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

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Witnesses

Mr John Barnes (affirmed), secretary, and
Mr Paul Gordon-Smith (affirmed), vice-president, Ballarat Residents and Ratepayers Association.
The CHAIR — This is the committee’s hearing on rate capping and the impact of rate capping. Evidence you give here will be protected by parliamentary privilege. Any evidence or any commentary you make outside may not be protected by parliamentary privilege. And if I can ask you to make a short statement as an association, and then we will ask questions.

Mr BARNES — Thank you very much for the opportunity to address you today. Just a little bit of background on myself, and Paul can explain a little bit about his background. I was a councillor here from 1996 to 2002, so during the last time there was rate capping. We also had a 20 per cent cut in rates put on us at that time. I was also a nine years chair of Central Highlands Water, which submits water plans to the ESC, so I am familiar with that ESC process.

Mr GORDON-SMITH — I guess I am a concerned ratepayer. My background comes in part from working for the local government and shires associations in New South Wales during the 1990–93 era, when they were putting in a new act and also the award that accompanied that, and also being involved with the local government and shires association management committee in their finance structures and so on regarding input into the act. That is my pertinent background to this, but as a resident and ratepayer of Ballarat I am concerned about the level of rates that are charged and also the fact that they levy increases in those rates over a period of time. My experience has been that there is an amount of waste, and also there is an attitude that is contrary to what I would regard as thrift regarding expenditure in council.

Mr BARNES — Thanks, Paul, that brings me to introducing the purpose of the residents and ratepayers association, which is basically to try to encourage good governance within Ballarat City Council and provide value for money to ratepayers. Our views on rate capping: we certainly agree that it is popular with ratepayers at least in the short term. Is it sensible? In Ballarat’s case it comes as a sensible circuit breaker, where Ballarat City Council’s long-term financial strategy showed rate increases of 2.5 per cent above CPI for the next 20 years. They refused to consider the possible impacts of rate capping in their long-term financial strategy when they put their budget and projections together for this current financial year. They have consistently failed to consult with the public early enough on consecutive budgets to give themselves the capacity to significantly alter budget variables or major projects, which would have required re-advertising and a consultation repeat. This includes no consultation on the present proposal to raise rates by an additional 1.2 per cent above CPI.

They keep committing to Capex projects, especially on recreation facilities, without any business plans. They do not consider any cost benefit analysis when they propose these projects. In fact in their submission they talked about: made, the soccer facility, the 50 metre pool and, I might add, the Eureka Stadium precinct, none of which have business plans, none of which have a cost benefit analysis and one of which, the Eureka project, is $31.5 million. But anyway — —

The council at its last budget last May-June dropped its growth fund, which they previously estimated would generate $230 million over 20 years, with no public explanation as to why they were doing that, and there was no reduction in rates.

Claims of the impact of rate capping over the next 10 years, by the mayor in particular, of lost income of around $200 million are specious as it would require the public voting for councillors running on a 2.5 per cent above CPI rate increase at the next three elections. What do you think of their re-election prospects on that platform?

In the longer term, what about rate capping? I share the city’s concerns about cost shifting from state and commonwealth governments to local government. It is a real problem. They mentioned the outstanding liabilities that come up from time to time on the defined benefit superannuation scheme. They need capacity to be able to respond to that, and it is probably an industrywide thing that perhaps a body like the MAV would need to negotiate with the government of the day to look at a higher than CPI rate cap, at least for a year or two.

In the past, the response to rate capping — the easiest way is cutting asset maintenance and asset renewal as the least disruptive way to balance budgets. Many local governments, including Ballarat City Council, seriously underfund asset maintenance. They have done two annual infrastructure reviews. A third one should come up in May this year. They are funding their road maintenance at about 40 per cent, footpaths at considerably less than that, gutters at something around 10 per cent and major drainage infrastructure at less than that. So we have some real problems in terms of maintaining the $1.6 billion worth of assets that council has here, and they keep,
as I say, building recreational facilities in particular without a business plan that are going to cost them a fair bit of money.

Recurrent expenditure for council is often linked to state and commonwealth programs, say, in the aged and disability care area, child and family services, whatever, where the savings by service cuts will be small and the numbers of people negatively impacted are large, not to mention the political fallout for councils. So they have not got a lot of room to move on a lot of their recurrent expenditure.

The rate cap gives very little capacity to build for future infrastructure challenges, especially from fast population growth. That was mentioned by Ballarat City Council. They are looking at about 2 per cent per annum population growth for the last several years.

It is uneven in impact; it takes no account of the relative financial position of each council and simply amplifies any disadvantage that was locked in on the date that rate capping came in.

The process — the ESC have set time lines for receiving and determining submissions for exemptions to the cap which are extremely difficult for councils. They either have to have a very early budget consultation during December to February or wait until after the ESC determination in May, which is effectively too late for meaningful community consultation if they are to meet their timing prescriptions under the act of submitting their budget to the minister.

The ESC have not advertised that they will take public submissions on exemption applications, so effectively the public are cut out of the process.

Just by way of trying to make this particular rate capping exercise work, could the ESC specify certain financial criteria that would be upper limits beyond which rate exemptions will not be granted? These could include borrowing ratios, asset maintenance standards, maximum annual rate increases allowable above CPI et cetera.

Should the ESC approve four-year rating strategies for councils? Perhaps in the second year of the council election cycle, like it does with the approval of water plans. This would go some way towards addressing the concerns raised in the City of Ballarat’s submission.

This is a brief outline of the residents and ratepayers association’s views on rate capping. We are neither for nor against; we are quite ambivalent, I think you would assume from what I have said. We are both happy to answer to the best of our abilities any questions you might have. Thank you.

Ms SHING — Thank you, gentlemen.

The CHAIR — There are a few questions that come out of your very helpful submission, and I thank both of you for giving evidence. You mentioned in terms of rate capping and its impacts that one of the likely outcomes is that infrastructure maintenance is not continued at the correct pace. It clearly could also impact on services. There are a couple of points that I wanted to tease out your attitude to. One is that there are signs that councils are looking for additional sources of revenue. Would you see that a rate capping arrangement is satisfactory, where the rate is capped but new charges and levies of various types are found or existing charges and levies are lifted?

Mr BARNES — Charges and levies are often a fairly flat tax effectively and their impacts on lower income families and the like need to be considered, so that is a bit of an issue. If you are talking about councils taking on an entrepreneurial role, Victorian councils have a very mixed record with regard to that, and just as you might anticipate, some councils will make money and provide relief to the hard-pressed ratepayers, some will lose money and go out backwards. That is a really fraught area.

The CHAIR — The second part that I would ask about is debt. Councils could manage rate capping in a number of ways, but one way that has in fact been suggested by the ESC is that they lift their debt levels.

Mr BARNES — Yes.

The CHAIR — I am interested to know what ratepayers think about that approach as a way of delaying the impact, as it were, of rate capping.
Mr BARNES — Yes. This is a favourite of the ESC with the water industry. They allow you to take out a lot of debt — in fact they encourage it — and they do not allow you to set a water price that will give you any capacity to pay off that debt. You are just given a water price to pay the interest.

The CHAIR — Carry the debt.

Mr BARNES — Even paying the interest for the likes of the City of Ballarat, with a fairly heavily committed recurrent expenditure, I agree with the comments of Mr Kallio earlier today: they have plenty of capacity to borrow; they do not have very much capacity to find the funds to service their borrowings.

The CHAIR — So you think this would be the wrong strategy — to run up debt in some systemic way?

Mr BARNES — No, I do not necessarily think it would be wrong, but I think the council would have to have a very hard look at where it can make savings in recurrent expenditure to be able to accommodate that additional debt servicing. So it is not impossible; I think it is a way of getting over it, and the City of Ballarat’s debt level is relatively low and their projected debt levels are not at all alarming.

Mr GORDON-SMITH — One of the issues for me is the fact that at a recent council meeting the information was given by the council officer about the fact that they borrowed some $40-odd million and when asked why they wanted to borrow that money, the response from that officer was, ‘Oh, because money’s cheap’. That to me is not a good financial response to putting yourself into that amount of debt.

The CHAIR — Because you have got to pay it back.

Mr GORDON-SMITH — Exactly, but who is going to pay it back and who is going to pay the interest on it, and that is us, so that is what we are concerned about.

The CHAIR — So you do not see the increased debt solution as the way to deal with issues around the constraints that will come with a rate capping environment?

Mr GORDON-SMITH — Well, I just question the management potential of the people who are charged with looking after our economy at this stage. It seems to me that they just do not have the skill set to do that competently so that we can have confidence in the fact that they can manage paying off their debt level. That may be because they have been around for a long time, they have got away with a lot or they are used to grooming councillors et cetera.

The CHAIR — Grooming councillors?

Mr GORDON-SMITH — Yes.

Mr BARNES — Before we get onto that one, I wonder whether there are some fundamental principles in terms of financial management that the ESC might consider so that, yes, borrowings are appropriate for expanding the asset base on assets that are going to have multigenerational benefits, and why should this particular generation have to stump up all of the payment for people who are going to benefit for decades to come? So there is that intergenerational equity issue there. In terms of the existing asset base, though, I do not think it is appropriate to borrow to maintain your existing assets. If you are not generating enough money through your recurrent rate and other revenues to maintain your assets, something is horribly wrong.

The CHAIR — So you would not see a recurrent approach, or a shortage on the recurrent side of the budget being met by more debt?

Mr BARNES — No, certainly not. I do not know that at the state or federal level we think that is a particularly good idea either.

Mr GORDON-SMITH — I invest in bonds because they are capital secure. When a new bond comes on the market, the firm that I buy my bonds through gives me a whole range of issues that are involved — strengths and weaknesses and so on — and included in all that is always mentioned the ability of the particular company that is selling the debt, as to their position and availability to be able to repay that debt so that I have confidence in giving them some money. I do not get that feeling from Ballarat City Council.
The CHAIR — Other councils?

Mr GORDON-SMITH — I am not concerned about other councils; I am concerned about this council, and they do not give me the confidence that they have got the ability to repay any debt that they get themselves into.

Ms SHING — Thank you, gentlemen, for your opening remarks and also for responding to the questions from the committee today. I would like to get your opinion on council’s management of its assets in the context of the savings that it has previously managed to achieve through a change to insurance, which was an outcome last year which generated a saving of around $600 000. Mr Kallio was in fact quoted in the Courier as indicating that this had been able to be achieved, and he also confirmed it again today, through an open tender process. I would like to hear your views in relation to how similar savings might be achieved through a more ‘nimble and agile’, to quote Mr Turnbull, approach to financial management of council assets and operational oversight.

Secondly, I would like to actually seek your views in relation to the role of the developer contribution scheme in the context of the way it has formed part of council’s request for a variation. I am not sure whether you were here for the evidence that was given earlier this afternoon, but that did feature significantly around the need to ensure security of revenue flow in the medium to long term.

Mr BARNES — Alright. I suspect that council officers, if challenged, would say they are already very nimble and agile, and Mr Kallio would quote his success on the insurance bid as an indication as to how sharp he is. I then think they would probably suggest that there is not a lot more that they are going to find, because they are already pretty damn good. I do not happen to agree with that, but I think the real savings that council has is to consider some of its discretionary recurrent expenditure, say on events, where we finance the Australian road racing championships here.

We think, because we cannot get actual breakdowns of costs from the council — it is incredibly difficult — that costs about $750 000 a year. It is a four-day event. There are a few other things like that where it is arguable as to how much economic spin-off there is in the community. Something like the Royal South Street Society, which runs an eisteddfod for 10 weeks, in which Joan Kirner was a participant — and she reopened Her Majesty’s Theatre in her polka-dot dress and reminded us all about her calisthenics days — —

Ms SHING — I was also a very unsuccessful participant in the Ballarat eisteddfod, so I am just going to pop myself on the record there to declare that earlier attempt — —

Mr BARNES — I think that council officers, if challenged, would say they are already very nimble and agile, and Mr Kallio would quote his success on the insurance bid as an indication as to how sharp he is. I then think they would probably suggest that there is not a lot more that they are going to find, because they are already pretty damn good. I do not happen to agree with that, but I think the real savings that council has is to consider some of its discretionary recurrent expenditure, say on events, where we finance the Australian road racing championships here.

Ms SHING — I was also a very unsuccessful participant in the Ballarat eisteddfod, so I am just going to pop myself on the record there to declare that earlier attempt — —

The CHAIR — This was a few years ago — —

Mr BARNES — You ought to ask council how much recurrent expenditure — —

The CHAIR — Last millennium.

Mr BARNES — Excellent. You ought to ask council how much recurrent expenditure they give to the Royal South Street Society — I think you would be shocked. For 10 weeks they bring in all those calisthenics teams from South Australia and all over the country, ballet dancers from everywhere, musicians et cetera, bands, choirs — and I think the city sponsors a $500 prize for the choral competition. So I think there are ways.

Now, in terms of developer contributions, prior to my joining the residents and ratepayers I would make my independent submissions to council each year on its budget. When it was looking at the Ballarat West outlying development plan and the developer contributions for that — and I must say this was groundbreaking planning on the city’s part and the sort of developer contribution that they were getting was unprecedented in the City of Ballarat — I did suggest to the council that it would not be a bad thing to adopt the principle that existing ratepayers should not be cross-subsidising developers who are developing greenfield sites, and we should have a principle of recouping the same developer contribution as it actually costs, rather than existing residents doing it.

That said, because this was unprecedented, previously we were getting virtually nothing from the development community, and the existing ratepayers were making them rich, so it was not a good thing. So we are getting there by steps, but that principle, I think, would be a worthwhile one to give serious consideration to. Now, that was not entertained for a nanosecond when I suggested it.

Ms SHING — Did you have anything to add, Mr Gordon-Smith?
Mr GORDON-SMITH — One of the interesting things is that there are ways in which you can manage recurrent expenditure, debt levels and so on. We have a number of people here who have got some expertise in those sorts of areas, but that is denied them because of a lack of consultation. That is a real shame, because I am sure through a process of adequate consultation — as the act suggests that we do — it could generate some processes and ideas and so on, as John has been suggesting, to come to the fore, without relying on the ideas that come from council officers. The last budgetary process, for instance, was appalling in that way in that there was inadequate consultation, and I am sure if there were a proper consultation process, then that would help. I mean even when it comes to the council plan, you will find that the council plan does not really have outcomes — it has a lot of inputs — so that there is very little congruence between the council plan and the council budget.

Ms SHING — So it sounds to me, if I might say, like this comes down to concerns not just about decisions made by council as to where and how funding is sourced and where and how revenue is managed but also the process whereby the community is engaged throughout that. One of the pieces of evidence that we heard earlier today was that a consultation process, given the short time frames, according to Mr Kallio and others, was not embarked upon for the purposes of a variation, although it did go to a vote at council before that was submitted to the Essential Services Commission. Is that consistent with your concerns about processes as you have expressed them to be?

Mr GORDON-SMITH — Absolutely, and as John has indicated, it is very difficult when you have a look at the budget papers to actually glean what the budget is all about. It is obscure, it is not clear and part of the reason it is not clear is because there is this lack of congruence between the council plan and the budget.

Mr BARNES — And council, when it puts its budget together and when it receives quarterly financial reports, as it is required to do under the act, simply fulfils the obligations of the act in its reporting and gives you virtually no usable information. So if you are interested in, say, the recreation spend and whether more or less is going towards women or older people or children, you do not get that breakdown. You never get that breakdown. It is not even in their recreation plan.

They have invested heavily in aquatic centre facilities recently, yet I cannot get information from them on the trend data as to whether it is costing more per visit or less per visit than it was under different management arrangements before the city resumed control of most of the pools in the area. We do not get 100-plus businesses ever presented in the public domain on a net performance basis. Neither the financial data nor the actual outputs, which is what Paul is referring to as the antonym of the inputs — outputs and outcomes. We do not get those sorts of reports in the public domain at all, and I am not convinced they are done.

Mr GORDON-SMITH — That is right, and it makes it very difficult then for us, being outside the tent, to be able to offer suggestions and bring our experience and so on of financial management to the discussion table so that we can maybe look at some solutions to issues as they crop up.

Ms SHING — Thank you, gentlemen. That is very, very helpful.

Mr LEANE — I think you have pretty much answered the question I was going to ask.

Ms SHING — Sorry.

Mr LEANE — That is all right because of the theme that you went on then, but we have had other ratepayers associations from other areas suggest that they would like to see certain areas that councils are going into be left to the market, if there is a demand, as in some recreational activities. You mentioned the aquatic centre and that, so I wonder if that is something you might ascribe to as well.

The second question that I have is: I take it that over the years the association has owed certain levels of rate increases, and in doing that at the time did the association prescribe where it would like to see certain areas that councils are going into be left to the market, if there is a demand, as in some recreational activities. You mentioned the aquatic centre and that, so I wonder if that is something you might ascribe to as well.

Mr BARNES — In terms of private sector involvement with a number of services, yes, I think that is always an option, though you will find that most of the recreation facilities are on Crown land. They will always be
facilities that are owned by us, the public, and there may be a management contract with somebody to run them for a set period.

Council has recently resumed, after 38 years, the Eureka Pool that was run by one family. It put the YMCA in for a year and then terminated their services. The Ballarat Aquatic Centre, which has recently had a 50-metre pool, with no business plan, added to it, was run by the YMCA. They had entered into a 10-year contract with the YMCA without putting it to tender and terminated that contract about a year and a half ago with very little said. Council are now managing that direct.

If it is done properly, if it is done in an open tender, if there is a public sector comparator to be able to say, ‘Okay, we know roughly what it will cost if it is run by council’, the private sector needs to beat that, otherwise we will continue to run it. I think there are some good reasons for these assets to be in public control.

As to the other part of your question — what have we done historically? — I have not been associated with the organisation that long, so Paul might help there.

Mr GORDON-SMITH — I can simply say that a couple of years ago initially this association was involved in the budgetary discussion, and then it was frozen out — preliminary discussion, and then stop. We were prevented from further participation, and we have recently been asking council if we can come back into the tent.

Mr LEANE — So your advocacy role has been limited.

Mr GORDON-SMITH — Yes.

Mr LEANE — Okay, thanks.

The CHAIR — Thank you very much for your contribution. The secretariat might want to talk to you about some further information as we go forward, but thank you very much.

Witnesses withdrew.