TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Ballarat — 28 April 2016

Members

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Ms Harriet Shing — Deputy Chair

Mr Richard Dalla-Riva
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Witnesses

Cr Des Hudson (sworn), mayor,
Mr Frank Dixon (sworn), interim chief executive officer, and
Mr Glenn Kallio (affirmed), chief financial officer, Ballarat City Council; and
Mr Aaron van Egmond (sworn), chief executive officer, and
Mr Grant Schuster (sworn), general manager corporate services, Hepburn Shire Council.
Ms SHING — On behalf of the chair, Mr David Davis, I declare open this public hearing of the Legislative Council Standing Committee on the Environment and Planning Committee. This means that all mobile telephones should be now be turned to silent. Today’s hearings are being undertaken by a subcommittee of the committee. The committee is receiving evidence in relation to the inquiry into rate capping. I welcome the witnesses, and I thank you for making yourselves available with such short notice.

All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Therefore the information that you give today is protected by law. However, any comment repeated outside of this hearing may not be similarly protected. All evidence is being recorded. You will be provided with proof versions of the transcript in the next couple of days. We have allowed a total of 1 hour for this session, and to ensure that there is sufficient time for questions, the committee asks that any opening comments and remarks that you might make be kept to about 5 minutes in total.

We now welcome the chair, Mr David Davis, and Mr Shaun Leane. Chair, over to you.

The CHAIR — Can I also acknowledge in the audience Josh Morris, a member of the Legislative Council for this region. Can I ask first for a brief presentation from each of the councils and then we will follow up with some questions. This is pursuant to our inquiry on rate capping, and evidence that you give here is obviously protected. All commentary you make outside may not be protected.

Cr HUDSON — Thank you, Chair, and thank you for the opportunity to present before the inquiry. My name is Des Hudson. I am the mayor of the City of Ballarat. Making our submission today I am joined by the interim CEO, Mr Frank Dixon, and our chief financial officer, Glenn Kallio. I will hand over to the interim chief executive officer for our opening remarks.

Mr DIXON — Thank you, Mayor. Chair and panel, there is a brief document that has been distributed. In the interests of brevity, and understanding that our regional colleagues will also need some time to speak, I will just talk to some really highlight issues in terms of the four points that Ballarat City Council wishes to make. They are summarised at the top. We question whether a unilateral rate cap is the right solution. We are also suggesting that the rate cap process in its current form does not allow for comprehensive financial planning on the part of council. Our suggestion is if rate capping is to continue there needs to be changes to the rate cap process to allow for improved community consultation. Finally, if rate capping is to continue, any rate cap should be council-specific rather than generic.

I will just touch on those four points very briefly, with the first being whether a unilateral rate cap is the right solution. We need to say at the outset that council does not disagree with the concept of providing certainty around rate levels in a public manner, and council already has some key principles which are around providing for an even rate over a period of time, that there are not fluctuations, so that there is much more certainty on the part of residents, ratepayers, businesses and so on.

Secondly, we have had a principle of attempting to set the minimum possible rate level. As it has turned out, over the last eight years an average rate increase has been 4.9 per cent, clearly significantly more than the 2.5 per cent which is the current amount. This is a point I will focus on shortly — that is, that this has included over this period of time funding for projects of what we consider to be of statewide and certainly regional significance, such as the Museum of Australian Democracy at Eureka, or MADE, the Ballarat Regional Soccer Facility and a 50-metre regional indoor heated pool.

Council also contends that setting a rate at 2.5 per cent certainly does inhibit council’s ability to provide a range of services. It is noted that state expenditure in the last financial year has grown at 3.5 per cent, and I note in today’s Herald Sun comments around state wages being anticipated to grow at 3.2 per cent per year for the next four years. Councils are certainly subject to very similar pressures to the state government, and certainly the concern is that the rate capping regime creates a long-term financial threat to the ability of local governments to develop sustainable services into the future whilst maintaining assets, understanding that what all councils face is the infrastructure renewal gap.

The second point is that the rate cap in its current form does not allow for comprehensive financial planning. I will touch on this very briefly. Certainly councils here and elsewhere need to have a plan for the future, but there can always be unforeseen incidents that take place. The example that we give there is that of the defined
benefit scheme, where we have an obligation to meet any shortfall. The last call for contributions from Ballarat City Council was in the realm of $10 million, which as you can imagine is a significant impost in a rate-constrained environment.

The next point is a slightly radical suggestion, possibly — that is, that council does not disagree with the principle of really high-quality, effective community engagement and consultation. Current time frames in terms of council being elected on the last Saturday in October and needing to have in place a four-year council plan and a long-term financial plan and a four-year budgetary cycle and consultation following that which deals with rate levels required to make a determination whether a rate cap exemption is to be applied for and so on — effectively our sense is that most of this work needs to happen in the first six weeks of a council getting in place, and that is certainly very challenging. The thoughts are if there is going to be this type of regime maybe there needs to be a process of allowing a good 12 months for a new council to undertake that comprehensive engagement with its community before it addresses these significance strategic challenges.

The final point that I want to touch on on behalf of Ballarat City Council is that rate caps cannot be generic because every municipality faces its significant challenges. Our rural colleagues in this region certainly have challenges and as a regional city, so do we. Many of our services quite rightly are provided to regional catchments — very broad regional catchments — and yet our capacity to raise rates is necessarily limited to our ratepayers. Certainly that does need to be taken into account when any decisions are made around the appropriate rate increase levels for the City of Ballarat.

A final point that I will touch on is that, for example, this council has longstanding commitments that it needs to meet: development contributions policies where developers are required to contribute to the provision of infrastructure and of course council is required to meet the agreed contribution. They have been set in stone. You can have changes of valuations without necessarily the capacity to have the funding to meet that, so that is just one significant challenge that we face here, being a growth municipality. Thank you, Chair and panel.

The CHAIR — Thank you. Can we hear also from Hepburn.

Mr van EGMOND — Thank you, Chair and panel, for the opportunity to present today on behalf of Hepburn Shire Council. The information that I will read out to you today is also contained within the information circulated to you. It is in the form of an open letter that we have published and sent to the Minister for Local Government and the Victorian Essential Services Commission. We will read it in two parts. I will read part of the address and then my colleague Mr Grant Schuster will read the balance of the letter.

Hepburn Shire Council is disappointed that the Victorian state government has imposed a cap on the annual rate increase to a Consumer Price Index forecast of 2.5 per cent for 2016–17. This cap has been applied despite the individual circumstances of small regional councils. The cap is also inconsistent with a higher cap recommended by the Victorian Essential Services Commission. In the long term, this will take the ‘local’ out of local government.

Hepburn Shire Council made the decision not to submit for a rate cap variation for the 2016–17 year. Despite having worked with the community in setting its council plan 2013–2017 and agreeing to a self-imposed rate cap of 4 per cent, council has been overruled by the state government. Council agrees with the need to provide the community with certainty and to keep rates low, but the level should not be set by the state government in a one-size-fits-all approach.

I should note that there is a graph within the document that has been presented to you, which indicates the setting of a 4 per cent rate cap by council back in 2013 following highs of 8.5 per cent, 8.3 per cent and 8.9 per cent.

As a small regional council, it was not feasible for council to prepare a variation request that would meet the principles the Essential Services Commission set for an increase above the rate cap. The level of consultation required was not possible in the two months provided, and the level of detail required in the submission would cost our council approximately $30 000. We believe the rate cap variation process is too onerous and costly for small regional councils.

Hepburn Shire Council has made significant progress in reducing operating costs and becoming more efficient. We have made significant savings in utility costs, steadied the annual increase in employee costs, reduced our
debt levels and found additional income through interest and rent. The results of this focus are evident when comparing our 2014 long-term financial plan targets for 30 June 2016 to our current forecast.

Within the table provided, our working capital ratio in the long-term financial plan was 150 per cent and is forecast at 248 per cent within this particular year. Our loan balance is $4.1 million in the long-term financial plan, and 2.7 is our current forecast. Our indebtedness is 18 per cent in the long-term financial plan and 14 per cent within our forecast. Our annual renewal spend within our long-term financial plan was 4.6 million and is now forecast at 6.2 million.

There are a number of cost savings that have been achieved, which include some of what I will read out to you but are not limited to: a reduction in general manager costs by $60 000 per year; a reduction in manager costs due to service reviews and restructures of $150 000 a year; a reduction in pool vehicles to an amount of $66 000 per year; electricity cost savings through the installation of LED streetlights, the installation of solar panels and efficiency actions of $60 000 per year; a reduction of $40 000 per year in IT phone costs; additional interest income of $100 000 per year; reduction in subscriptions of $13 000 per year; an increase in commercial rent of $60 000 per year; and a reduction in waste costs of in excess of $120 000 per year. I should note at that point that council outside the rate cap has also reduced our waste charge in the last three years consecutively. I do not think any other council could lay claim to that.

Our front counter customer service and consolidation of sites has resulted in $25 000 savings per year; increased debt repayments and early pay-down of debt has resulted in $84 000 in operating cost reductions; debt alternatives such as the local government funding vehicle has brought a reduction of $49 000; and there have been road reconstruction savings of $150 000 per year due to pre-design works and early tendering achieving much better rates. All this is in excess of $1 million per annum in operating savings, and I guess it gets to the heart of why we believe the 4 per cent rate cap that we set for ourselves was reasonable. I will now hand over to Mr Grant Schuster to read the rest of the letter.

Mr SCHUSTER — Hepburn Shire Council has been penalised by the introduction of the state government-imposed rate cap, despite being ahead of the local government curve in constraining employee costs and improving efficiencies. We are currently in a position where Hepburn Shire Council is closing the gap on asset renewal investment and service delivery. The Victorian state government is putting this at risk. In addition, as the federal and state governments reduce their contributions to local government, particularly through the freezing of the financial assistance grants, council continues to fund an increasing proportion of core services, such as libraries, school crossings, aged and disability services and road maintenance.

Council’s costs are increasing annually at a rate greater than 2.5 per cent. However, we are well positioned financially, such that a 2.5 per cent rate increase will not greatly impact the community in the first year. Council can make a one-off reduction in our cash to minimise the impact of the cap, and this is what we have included in our proposed budget for next year. However, in 10 years time the rate cap is forecast to result in $3.1 million less every year to spend on delivering core services to our community, and that is with a rate income currently of $15 million.

Hepburn Shire Council will continue its focus on finding cost savings and increasing efficiency, but it has its limits. Our strong financial position will only sustain us through cost increases for a couple of years. Then the community will experience the negative impact of rate capping. The state government must revise its process for small councils to seek variations or the Hepburn Shire community will experience a reduction in funded services in the future. Thank you.

The CHAIR — All right. I have got a couple of questions that come out of that. The first relates to the interrelationship between state government and the local governments. I am interested in the first instance to understand payments by state government. I note that the budget yesterday shows that state government payments to local governments are still intended to be 14 million less than they were two years ago — that is aggregate — but I am interested in the impact on individual councils: a regional council and a rural council.

Mr KALLIO — From Ballarat City Council’s point of view, each year we have had to find additional savings in order to cover the real decrease in grants and even in services such as HACC, where also it is not just the decrease in real terms of the grant but also the ceiling on the user fee that we are allowed to charge. So where we would normally, in a service like that, go user pays, we are restricted on that. That has caused a greater burden on us to actually have to turn around and find additional savings in order to continue that service.
For the last decade we have been finding efficiencies every year to be able to continue those services at the reduced funding. Looking at next year with the rate cap we are already having to cut $3.5 million out of the business in order to meet the rate cap from an operational point of view.

The CHAIR — And that will be reduced services or reduced infrastructure spend or more debt?

Mr KALLIO — Well, already we have got a debt program for the next 20 years, which is pushing council’s debt in 4 years time to a level that is outside our risk parameters. For the next year we are using a lot — —

The CHAIR — Have you had a wink and a nod on that from the ESC? Did they kind of leave open the prospect of increasing debt?

Mr KALLIO — Their view was that borrowing was the solution to the rate cap, and then I explained that at some stage you have to pay back the borrowing. I presented a financial strategy of trying to do what we are doing now with a 2.5 per cent rate increase, and by the end of 20 years we were borrowing $70 million a year in order to maintain the operations and not paying debt back, so our debt increased from $48 million this year to $330 million in 20 years with no prospect of ever paying debt back. So I had that discussion with the Essential Services Commission that, yes, councils can borrow money — and we have allowed flexibility within our borrowings for future major projects, which a regional council will have over the next 20 years — but borrowing is not a solution on its own if you do not have the revenue in order to repay that debt.

The CHAIR — Do you have a copy of that document? Is that available?

Mr KALLIO — I can give you a copy of that, yes.

The CHAIR — That would be helpful. In the same way, a smaller council?

Mr SCHUSTER — Through you, Chair, we are in a similar position in terms of the reduction in payments for services that we deliver, or a freezing in those and not increasing at the rate at which the costs are increasing. In most cases we have been able to meet the continued service through contributing more of our own percentage to it, and our percentage has crept up over the time that council has contributed to those services. Even recent examples, such as the L2P program funded through VicRoads, through the state government, a change in structure of that program has meant a significant reduction in the funding amount that is provided. However, to try to continue to deliver that same level of service, council is having to make the tough decisions around: do we meet that through the savings we have achieved and reallocate that?

The CHAIR — So the aggregate payments this year, last year and the year before that you received from the state government, have they gone up or down or remained the same?

Mr SCHUSTER — I do not have that specific. I can find out the specific total across all of our programs. I have not aggregated it.

The CHAIR — That would be helpful as well. Do you intend to change your debt profile at all?

Mr SCHUSTER — We have not needed to at this stage look to increasing debt to fund that. Our approach and our focus in our long-term financial plan has been to use debt where intergenerational equity comes into play, so in a significant infrastructure investment in a new facility that is going to provide a service over future years —

The CHAIR — But not for recurrent?

Mr SCHUSTER — rather than a recurrent annual expense. That is sort of heading in the wrong direction, in our opinion.

Ms SHING — Thank you, gentlemen, for the opening remarks that you have made and also for the documents that you have provided to the committee to assist with our ongoing inquiry. Mr Kallio, I would like to pick up on a number of the things that you said in your presentation in the context of the savings that were reached by council in relation to a revised insurance process that allowed for a 1 per cent rate reduction, as was reported in the Courier, and the process which was undertaken in order to get that overall reduction. How did
you go about actually achieving a net saving and was that considered as part of the council’s work before deciding to proceed with a variation application?

Mr KALLIO — That is in relation to the insurance?

Ms SHING — Yes.

Mr KALLIO — That occurred, I think, last year and the year before. It is traditional for local government to continue to just go to the MAV. We have gone out through procurement. A lot of the savings we have achieved over a number of years has been through our procurement model, so we went outside the normal process that local government goes through in achieving insurance policies, and we went to the market. So being able to go through a procurement process and making the normal purchase of insurance open to the wider market enabled those savings to council.

In relation to the savings that we will have to do this year, we have just enforced a saving on our budget. We have not worked out how we will achieve that yet, because the time lines in relation to putting an application in to the Essential Services Commission did not allow that level of detail to occur. We will have to go through a process of service revisions, and that takes some considerable time, and there was only a two-month process in which to get an application in. So we have just enforced savings on the organisation, and over the next 15 months we will have to work out how we are going to achieve those savings.

Our application was all around infrastructure renewal, which has been a long-term aim of this council for the last 11 or 12 years, and also the fact that we have got a developer contribution scheme which gets re-indexed each year because it is a real liability of council, and we have no choice, but when that is indexed that increases our liability.

Ms SHING — So just to test that for a moment, the developers contribution process and the way in which that is featured as part of your application for variation, could it not be said that that is in effect an attempt to, in seeking a variation, have ratepayers actually supplement that development contribution process, as distinct from developers meeting those costs themselves?

Mr KALLIO — The essence of a developers contribution scheme is that councils have a net liability, so the original liability for council when the scheme was first put up was around $46 million to $50 million; it has now been re-indexed up to $55 million. I would suspect over the life span of that developers contribution scheme the ratepayers of Ballarat will be required to pay more and more of that liability. That is just the essence of what a developers contribution scheme is. It is not self-funding. More to the point, our expenditure over the first 8 years of the scheme is quite significant, where the income comes in the last 10 years of the scheme, so the council has to find the cash flow to pay for the infrastructure required for that development, but the income is not matching it.

Ms SHING — So if you were to say, then, that ratepayers would in fact be required to contribute to meeting those costs as they arise over the course of the process, and yet you will recoup something in the last stages of the project, how do you propose to then reabsorb that into council savings down the track as those contributions are received?

Mr KALLIO — We have a financial strategy over the next 20 years which covers the DCP. Part of our plan in which to fund that liability in the early years is to borrow money. Over the next three years — I think it is the next three years — we will borrow $21 million, which covers that gap of providing that infrastructure under the developers — —

The CHAIR — So it is a phase-in issue, is it?

Mr KALLIO — Yes. Well, there are two issues. One — the phase-in issue — is the fact that council has got to cash flow the scheme upfront because the income comes much later in the process, but then each year the scheme is re-indexed to bring the cost of the delivery of that infrastructure up to real terms, so each year we will go through a process of re-indexing what our liability is, and that liability will just grow each year.

Ms SHING — But where that return comes from the development as it is completed and/or in the last 10 years of the process, or in the latter stages of the process, how do you propose to return that benefit to ratepayers who have earlier subsidised, or may be considered to have subsidised, the DC scheme?
Mr KALLIO — We have programmed that that money pays off the debt. So we have had to borrow upfront, and when the income comes in that helps repay that debt to allow council to have the capacity to borrow for any other major projects that the community may need into the future.

Cr HUDSON — Deputy Chair, I have a prearranged media obligation that I need to commit, so I am going to need to step out of the inquiry for the moment.

Ms SHING — That is okay.

Cr HUDSON — I will come back. I realise I am still under oath at that stage.

Ms SHING — Thank you, mayor; that is great.

Mr DIXON — Just to go further — and you can correct me if I am getting this wrong, Mr Kallio — the challenge too is that when a development contribution schedule is set it is on the rates applicable at the day, and there is some allowance for indexing, but the difficulty is the difference between when it was set and when the expenditure is required, the actual cost has gone up significantly. And that process of actually setting the index in the first place is an independently assessed process, so there is not the capacity to come back to a developer and say, ‘Hang on, the cost to do this is a lot more than it was at the time that we did the assessment. You now need to chip more in’. I think that is the challenge. So it is not just a question of the timing of the receipt of the funding; it is the adequacy of the funding under the principles.

The CHAIR — So you think it is a weakness in the scheme as well as a phase-in?

Mr DIXON — Yes, that is correct.

Ms SHING — Just on that point then, and as part of the variation process, what steps did you take to consult with the community in relation to the overall request for variation and what the grounds were for that request for variation, and in particular how the developers contribution scheme would feature as part of that? Tell us about how you engaged with community and the process of engaging with ratepayers in particular.

Mr KALLIO — The engagement process is a major issue in how the rate cap has been put in, because we have had to rely on all the engagement we did in relation to our council plan and our budget over the last three years, because the time frame from when the rate cap was determined and the work required in order to get a submission in in a timely manner did not allow us to go back out to the community and do a wide and proper community consultation, so we have had to rely on our previous council plan and budget and the work we have done there.

In relation to the DCP we had no choice but to pay the extra liability, and due to a number of factors — the rate cap and the changes in the timing of the DCP — our cash flow significantly dropped from what was expected, so we did not have the cash flow that we would have normally relied on to cover the indexing in a one-year period.

Ms SHING — So there was not any consultation that occurred afresh, because you are saying you had undertaken earlier consultations and they informed what you put to the Essential Services Commission. Is that a fair comment?

Mr KALLIO — Yes.

Ms SHING — So in relation to the decision to seek the variation, that would have gone to council?

Mr KALLIO — That is correct, yes.

Ms SHING — Was that a unanimous decision in terms of the decision to seek a variation in the terms that you have put to the Essential Services Commission?

Mr KALLIO — It was a vote of 7-2, from memory.

Ms SHING — 7-2? So seven in favour, two against?

Mr KALLIO — Yes, that is right.
Ms SHING — Okay. Thank you very much for answering those questions.

Just turning now to Hepburn very, very quickly. In relation to the way in which consultation has taken place with community groups, community members, ratepayers et cetera, what has been the response so far as the consultation that you have engaged in? You indicated, Mr van Egmond, in your evidence that it was considered to be too financially costly to seek a variation. What was the process that led you to that conclusion? I think you had expressed an intention to seek a variation at the outset and that did not eventuate. What were the steps that involved discussion with the community that then, well, got you to the point where you concluded that you would not seek a variation?

Mr van EGMOND — Through you, Chair, the main element that we considered in not agreeing to move forward with the variation was from the point of view that we believe that to meet the principles of the Essential Services Commission in that process, for us to be genuine in that, we would need to re-engage with the community. That would come at considerable expense as well as officer time in effectively preparing multiple budgets or multiple scenarios for the community to consider. With the time frame that we had, we felt that that was not appropriate and would not be done in a genuine way with the community; it would be done purely to serve as a means of justifying the variation that we were seeking.

Given our strong financial position currently, we opted to not proceed based on that and on a number of other factors. But that was probably the main factor for us not proceeding, with the view that we would re-engage with the community in a more meaningful way over the coming 12 months with a view to potentially coming back and seeking a variation next year.

Ms SHING — Thanks very much.

Mr LEANE — I am keen to get some suggestions from both councils around a way to improve the variation process. Your evidence has been that it is too onerous and about certain hurdles that you have found even though Ballarat did put in a variation application. The reason I ask is: given that rate capping has gone from policy to reality, and every MLC sitting in front of you voted for the enabling legislation, if there are issues going forward and councils can give us suggestions that we can put that into our report that can improve the system — if, as you said, it is too onerous — then I think we would be more than open to that.

Mr DIXON — I guess from a City of Ballarat perspective, we have phrased our response in terms of, ‘If rate capping is to be in place, then’, and we have talked about one suggestion in terms of the timing process so that we can have the appropriate amount of time to consult with the community. The other issue is that one size does not fit all, so that even if you have principles around saying, ‘This is what it’s going to be’, take into account the particular circumstances that the particular municipality is dealing with — in Ballarat’s instance it is very much providing services to a regional catchment with a restricted rate base, which is the ratepayers of the City of Ballarat.

Mr van EGMOND — In response to that — through you, Chair — I think the main comment in relation to the process being onerous is in particular the time frame that we were provided in order to reach the requirements of the Essential Services Commission. In consulting, with a new council coming into play, that provides us with an opportunity to incorporate the discussion with the community as part of that council plan and future budget processes. So time was probably our biggest constraint. In saying that, if it is done in concert with other consultation activities, it would reduce the level of work that is required to achieve the principles set by the commission. In saying that, there will be some increased requirements, but in this particular year we felt that that was the most significant impact.

I think it is also worth noting that we believe that in some respects the Hepburn Shire Council has been penalised as a result of our own efficiency targets that we have set in that we have delivered significant savings, as I have pointed out. If we had held off until rate capping, we probably could have easily achieved some of those savings. Now, we have not done that because we have tried to be as genuine to the community and to deliver the most cost-effective service that we possibly could in 2012–13. So essentially we support the concept of certainty for the community in the setting of rates, but at the same time we need a level of flexibility that is not a one size fits all.

Mr LEANE — Just a follow-up on that. So you are saying that one of the parameters that might be considered is the financial saving history of a council leading into a variation — is that fair to say? You said you
feel like you have penalised yourselves to some degree because you took steps for a number of years financially, and now you are in this situation where, as you have said, you could have found the savings easily if you had not done that in previous years.

**Mr van EGMOND** — So my response to that would be: absolutely that needs to be a consideration in determining whether a variation is acceptable or not.

**Mr LEANE** — Thanks, that is helpful.

**Mr DALLA-RIVA** — To Hepburn Shire Council initially, the first question. In one of the statements you mentioned the ‘strong financial position’ that you have got — that was the quote you used. If you look at the chart that you gave us, there are quite significant increases over the period from 2005 to 2012–13 — 8.5 per cent, 8.3 per cent, 8.9 per cent, 8.3 per cent, 7.3 per cent, 7.0 per cent, 6.0 per cent, 4.5 per cent. Do you think it was probably time for a rate cap on shires like yours that have had significant increases like that year on year?

**Mr van EGMOND** — I will address this. Through you, Chair, absolutely. We believe that the 4 per cent rate cap that we applied to ourselves — which was part of our 10-year financial plan to set a consistent 4 per cent rate increase to give the community certainty on the back of 8.9 per cent and 8.3 per cent — was a really positive step forward for the organisation to gain certainty in how it actually works to that 4 per cent but also to give that certainty to the community that the organisation is working hard to achieve that 4 per cent. So we absolutely support that, and that is what is indicated in our 10-year financial plan. The second part of that is that there has been an additional cap brought in that reduces our 4 per cent below that, which is not consistent with our long-term financial plan.

**Mr DALLA-RIVA** — So following on from the, I guess, self-imposed rate cap, do you think there could be a process for councils, given the circumstances — and I will get to Ballarat in a minute — where there could be a self-imposed rate cap by the relevant councils, to commit themselves and their community to a level that is consistent with what the community expectations would be rather than the ad hoc approach that seems to have been used in previous years? Would that be a better process, do you think, than setting them each year?

**Mr van EGMOND** — Through you, Chair, absolutely, and I think the support of the long-term financial plan is the document that gives us that certainty, but it also gives us that opportunity if something does arise outside of that, that there is a process in place. But we believe that that long-term financial plan is the vehicle that we would utilise to make sure that we could set a consistent rate increase that is acceptable to the community.

I would add to that that in the process of consulting with the community we run an annual budget communication process whereby we go to each and every ward within the community. And it is fair to say that the level of support gained through that process of our budget has been overwhelming, and hence we believe that support from the community exists for the initiatives that sit within our council plan, and our annual budget, as well as the 4 per cent rate increase that we have set for ourselves.

**Mr DALLA-RIVA** — I will just continue on this, because I think it is important in the sense of a self-imposed rate cap by council — what processes did you go through as a council with the residents to say, ‘Right, we’re going to set 4 per cent’? And it might have been after consultation. It might have been 3.85; it might have been 4.15 — whatever. What processes did you do that may be different or would have been different to what the ESC requires you to do, or would it have been the same?

**Mr SCHUSTER** — I can probably comment on that. I think one of the real key things that was talked about in the principles was that it needs to be done very much continuously — that consultation. For a small shire, for us to be revisiting every six months or annually our long-term financial plan is potentially prohibitive. Definitely, I guess with our intention going into the next council planning process we really need to critically look at it again, not just blindly saying 4 per cent again. So it is an opportunity, with all the cost savings we have achieved, what should be our new trajectory. But going to the ESC and saying, ‘We did this back in 2012–13’, with the principal reading it, we would have been immediately dismissed as that being too long ago — ‘You’re not consulting regularly enough’. So that expectation of really regular consultation around this complex question of what is our long-term service impact, for a small regional council it should not be expected at least every year.
Mr DALLA-RIVA — A final question, have you done an analysis of the cost of that process if you were to apply for a rate cap variation?

Mr SCHUSTER — We estimated in the first year it would be approximately $30 000. If we sought to have a 4 per cent increase, that would be getting back $230 000, so putting at risk $30 000 to potentially get $230 000 — and the tight time frame — is not necessarily the best use of local government funds. But in future years that cost —

Mr DALLA-RIVA — Go and put it on horse 8 at race 5. You might get a better return.

Mr SCHUSTER — Yes, absolutely, but it would be inconsistent with our long-term financial plan.

Mr DALLA-RIVA — I am glad others picked up the joke. There was a bit of a delay. I will have to go back to my stand-up routine.

Ms SHING — Yes, do not quit your day job.

Mr DALLA-RIVA — Many would like me to.

Ms SHING — Can I ask a follow-up to that answer that you have just given, Mr Schuster, in relation to the costs that you anticipated would arise in seeking a variation. We have heard figures that do range from $10 000 through to $40 000 in the course of the evidence that has been heard. On what basis did you calculate that it would cost that amount, and what role did peak bodies have in assisting as far as how they could streamline the process for the purposes of an application? The second part to that is: are you not required to actually keep records of the way in which money is gathered and spent in a way that could then be usefully incorporated into a request for variation?

Mr SCHUSTER — A few questions there. It was really about additional resource time. In the tight time frames it was the real additional work that would be on top of the standard consultation processes that we have in place, putting in those additional resources — probably two EFTs for a short period of time — to present an alternate budget proposal, modelling capacity to be able to have that discussion in a way with the community, the extensive templates of the ESC, the number of bits that needed to be completed there.

It was mostly about resource time. It was about the communication cost. It was about the consultation costs associated with the sessions and the methods of consultation, using a variety of consultation methods. So those sorts of pieces. Absolutely we were required to keep records to support that, but it is in a form for our current processes that we keep our records and our financial records and our financial models and long-term financial plans. It is a big shift. I would probably add, I guess, following what Mr van Egmond said earlier, in future years where we can integrate it with our council plan and with our budget processes and revisit those, we do expect that cost to be less. But in the first year that extra shock of it was probably higher.

Ms SHING — And assistance from peak bodies?

Mr SCHUSTER — I guess in terms of this we did not see that it would be adequate to provide that local impact. The time is really on our data and our information and our situation and our specifics. A peak body might be able to give a template or some advice but not actually do the day-to-day work.

Mr van EGMOND — If I could add something to that in terms of the costs that we have arrived at, to run our council plan process is well in excess of that amount of money. We believe that to be a genuine process it would not be as extensive as a council plan process, but nevertheless to do the process justice would be in the order of about $15 000 for that component alone — let alone the officer time that sits around that.

Ms SHING — Sorry, and again just to Ballarat: how much did the process in your estimation cost for seeking a variation, noting that you did not have the burden of that extra consultation requirement?

Mr KALLIO — It has probably cost us about $50 000 in officers’ time. The biggest cost, or negative, to our council — because of the short time frame — is in fact that the budget was done within the finance department for the entire council. We had no time to consult with any of the business units about budgeting for next year. So we do expect a number of errors to be in the budget, but that is something that the city council will have to live with in order for us to have put in an application.
The other negative from a community aspect is that we are about to go through the process of the Local Government Act community consultation process, which has no value, because we have already put an application in to the Essential Services Commission. My reading of it is that we cannot modify that. Therefore the community consultation will have very little benefit, so we are just going through — —

Ms SHING — The Local Government Act consultation as opposed to the variation —

Mr KALLIO — Yes.

Ms SHING — because you did not do a consultation for the variation?

Mr KALLIO — That is right.

Mr DIXON — If I might comment too, the extra challenge that Mr Kallio and his team have is that the variation was based on two factors. It was on infrastructure provision and the development contributions program, so in effect the team will be preparing four budgets — one on the basis that the full variation is agreed to, two on the basis that one of those two options might be agreed to and a fourth on the basis that none is agreed to — so that there is not another process that would follow after that. So it is quite challenging in this very condensed time frame.

The CHAIR — I have one final piece of information that I think would be helpful to us, and that is around the EBAs that both councils have got. I would be interested to know what point in the EBA cycle you are in, what your previous EBA increments are, and the actual cost including the leapfrogging on different categories and so forth.

Mr KALLIO — Our current EBA we have delayed for a period of time. We expect to start talking about that in — —

The CHAIR — So you have rolled it over for a short period of time?

Mr KALLIO — No.

Ms SHING — It has passed its normal expiry date.

Mr KALLIO — No, the expiry does not close until September of this year, but our negotiations with the unions and staff have been delayed until late May. Our previous EB was 3.6 per cent. We usually receive between 0.84 to 1 per cent band creep of salaries. So based on a rate cap of 2.5 per cent we could not expect that we would offer an EB of any more than 1.5 per cent at the outset, because of the normal band creep, we will have no choice. And the difficulty going forward is if, based on inflation figures that are coming out now — —

The CHAIR — Other than if you cut services and infrastructure.

Mr KALLIO — That would be the consequence if for whatever reason an EB higher than, say, 1.5 per cent were agreed to, then in effect we would at some stage in the next couple of years have to reduce services. There will be no other way of being able to pay for that.

The CHAIR — Your EB in the cycle?

Mr van EGMOND — The past three years of our EB has been a 3.3 per cent increase. That is due for renewal in October this year.

The CHAIR — Without obviously putting out what you actually think you would seek to negotiate, where does the position of 2.5 per cent leave the council?

Mr SCHUSTER — Similar to Mr Kallio, it is sub-2 per cent in terms of that final position that we need to get to.

The CHAIR — Because of the band movements as well?

Mr SCHUSTER — Yes, a little bit of band movements is in there and on-costs are in there as well to achieve that.
The CHAIR — And the Ballarat council meeting last night on infrastructure — this is the civic hall, isn’t it? Will that be impacted by the rate-capping changes?

Mr DIXON — The council made a decision in relation to the civic hall. I will not go through the details of that decision, but it certainly made a decision that will have an impact on council’s operations into the future. It has been an exhaustive process in terms of community consultation. The council very much has responded to community input in terms of the retention of civic hall. There was a proposal at one stage to demolish the building. To retain that building and to have community use necessarily is not a break-even proposal, so certainly the council in making that decision will need to adjust its budgeting for it to be able to finance both the operations and the loan costs.

Mr DALLA-RIVA — I just have a couple of follow-ups. You have answered the question about the cost of the process. We had one councillor at another location employ a rate cap officer. Have any of you thought of employing somebody with that title?

Mr KALLIO — Within the time frames that we had that was not an option, because they would not have had time to come in.

Mr DALLA-RIVA — I realise that, but have you given it thought for future rate caps?

The CHAIR — You have to redeploy people.

Mr DALLA-RIVA — I know you redeploy, but — probably to the CEOs — have you thought about employing a person full-time for that position?

Mr DIXON — To be fair, I guess my role is very much a cameo one in that I am the interim CEO for a period of time.

Mr DALLA-RIVA — I know. I read your departure speech for Maroondah. I thought you were meant to retire with your wife and enjoy life.

Mr DIXON — Exactly. I have been doing both. So it would be inappropriate for me, I guess, to have a view on that. It is very much an issue to be taken on by the new CEO, who will be commencing in just over three weeks time.

Mr van EGMOND — From Hepburn Shire’s perspective: no, we have not. I would add that to achieve some of the results that we have achieved over the past four years, to stabilise our wage increases that were increasing at in excess of 4, 5, 6 per cent per annum, one of the key ways that we have done that is to negotiate well on our EB, but also not to put in additional positions where we could avoid it and also consolidating a number of positions where possible. So in the sense of trying to achieve a 4 per cent rate increase, additional positions have not entered into the discussion.

The CHAIR — Thank you. Can I thank both councils for the evidence given. And I note there are a number of points that the secretary will follow up with both of you. Thank you.

Witnesses withdrew.