four in our targeted list of activities. We have got the maternal and child health dealt with, so we are on 50-50 funding again after a significant injection in this last budget.
The planning fees have just been put in place — the new ones — after a protracted period. I think John Thwaites was the last one who, as Minister for Planning, actually made a significant shift in the planning fees. So we think the councils will earn in revenue from planning fees around an extra $40 million. Now that $40 million will be offset against rates, because what has been happening is that the ratepayer has effectively been subsidising the people who are doing property development or improvements on their houses. With SES, we are in discussions with the government about funding for SES at the moment. That is progressing; we will see where it ends up. And with school crossings we are at the pointy end of that discussion, so we are making progress.

I think the other points to highlight are that the analysis, again, in this report shows that capital renewal in councils, particularly rural councils, is consuming a significant amount of their budgets — an average of about 40.6 per cent in rural Victoria of their rate revenue — and the analysis of community satisfaction surveys is still showing that the greatest area of gap between expected performance and performance rests in rural Victoria in roads and roads maintenance.

What do all these indicators point to? They indicate that I think the funding pressures on councils, particularly the rural councils, at the moment are significant, and it is hard to see how they are going to manage the pressures that they are under, under a single-capped environment. I think it is time for us to consider a variable cap, probably by size or status of council, which was one of the issues that was considered by the ESC.

The CHAIR — The legislation allows that, of course; is that correct?

Mr SPENCE — It does allow for that variability, but I think it is time to get that back on the agenda, and I would welcome consideration of that issue by this committee, because the pressures are so different. We have got a relatively low income in rural Victoria and low income for the community and low revenue-raising capacity of the councils, and the councils are not capable of really meeting the needs of the community. So that is a bit of a snapshot of where we are at with things.

The CHAIR — There were a couple of points I thought were very worthy in your notes then. The first is the point you made about the new fees; $40 million is your estimate of the take statewide. The second is the community satisfaction survey on road maintenance. Do you have those in any precise form that you have done?

Mr SPENCE — I can get you an aggregated — —

The CHAIR — Yes, that would actually be very helpful because that accords with what I certainly hear around the countryside. The other point that I want to ask you about is that one aspect of discussion of this committee has been the ESC’s role and the variation process and the cumbersome nature of that. Now that the Brown review has come down, do you have any commentary on that review and the steps that will follow it?

Mr SPENCE — I think the review was worthwhile. I think Peter Brown has done a good job in identifying the issues for the councils. The ESC have accepted or part accepted, or accepted in principle, I think all the recommendations, which is positive. So that should make the process a bit smoother than it was the last cycle. I think you would want to look at it again after the next cycle. If we think about the political process, I think we are unlikely to see a lot of requests for exemptions in the next round. They will be bedding down new councils in February, March, April. You would expect politically probably a hold-the-line budget, but the one after I think is where you are likely to see the pressure. So I think it would be advisable to look at it again after this cycle, because you could expect quite a wave, I think, of applications.

The CHAIR — And aggregate state government funding? You mentioned federal assistance grants, which have been frozen, but state government funding is still lower — —

Mr SPENCE — It is variable, depending on which area you are talking about. Libraries are in decline, in real terms. Maternal and child health is fixed at the moment, and we hope it stays that way. School crossings are a problem, and the whole model is a problem; the whole model needs to be turned on its ear and rebuilt. And the state is out of HACC. They are working on the disability side in particular, which is positive, because the state is not just abrogating all responsibility for the aged and the disabled, which is very important, given that the commonwealth can sometimes be quite hands-off in terms of service delivery.
The CHAIR — Just further on the Brown review, has it smoothed out some of the variation process but not fundamentally changed the difficulty for councils in applying for variations, the cost of preparing the variations — all of those matters?

Mr SPENCE — No, it has not. I mean, the councils will now, I think, have a clear understanding of what is expected, and Local Government Victoria is working with the ESC on those issues, trying to use common datasets for analysing the proposals and so on. But it is still an onerous task, and that is why I think we have got to come back and look at subsets of councils and what the cap is, where the hurdle is, before they have to make the application.

The CHAIR — Have you done any assessment? Now that there is a bit more experience, as part of that assessment of the Brown review, and you may have put a submission into that Brown review — I am not sure, but you probably did — —

Mr SPENCE — We spoke to Peter and went through the issues with him, yes.

The CHAIR — Any material you have on that would be helpful to us.

Mr SPENCE — Okay.

The CHAIR — Finally I have a question about these new regional partnerships. I do not know whether you are familiar with the announcement by the government in the last week or so about these new regional partnerships.

Mr SPENCE — Yes.

The CHAIR — This may be a cost on the system, but I am interested in how that will interact with councils and whether councils will be part of that, whether elected officials will have a say.

Mr SPENCE — My understanding is that the model is established where CEOs will sit on the partnerships. In the discussions I have had with government at a number of points I have emphasised our concerns about the fact that there is no engagement with the elected reps, and I have pointed out that — —

Ms SHING — No direct engagement, you mean.

Mr SPENCE — No direct engagement, but it is a bit like the commonwealth appointing state department secretaries to a commonwealth committee and not running it past the state government for review. I keep making that point. I have been really successful; you have seen the press release!

The CHAIR — It has got a bit of an undemocratic feel to it to me.

Mr SPENCE — There has not been engagement with the MAV on the model in any detail, and we have constantly expressed the same view — that we want to know what it is there to do, and it is a bit hard to understand that from the press release, and we want to know if it is going to try and harness the power of local government and state government and the community sector and private sector, and how it will do that when the councillors, the council, the political entity is not engaged. I am not saying the model is necessarily bad; I just think — —

The CHAIR — A lot of questions.

Mr SPENCE — If you look at it with a really negative view, it looks as if the state government is trying to cut the elected reps out. If you take a more — —

The CHAIR — A group of tame cats.

Mr SPENCE — Well, a lot of the CEOs are not tame cats, but it is an odd model I think when you have not at least gone to the council and said, ‘Do you agree that this model would work effectively for the region?’; and, ‘This is how we are proposing to engage with you, council?’. It does not seem to work that way.

Ms SHING — Thanks, Mr Spence, for coming back to the committee. I appreciate your ongoing engagement with the rate capping inquiry. I would like to take you back to something that you said at the outset
in relation to ‘progress is being made’, and that was just after you referred to discussions with the government on SES. You then went on to say that school crossing supervisors have been a longstanding issue and a challenge and that is in the process of being worked through. Is it fair to say that this process that has been undertaken in relation to cost implications and datasets has enabled the MAV and specific councils to take stock of issues that perhaps have been bubbling along for some time without being the focus of any targeted approach to fixing them? That seems to be what I am hearing from you, but I do not want to put words in your mouth, so if you could just expand a little on the progress that is being made in terms of that flow of information, understanding the implications and doing a stocktake so we are not just relying on anecdotal evidence and analysis in order to understand cost flow-on effects.

Mr SPENCE — If you look at issues like home and community care and maternal and child health and libraries — the big funding lines — our members have been very sensitive to the arrangements on those over time, and we have been advocating in those three services — —

Ms SHING — But they are not new issues.

Mr SPENCE — They are not new issues. SES has a long history, but it has really been surfaced by rate capping, in my view, and school crossings have too. It is my proposition that at the moment the state is in heaven because it has got phenomenal revenue streams out of property movement and so on, and these are on a five or a seven-year cycle. We saw Cain was at the end of it, Kennett worked his way through it, Bracks came in at the up bit. It is back up again now. It came off before the Baillieu government. It is hot again at the moment.

The CHAIR — Seven in two years is the increase in state revenues.

Mr SPENCE — Yes. So what we have seen, I think, in terms of service delivery for the citizen is that the councils have used their capacity to expand and contract their revenue and expenditure to deal with the ups and downs of the expenditure capacity of the state. We have seen that in HACC and maternal and child health, we have seen it in SES and we have seen it in school crossings. The councils have basically said, ‘With rate capping we’ve got the capacity to expand and contract to deal with it; therefore let’s just give it back’, and we are trying to negotiate an outcome on that. I have got an agreement from the councils on a proposition, which I have put up through the bureaucracy, and we will see where it lands.

Ms SHING — Are you — —

The CHAIR — What was the proposition?

Ms SHING — Sorry, Chair. I will ask that in a more open way. What has your view been in relation to the capacity of the MAV to participate in conversations with government? I note that this does not just cut across member responsibilities and the portfolio of the local government minister but a range of different portfolios. What has been your experience as a peak body in raising and ventilating those issues and your positions on various parts of the debate and the discussion on expansion and contraction and the planning that is necessary to be part of that?

Mr SPENCE — I think it has been reasonable. With the access points, we know how to get in the system — we have been around for a long time, know a lot of people — and when an issue becomes a priority for government you can get a resolution. So with SES, there are various reasons why it has become an issue. I have got a fair idea — —

Ms SHING — Let us not think of 1988 and the exchange of letters that occurred around that time.

Mr SPENCE — I think it is probably closer to the issues that are occurring now.

Ms SHING — Well, it all started in 1988, and we have moved on from there.

Mr SPENCE — That is right. I think there are issues that are occurring now that have surfaced it, though. School crossings are a problematic one for both government and local government. They are something that the community acknowledges the importance of. The funding model is a shemozzle. It is an opportunity to fix it. So the capacity to do that is pretty good. School crossings are difficult because, say, when a child gets to the front
gate of the school, once they leave the front gate, they are not our problem — then it becomes a council and VicRoads problem — so we have been trying to work our way through that.

**Ms SHING** — Thanks. Finally, to provide some more context, the regional partnerships model has been intended to increase collaboration between communities, industry, businesses and government to address the most important challenges and opportunities in each region. I am quoting here from the RDV page on regional partnerships, which is available online:

Members will engage with their communities on priorities for their region, building on existing strategies and plans —

that is, existing work that has been done —

harnessing the good ideas, the energy and the passion of locals. Priorities will be presented directly to the Victorian government’s Rural and Regional Ministerial Committee.

From my understanding, the work that is being done in relation to regional committees, and in particular the Gippsland component of that, has directly involved an active role from the CEO of relevant councils to the purpose of making sure that elected representatives are apprised of detail and can then pursue their own particular positions or priorities through avenues that already exist so that this is not in fact an exercise in cutting out elected representatives — which I think was the subject of an exchange you had with the Chair earlier in this hearing — but rather to complement the work that is already going on. How would you like to see that occur in a way that maximises not just the opportunities for elected representatives to be part of overall decision-making but also encourages people who may not ordinarily have that elected voice to participate?

**Mr SPENCE** — I think it is an incredibly complex proposition you are putting, because at the council level they have all their own machinery to determine what is required locally, and then we have overlaid a model across the top of it, which is a sort of regional partnerships model that — if you have got six councils in the region — may not integrate with councils A and B but may integrate with the balance.

**Ms SHING** — That is not a new challenge, though, is it, in terms of understanding what regional needs and priorities are?

**Mr SPENCE** — I do not think anyone has done it particularly successfully, but I think the issue I have got is that I think this is as much a sort of process issue that you would agree with the councils on the mechanism that would be used to engage with the council itself, as you would with the cabinet or the government.

**Ms SHING** — You mean in addition to involving the CEOs of the respective councils?

**Mr SPENCE** — The CEOs should have no power at a —

**The CHAIR** — Policy level.

**Mr SPENCE** — policy level.

**Ms SHING** — But rather as a conduit for the purposes of overlay.

**Mr SPENCE** — It can only be a conduit. That is right. It is not the way it appears.

**Ms SHING** — What do you mean it is not the way it appears?

**Mr SPENCE** — It appears, when I read it, the CEOs are in sort of the front seat. It is not saying they are there representing the view of the council.

**Ms SHING** — But they are part of what is being discussed in relation to the priorities for each region as they are advanced by local community members?

**Mr SPENCE** — Yes, but they have been selected by the state to go on this without an engagement with the council itself. That is the point I am making; okay.

**Ms SHING** — Yes. Okay.
Mr SPENCE — You have got all the horsepower of local government sitting over here, and how do you engage with it? Lay a structure over the top, which could look as if it is intended to take the council out of play. That is the tension point we see with elected reps.

Ms SHING — Perception is everything. Finally, I do have one other question. Noting your background in superannuation — and just declaring that we have in fact been part of the same board in a previous life — the issue of a call on super is one thing which has come up a number of times, around defined benefits and how to preserve the relevant buffers on what a call might look like and how that might impact upon individual councils, particularly after the experiences of some years ago which caused an enormous and immediate impact on the number of councils. What work has the MAV done and your links with the superannuation industry to better understand the impact of a call in relation to current numbers of defined benefit members?

Mr SPENCE — Just to give a bit of a snapshot of where things are at, for starters, there is a trigger point called the vested benefit index. The fund has to have a vested benefit index of 100 or above. If it gets to 97, then APRA requires you to trigger action, then you have got three years to get it back to 100 per cent. It is not like the state scheme that can run in deficit. This scheme has to run effectively in equilibrium.

It is currently running at about 102—102.4 I think was the last number I saw. It has been up to 105. It has not been below 100 in recent times. The fund has taken significant action to de-risk the model, and that has assisted. A couple of things we have done have protected us from downward movement in the markets. There is basically a daily review of the vested benefit index.

What happened when the full $50 million call occurred was that our data was always way behind where things were really at, so that the board of the super fund was not getting real-time data. Now they are getting real-time data, so it gives you the opportunity to pull the levers much more quickly.

If we look at where things are at, there are a number of mitigating circumstances. We know earning rates for super funds have not been too bad, but the drivers for a DB fund are CPI and wage rate movement, and in local government wage rate movement is coming off, so if you put CPI plus wage rate movement together and a small amount for administrative costs, that is the amount the fund has got to earn to stay in equilibrium. When the call occurred, we had to earn 8s, and when the global financial crisis occurred we were sort of in negative. Now we are much more attuned to it and things that are occurring in the sector — because local government industrially lags what we see in state and the private sector. Local government is going into a down at the moment on wage rate movement, and we are starting to see other sectors start to life, so we are probably three or four years behind, I would say. So, yes, a very close watching eye on it. The impact of it, we have had about a billion dollars: 350 million in 1997, I think 75 million, 127 million — these should all be tattooed on my back.

Ms SHING — They have burnt into my brain too, Mr Spence.

Mr SPENCE — And 450.

Ms SHING — And 450, yes.

Mr SPENCE — But the model now is much more sophisticated.

Ms SHING — So on that basis, and by your observation, given the responsiveness with which the fund has taken on the risk of a call and been more dexterous in relation to maintaining better than equilibrium and managing risk, what effect, if any, do you see might occur as a consequence of a call in a capped rate environment?

Mr SPENCE — I think if you call 100 million, you will cause real problems for the rurals. Like, you take the poor old MAV, we have got one staff member who is a DB member — one — and the call on the MAV was over a million dollars because of the number of pensioners that are still being paid out of the scheme that have been employed at the MAV since 1983 or when the scheme came into place.

Ms SHING — So based on DB membership there would be a disproportionately harsh impact on rural and regional councils as a consequence of those larger representations of DB members?

Mr SPENCE — I think there is another point in that, too, in that we see in rural councils, particularly the small ones, people are inclined to stay as an employee for the whole of their career. So you will have people
who have been in the DB fund since almost the start or the start. And they will not be high-income earners, because we know the average salary for a person in the DB fund is about 70 grand or something. It is not the CEOs and so on we are talking about. The bulk of the people are in those lower categories.

Ms SHING — And I assume that continues to be part of the work that you are doing with the ESC and others to understand the consequences of rate capping in the context of the call.

Mr SPENCE — Yes, this is my life. You know, of the issues I have dealt with at the MAV — and because the MAV has really carried the can for DB fund calls — our focus is strongly on monitoring that VBI and making sure the councils are prepared. So the reason we put in place the local government funding vehicle, which allows us to go to the bond market to borrow wholesale, is to deal with issues like the call. So when the call occurred, we did an issuance of 225 million, successful in the market, and the councils got phenomenally low interest rates; it allowed them to pay the call-out.

Ms SHING — Thank you very much, Mr Spence.

Ms DUNN — Thank you, Rob, for your evidence today. There are a few things that we have already covered off on, but I am just wondering from your conversations with the sector, have any more areas of cost shifting been identified or come to the fore at all?

Mr SPENCE — There are a number. I do not think there is anything new. We are actually dealing with those that are the most significant at the moment. I do think — —

The CHAIR — Drainage, is it?

Mr SPENCE — Drainage. Well — —

Ms DUNN — Don’t get sidetracked by the Chair.

Mr SPENCE — Flood levies and so on. There are a whole lot of issues that continue to pop up as government considers policy that has implication for local government.

The thing that we want to focus on, after we have cleaned up school crossings and the SES, is the red tape coming from the state. So we think the drag will be significant. One of our targets will be the performance indicators. I think the piece of work we want to do is we want to understand what the ratepayer is paying for the performance indicators. Performance indicators are important, but is that number of performance indicators important; and then to look at other areas of red tape in relation to the state, so to just work through the drag on the councils. Again it impacts the rurals most, because it is a small group of people who have got to put the datasets together.

Ms DUNN — Yes. They do not have the same economy of scale as the larger — —

Mr SPENCE — They have not got the capacity to do it — yes.

Ms DUNN — And in terms of those two areas that you are focusing on, which are school crossings and SES, can you just confirm or clarify for me that that is about that proposition that you have got? You mentioned a proposition a bit earlier.

Mr SPENCE — Well, the proposition I put to our members, that I have now put to the state and they are considering it, is that the state would take over the full cost for running the SES and that the councils, which basically — they are either Crown grants or whatever — actually own the property. They would have the SES remain on a peppercorn rent for a reasonable period of time, maybe 20 years or something, because — and this is just me talking off the top of my head — my view is that the SES at some stage needs to get control of its own existence. It is such a critical service in Victoria. We have seen with the wind storms and flooding and so on, they play a major role, and they cannot be dependent on other people propping them up for vehicles and phones and insurance and buildings — —

Ms SHING — Raise all of their own funds alternatively.
Mr SPENCE — Well, they should be part of the suite, in my view, with the fire services. They are an emergency service as significant as the fire services, in my view. In fact most citizens would see the interface with the SES when an event occurs, where they might see less with the fire services, for example. So there is an opportunity, I think, at this stage to build the basis of a sensible reform agenda that we strengthen the SES with its strong volunteer base, enormous commitment from individuals out there — and it runs on the smell of an oily rag.

Ms DUNN — Thank you. I know earlier you talked about that you did not think there would be much activity from councils in this upcoming year in relation to applying for variations. Do you see that part of that perhaps is the fact that there will be new councillors, or a number of new councillors, post 22 October who very quickly have to get their heads around what a council budget is and what that means, and there is not only the interface of it being on you immediately but you have got a minister who is making a decision in relation to the cap in December as well, so it is very short timing.

Mr SPENCE — That is right. It is very short timing. You are an ex-councillor, you know that experience of getting elected and then going straight into the budget cycle. When I look at the electoral material that is out there, almost everyone is saying that they will either hold rates where they are, hold them at CPI or cut them. It is very hard to see a surge in rate movement, I would have thought, in the first year. And we know that we get about a 50 per cent turnover at elections.

Ms DUNN — Yes, so that is why you suspect there will be a lag time.

Mr SPENCE — There will be a lag, and then, as the community starts complaining that the roads are disintegrating, the reality will land.

Ms DUNN — Thank you. My last question is: in your observation, what sort of strategies have you seen local government take in terms of meeting the cap this time round?

Mr SPENCE — We have seen staff reductions, definitely. We have seen with those that are negotiating EBAs some of them are getting into the ones and one-and-a-bit, so there is quite a shift out there. Again it is more obvious in — the rural councils are the sensitive point. That is where you see it most. There is capacity in the metros I think to absorb and to deal with it for a while. I think in the interface councils you see it in their capacity to actually roll out new infrastructure and so on; it will just slow down. Could I just say on that point, we do not want to be in a situation where we basically impact the development of outer Melbourne where we have got young families. I hear these stats of primary schools with 1800 kids in them — P–9s with that sort of number. There is one school in Wyndham, I think, that has now got nine grade 2 classes, and the whole school is at 1800 kids. It says they are young families, there is not a public transport, they are disconnected, community facilities are really critical and the councils have to have the capacity to deal with that. I know the 50 million from the state into the growth areas has helped, but it is still only 50 million for a massive need.

Ms DUNN — And across a number of councils, not just one.

Mr SPENCE — That is right; not just one.

Ms BATH — Hello, Rob. Thank you for your presentation. Earlier on you made commentary around the gap of expectation particularly in rural councils around roads and road maintenance. And we heard when we were in East Gippsland in Bairnsdale, CEO Gary Gaffney make comments around the significant value of the country roads and bridges program, which has since been made defunct — not renewed. I have not been to other parts of rural Victoria — north and west — so has the MAV had conversations or had people from those councils coming to them making comment about that?

Mr SPENCE — Absolutely. One of the drivers for the commentary is the fact that VicRoads is being underfunded. Their maintenance capacity is way down. I mean it is difficult for any road authority when we have had the level of rain which causes the roads to disintegrate, but the VicRoads spend has dropped — well, they have not had the capacity to spend. The consequence of that is that you are getting a much bigger load-up on local roads, which is causing them to deteriorate. My good friends in South Gippsland talk about ‘historically listed potholes’ they have got in their area on state roads. And we have heard from the agricultural sector in that area in South Gippsland that they are having to repackaging their products because the roads are so rough that it is actually damaging them on the way.
Ms BATH — My word, and I have lived on those roads too, Rob, so I am aware of them.

Mr SPENCE — Yes, you can just about drive through the pothole, not over it. It is an issue. I know VicRoads are running a new model in Gippsland, which looks very promising, where they are getting much better value out of less spend, which is a positive thing, but like we see with councils, if you do not maintain your infrastructure spend, ultimately you bring forward the life span of the infrastructure and then the spend and the cost to the community of maintaining it goes through the roof. It is important to stay on top of it. We have expressed that view to Infrastructure Victoria for consideration in their draft report, that maintenance of the current asset base — like, why is the rail system in such a terrible state? Because it did not get maintained properly from 1930 to 1990, probably.

Ms BATH — Thank you. This is a fairly big question but if you can be succinct, that would be good. You mentioned before about the variable rate cap, and looking in country areas again and looking at the size and the status of that variation — it is a long piece of string — but can you make some comment around what MAV would put as a proposition for that?

Mr SPENCE — What I would look at is using average weekly earnings probably in rural Victoria as the trigger — so it is not two; it is three — and then put a mass of pressure on the commonwealth to actually deal with financial assistance grants sensibly.

The CHAIR — So the state not to cut back funding.

Mr SPENCE — That is right — and maintain funding, yes.

Mr DALLA-RIVA — Thanks Mr Spence. Just a quick question which might help us later on in the public hearings. We have the Essential Services Commission, in fact the CEO, coming at 2.30 today. Are there any particular major issues that they need to address? I guess for us it is sort of helping us to ask them on behalf of your members about any of the major concerns that continually come up in that process which we have discussed previously at other hearings.

Mr SPENCE — I think the Brown report and the outcomes of it will hopefully resolve those issues. The ESC is constrained basically by the model. It had always been our view that they needed to build templates at the front end to show councils what they needed to provide and to be very clear about it. The fact that we did not have that I think put a lot of financial and staffing stress on those councils that made applications. I would be hopeful that next time around the councils will be able to, quite simply, put the proposition in. I do think in some of the decisions there were clearly some misunderstandings of the funding streams councils had available to them and what they could use them for — for example, considerations of Roads to Recovery funding and whether you could spend it on other things. You cannot when it is locked into these roads. That is all you can spend it on. You cannot use it to offset your council spend. It is part of the deal with commonwealth.

Ms SHING — So an accurate understanding is crucial in terms of process.

Mr SPENCE — Absolutely. The fact that they get a mass of applications at the one time does not help with being able to sift through the stuff. The time period is too cramped, I think, to give proper consideration. If you were going to do it properly, you would buy a lot more time, I think.

The CHAIR — Thank you, Rob. I appreciate very much and the committee appreciates very much your input. There are probably a few things we will follow up with evidence, and if there are other matters that you wish to put forward too, please feel free to do that because there is an ongoing challenge with the impact of rate capping. Thank you.

Mr SPENCE — Thank you.

Witness withdrew.