TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Frankston — 5 April 2016

Members

Mr David Davis — Chair  Mr Adem Somyurek
Mr Richard Dalla-Riva  Mr Daniel Young
Mr Shaun Leane

Staff

Secretary: Mr Keir Delaney
Research assistants: Ms Annemarie Burt and Ms Kim Martinow

Witnesses

Mr Matthew Hubbard (sworn), Chief Financial Officer, Mornington Peninsula Shire Council;
Mr Mike Tyler (affirmed), Chief Executive Officer,
Mr Andrew Davis (affirmed), Chief Financial Officer, and
Ms Kathryn Seirlis (affirmed), Rate Capping Strategy Coordinator, Casey City Council; and
Cr Tony Holland (sworn), Mayor, and
Ms Joanne Truman (affirmed), Acting Chief Executive Officer, Knox City Council.
The CHAIR — I welcome the Mornington Peninsula Shire, the City of Casey and the City of Knox to the table. If I could perhaps start with Knox and then we will come to Mornington and then to Casey. Just a very brief introduction and then we will follow up with questions to all.

Cr HOLLAND — We are here and we are quite prepared to answer any questions, but we did not come with a submission.

The CHAIR — That is all right. That is just the option if you wanted to make a brief, 4-minute statement.

Cr HOLLAND — We are fine.

Mr HUBBARD — I am Matt Hubbard. I am the interim chief financial officer with the Mornington Peninsula shire. Similar — happy to answer any questions that the committee may have but no prepared statement.

The CHAIR — Mike Tyler, CEO of Casey.

Mr TYLER — Thanks, Chairman. I will make a presentation. Just to put it into a little bit of context, the City of Casey is Victoria’s largest council, with 300 000 people. We have grown over the last 21 years by 170 000 people at 8000 people a year. We are projected to grow over the next 25 years by another 190 000 people at 7600 people a year. We are a growth council. We have been growing for years and we have years and years of growth to go. You will be aware that the City of Casey has submitted a rate cap variation application, so my opening statement will focus on the development of this and the interactions to date with the Essential Services Commission.

Over the last six months the City of Casey has brought forward its entire service planning, budget, capital works and 10-year long-term financial plan to ensure that any decision that the council made to apply for a variation was robust and informed. We have undertaken detailed and specific community consultation at a cost of over $130 000 to understand the importance of council services to the community and their willingness to pay for the infrastructure required to support these services. We have found efficiencies and savings of $1 million in the operational aspect of our 2016–17 budget process, and this includes freezing of growth in some services, particularly focused on an attempt to arrest and equalise the growing impact of cost shifting by government. I am happy to take questions on that later.

We have resolved to apply for a 0.97 per cent rate increase above the 2.5 per cent cap. For an additional average $14 per household, the council will be able to start works on the Hunt Club football and recreation facility in Cranbourne East, which is the fastest growing suburb in Australia. We will be able to start work in 2017–18 on the Autumn Place family and community centre in Doveton, one of the most disadvantaged communities in Melbourne. And we will be able to forward plan for delivery of $9 million over the next five years more infrastructure than can be delivered with the benefit of the one-year rate cap variation alone.

We have prepared the variation application at a cost of around $250 000 to date. This was necessary to ensure that we have fully responded to all six legislated criteria upon which the ESC must make their decision. On this, the ESC and Local Government Victoria say that the requirements should be easily accommodated by the local government sector and are things that we should already be doing. However, councils did not already need to complete a 50-page spreadsheet, with over 9000 cells requiring individual data. This alone was about 30 days work that had to be diverted from other tasks.

This may seem like an enormous effort — and it was — but we had no choice but to apply for a variation. The City of Casey is already a lean organisation, with the second lowest operating costs per capita and the third lowest rates per capita in the state. We have less room than the majority of other councils to find savings. This is the result of a long-held objective to direct as much rate revenue as possible into a capital works program to provide a range of community infrastructure needed by the existing and additional 7500 residents that call Casey home each year.

I will now turn to the ESC. It has acknowledged that rate capping is a new role for the commission, and it is appreciated that there will be a learning curve for the commission and for the local government sector. This is already proving to be a very steep learning curve for us, and too much for some councils who altogether quickly
abandoned any thought of variations for 2016–17 due to the tight time frames and the processes that are involved.

My reflections on the ESC to date include a lack of transparency and changing goal posts. We have already been called into the ESC for a meeting with no agenda to answer questions without notice and have been asked to respond to matters that we would say fall outside of the legislated criteria. The ESC says that this is to provide context which they will use to assess our application. We say that if they wanted information like that, then it should have been in the legislated criteria or at least in the guidance material, then we would have addressed those issues in our application.

It also appears that the ESC has some predetermined thoughts on the use of debt and other financial metrics that have not been disclosed and are not in the stated criteria but upon which they will be basing their assessment of the applications received. I will have more to say on the question of using debt to fund infrastructure in growth municipalities a little later if the committee would be interested. But it is demonstrably unsustainable and just not an option for us to use debt because of cash flow considerations, indebtedness and the length of time we will be growing for.

Looking to the future, it will be critically important that the ESC guidance and templates for the next year are available as early as possible so that all councils know with certainty what the goal posts, requirements and standards are. As the requirements are quite arduous, some councils are already thinking about and starting work on this. I have raised this with the ESC, who have advised that they will get onto it just as soon as they have finalised the assessment of the variations received in this cycle.

To finish, I will say that we cannot let up on our capital works program. With about 8000 people moving in each year, a sneeze and a pause will impact on our rapidly growing community. With the compounding and cumulative effect of just this first year of rate capping, $1.6 million, that grows to $9 million in five years and $21 million in 10 years. In order to maintain our capital program, we simply need more than a 2.5 per cent rate increase.

We cannot just turn off growth. It is a state government policy that we are a growth area council, and we must accommodate that. One-off funding grants, the GAIC — the growth areas infrastructure contribution — if we ever saw anything from that — and development contributions help ease this, but they are just that: contributions towards growth with the rest falling to council to pay from rates. As the outcome is essential to council, we had to ensure that our application was comprehensive, albeit at a considerable cost. We have met all of the legislated criteria on which the ESC assessment and decision must be based.

The CHAIR — I might start with all three councils where I ended with the last group of councils, which is around debt and where the councils believe the debt issues land. I see that Knox is a relatively low debt council, Mornington is a moderate debt council, if I can describe it that way, and Casey is somewhere in between, but relatively low debt in terms of your larger population. If you have a rate capping environment, there are several ways that this can be dealt with — either through other charges in some cases, through a reduction in services, a reduction in infrastructure or increased debt. I might ask a general question of the other councils, and then something specific of Casey. Is it the council’s intention to increase debt, and has there been any indication either from the ESC or from the department that there should or could or ought to be some increase in debt? One phrase that was thrown around that was reported to me was about lazy balance sheets.

Cr HOLLAND — I think Knox has a debt of about $15 million. Where I see the problem with rate capping is if we get another call-up item on the super, and I think this has been mentioned previously, the last time it was $11.5 million. That will almost double our borrowings. Also, the financing costs are greater than the cap, and that always impacts on our operating budget. We have some major projects in the pipeline which are going to force us to go to the ESC, because we are going to need to borrow and we are going to need to get a rate cap variation in the future because we have projects that we need to do. We are planning on building some community hubs, family day centres for the child and maternal health and day care — basically whole community hubs. We are going to need to borrow to do that.

If we go back historically, probably before you gentlemen were even in Parliament, when we used to build kinders, it used to be a 50-50 deal. The state government used to put in 50 per cent of the money for the building costs. Back in the days when it was $60 000 to build a kinder, the state government would put in $30 000. Now we are looking at building these hubs that may cost us close to $16 million or $17 million, and we are not
getting any help. Not only are we not getting any help but you are putting in this rate capping environment that is actually killing us.

You have also got the other bits about the lollipop ladies. It used to be a 50-50 deal. The state government said, ‘Oh, no. Now we’ll only give you 30 per cent’. So now it is 70-30. We have got the libraries: it used to be 50-50; it is now 80-20. You cannot keep imposing things like rate capping on us and not be doing it yourselves. You guys are throwing these things at us. You are saying, ‘Here is rate capping. By the way, you also need to be paying 70 per cent of the lollipop ladies. You need to be paying 80 per cent of the libraries’. It just does not balance.

State government taxes. I do not mean to be rude. You are telling us to pull our belts in and work within 2.5 per cent, but when you look at your own state taxes — property taxes — in the last five years, 53 per cent. And you are telling us that we can only have 2.5 per cent.

The CHAIR — How much has the fire services levy gone up in your shire?

Cr HOLLAND — I have not got the figures on the fire services levy, but I believe that that has gone up a huge amount this year. You would probably have a better idea of exactly what that is, but that is not 2.5 per cent. If you start talking about the EBA agreement, we have recently done ours and it is 2.5 per cent, but when you factor in bandwidths, where employees have been there longer or have gone into different areas, it actually works out to about 3.2 per cent. The balance sheet does not work at 2.5 per cent.

Mr HUBBARD — Mornington Peninsula shire went through a process last year when we were putting together our budget. In anticipation of rate capping we were looking at things such as our debt strategy. A very clear message was received from our community and from our councillor group with respect to debt. In fact some of the debt we have on our balance sheet now is quite aged. It relates to events, as other councils have indicated — things like superannuation calls. So there is clearly a preference to maintain headroom to be able to deal with those sorts of things in the event that they happen again, if they recur. However, more importantly than that, we have received very clear messaging from our community that their appetite for debt is not what it may have been in the past. So we need to be very careful around taking on more debt.

Coupled with that, Mornington Peninsula shire relatively recently made a change, in December 2014, to undertake to bring in a new CEO, who has taken a very some would say —

The CHAIR — Tough line?

Mr HUBBARD — different approach to local government. It is radical in some regards. We have certainly looked very closely at the services that we provide, and we have looked very closely at the way in which we provide our services to our community. Even though it is just over 12 months now, it is still early days on that journey. In terms of taking on debt, we have a commitment from our council to aggressively reduce our debt, and, as I said, the origins of that predate rate capping. Rate capping is not really an issue in terms of that strategy.

Mr TYLER — Our debt, as you indicated, is quite low compared to our population. Our current debt is around $12 million, or about 6.5 per cent of our rate revenue. Our debt is effectively equivalent to the last superannuation call, and apart from that we would essentially be debt free. Our position is that we are quite prepared to borrow for very large capital works projects. For instance, at the moment we have just commenced construction of a $125 million facility that comprises an 800-seat community theatre, a multipurpose entertainment space, a library that is double the size of the current library, new council offices and an outdoor plaza, so it is a very, very significant facility. We are borrowing $85 million in order to construct that. We have a dedicated cash flow to fund the principal and interest repayments of that facility over 21 years, which will not impact on rates whatsoever. We have been planning on this for quite some time and have a financial strategy to accommodate it.

In terms of using debt, though, to fund our conventional capital works program, which is quite extensive — for instance, we build a new kindergarten every year. We have a very, very extensive capital works program and we simply cannot afford — it is not a case of we just cannot afford it; it just does not stack up to use debt to fund our capital works program. The amount of the rate cap application we have made this year is for $1.6 million
and if we had rate capping each year for 10 years, the reality is that we would have $168 million of less revenue and that would all impact on our capital works program.

There are three reasons that debt does not work for us. One is cash flow. We do not have the cash to fund borrowings to fund that capital works program, and that gets back to a matter that was raised previously. There is the question of indebtedness. I referred to the figure of 6 per cent, previously. If we had to borrow each year for our capital works program by the amount of the rate cap, our indebtedness goes upwards and by year 10 would be at around about 57 per cent, just below the red line of the Auditor-General. If you go over 60 per cent, you are into the red zone.

The other issue is that our growth is going to continue, as I indicated earlier, for at least the next 25 years, so that figure sitting at 57 per cent after 10 years of indebtedness would continue to go up well into the red zone of the Auditor-General. So it just simply is not a sustainable option for us to use debt to fund what is essentially a recurrent capital works program each year to accommodate our growth.

Mr SOMYUREK — Thank you. If I could just continue the theme of low debt and sound financial settings, and I congratulate Casey on your financial settings by the way. You have a low debt in comparison. Also from the document Know your Council to us, your unrestricted cash as a percentage of current liabilities is very strong as well at 269.65 per cent, as is your current assets as a percentage of current liabilities at 417.56 per cent, and I do congratulate you on that. I notice that you are well above average there. You are the only council in the metropolitan area that has gone to the ESC, which is good. We have just had a group of councils that are probably more needy but have not applied to the ESC. What community consultation process did you go through in deciding to go to the ESC?

Mr TYLER — I will make a few introductory comments and then Kathryn Seirlis can talk in some detail about the community consultation around that. For years, obviously, local government has consulted with its community, and we have done that every year in relation to our budget. But this year, in anticipation of the requirements of the ESC in the event that we applied for a variation, there was quite a lot of detailed and specific consultation that had to be undertaken. So we ran two sessions with our community, in October and December, and as well as that there was consultation through surveys and also through the internet. I will pass to Kathryn, who can provide a more detailed description.

Ms SEIRLIS — Through you, Mr Chairman, the consultation activities that we undertook focused in the first session on services, and we wanted to better understand the value of council services to the community. We have done that every year in relation to our budget. But this year, in anticipation of the requirements of the ESC in the event that we applied for a variation, there was quite a lot of detailed and specific consultation that had to be undertaken. So we ran two sessions with our community, in October and December, and as well as that there was consultation through surveys and also through the internet. I will pass to Kathryn, who can provide a more detailed description.

Ms SEIRLIS — Through you, Mr Chairman, the consultation activities that we undertook focused in the first session on services, and we wanted to better understand the value of council services to the community. We wanted to better understand what was important, what they wanted us to spend more on, spend less on or spend the same on, the summary of which is included in the variation application, which has been submitted to the inquiry as well.

The CHAIR — We have one copy just here now.

Mr TYLER — From Casey?

The CHAIR — Yes.

Ms SEIRLIS — The second forum that we had in December was more specific on rate capping. We held the forum to understand the community’s willingness or preparedness to pay for a rate variation to deliver the projects that Mr Tyler mentioned earlier in the opening statement, and whilst we acknowledge that around 50 per cent of the participants did not support the ongoing rate variations of the council, there was a level of understanding, once the community had been informed of the potential need for a one-year variation, to deliver that. I think the participants, around 20 per cent or so, were prepared to live with the outcome.

Mr SOMYUREK — So 20 per cent were supportive of which outcome?

Ms SEIRLIS — The one variation for 16–17.

Mr SOMYUREK — So 20 percent?

Mr TYLER — Yes.
Mr LEANE — I just want to touch on a couple of things in Mr Tyler’s initial statement — increasing the rate base versus cost of services. As you said, there are nearly 8000 people moving in. Obviously that is not 8000 ratepayers; I understand that. That might be X amount of households. I would have thought there was a time when increasing the rate base was a good thing compared to your evidence now, which is that it is more of a problem than a good thing. The second thing that I wanted to touch on was that basically we have gone from hearings we had previously when the rate capping policy was purely a policy to it now having been implemented by legislation, and every MLC sitting here voted for that enabling legislation for the rate capping to come in. On your evidence about the variation application being too onerous and accepting that, what recommendations would you give to improve it — to make it less onerous, to make it a much better process that you would see would mean that more councils may apply for variations if they feel it necessary?

Mr TYLER — In relation to the first question about increasing rates and increasing population, and is it not a fantastic thing for growth councils that they have those rivers of gold pouring into the coffers — —

Mr LEANE — They are not my words.

Mr TYLER — They are not your words, but certainly they have been used. It is a misconception. An increase in population requires services to be delivered the same as the existing population. They also require a lot more infrastructure, and it is the provision of the infrastructure which is the major challenge for growth councils. Certainly the City of Casey’s application in relation to variation is about delivering capital works. We are saying that it is because of growth primarily that we have such a large capital works program. Obviously there is renewal of existing infrastructure that has to be taken into account, closing that asset renewal gap. There is also the question of upgrading some of the older infrastructure, not necessarily renewal but upgrading the standard because the standard that was provided maybe 20 or 30 years ago is seen as inadequate by the community and they want upgrades. So the demands across the board because of our growth are significant and they certainly outweigh the additional dollars that come in, certainly in the short term, through population growth.

In relation to the second question about what we might see that the ESC could do differently, certainly more time would have been helpful. I think time was something that stopped a lot of councils from being able to comply with the process. The guidelines were clear but the goalposts keep moving and so we think there should be more of a standard procedure that is used. Perhaps I will pass to Andrew Davis, who is our chief financial officer, to talk about that as well.

Mr DAVIS — Through you, Mr Chair. As Mr Tyler just mentioned, one of the things is the timing; the final guidance was not available until 11 December. A lot of councils then really only had a couple of days to have a second council meeting in December, and then realistically they do not have another council meeting until late January. I think it made it very difficult for councils to make an informed decision. Casey perhaps interpreted and made assumptions on what it would look for. I guess we got reasonably close, but we certainly had meetings with our council on 15 December and also then once again on 28 January to meet the need for the intention to be expressed to the ESC.

One of the things that Casey raised in its submission to the ESC back in May was the importance of having early guidance and clear guidance. The ESC certainly has been on the public record that it does not want to be too prescriptive, but I think in some of these processes it is hard not to be prescriptive, because I think we will see in our follow-up questions — and the ESC has had our application since about 21 March. I think we have received some queries overnight, which we have not had an opportunity to fully look at, but from a quick scan of them I think they are going to be quite detailed and will possibly explore things that I would suggest could have been in the guidance to make it easier, or councils could have better responded early on or fully incorporated in their application, whereas now we will be under pressure to turn that around in a few days — five or six days — and potentially introduce error or other things when you are reworking things quickly versus if it could have been built up all the way through if we knew that was what was going to be expected or requested. From Casey’s point of view, we followed the guidance and respected that as that was what would be required, so we framed our application upon that.

Mr SOMYUREK — Whereas in fact the councils we had here today just before you, they were metropolitan councils and their view was that they were going to incorporate the rate capping in 2016 and they did not really feel a need to go down the ESC path. They did not really talk about timeliness; they talked about incorporating and accommodating the rate capping legislation. Whereas, as I said previously, you are in a much...
southerner position as the City of Casey than most, and congratulations do go out to you for that. And I do congratulate you for going to the ESC, by the way, rather than sitting back and saying, ‘Let’s see what happens’. But what do you say to your ratepayers that you are going down the path of the ESC, unlike the other metropolitan councils who are not in as robust a financial position as yourselves?

Mr TYLER — I guess that is really a political question, because it is the councillors and the council that has to justify its position to the community, and the council has done that. The council takes the view that this is the responsible course of action given the amount of growth and the demand for infrastructure and the fact that the council is already a very low rating council compared to other councils in Victoria, and also because of its focus on a capital works capital works program that delivers so much of its rate revenue to capital works. The council feels it is a responsible decision in order to continue to deliver the capital works program that has been previously outlined.

Mr DAVIS — Through you, Mr Chair. In terms of council’s financial strength, certainly when you look at it on its own we do appear in a strong financial position, but a lot of that is really related to DCP and other reserve funds that we have received in advance that need to then be used in future years. The majority of those funds, particularly because of the yield curves in the investment markets, are in short term deposits — —

The CHAIR — Which funds are they?

Mr DAVIS — Sorry, Mr Chair. Development contribution plans, so when, for instance, developers do certain works, they need to contribute towards things like kindergartens, ovals and those types of things. Each DCP is unique and separate, so there are different assets incorporated within them. They go through a planning panel process and ultimately get signed off by the Minister for Planning. A lot of the funds held there are really reserve funds that council is the custodian of to then use in the future on behalf of the community.

In terms of untied funds on our balance sheet, we have very little. There could be, for instance, carryover capital works that we have the funding sitting there, or we also have funding for things like employee entitlements and things like that. There can be minor timing issues. If you look at, for instance, 30 June, we have got a whole lot of suppliers’ invoices that need to be paid in July, so when you look at 30 June, yes, there is money in the bank, but that is committed for other things. The reality each year is council does its budget and balances its budget. If there are small amounts left over or a small deficit, they are then managed in the future year, but certainly there is no big long line of surpluses that are sitting there. There are very few untied funds.

Mr DALLA-RIVA — I am just going through your application for the City of Casey and the summary as well. Can you explain what you meant earlier on in terms of the meeting you had? I think you said you had a meeting, there was no agenda and it was very confusing. Then I will ask the other councils: was that a barrier for you making an application, or were there other reasons for not making the application? Mike?

Mr TYLER — The meeting that I referred to was after the closing date for applications. We received a telephone call from the ESC on Monday, 21 March, which said that they understood that we were a potential applicant and that they would like to have a chat to us about our potential application. We said that our application was going to be lodged in 15 minutes time. They said they would still like to have a chat to us, so we went in on the Thursday and had that discussion with them. That was the meeting which occurred without any agenda, no questions on notice. They had had the ability obviously by that time to have a quick look at our application and raised questions about it, one of which was a focus on debt, which we were not expecting because it had not been a matter which was focused on in the guidelines or the criteria.

The CHAIR — That you should take on more debt?

Mr TYLER — The question was, ‘Why don’t you fund your capital works program, and instead of applying for a variation, can’t you look at funding that out of debt?’. We pointed out that it just was not a sustainable way of us meeting that difference between the cap and the amount which we had in our forward financial plan which was going to fund the capital works program that we had previously committed to.

Mr DALLA-RIVA — In your variation application, the executive summary on page 4, you have listed the six criteria the ESC must take into account when determining the rate cap variation application. I certainly am with you. Although criterion 5 does say ‘Trade-offs and alternative fund options’, I guess what you are saying is that they are probably pursuing debt as being an alternative funding option?
Mr TYLER — That is the closest you can come to finding something referring to debt. As we pointed out to the ESC in relation to that, it just was not sustainable as a funding option.

Mr SOMYUREK — My colleague picked it up. I was going to ask that question. If I were to go into a meeting like that, that is exactly the type of question that I would be thinking that I would be getting, about debt as a funding option.

Mr DALLA-RIVA — You are a clairvoyant maybe.

Mr SOMYUREK — I think it is pretty logical.

Mr TYLER — We were ready for the question, because we have got a policy on debt, so we were able to answer the question. The point that was made was that — —

The CHAIR — It is a public policy?

Mr TYLER — It is included in our strategic resource plan. We have called it a policy, but is a part of the council’s adopted strategic resource plan that addresses that question of what we will do in terms of debt. It says we will borrow for very large projects, but apart from that we do not use debt to fund our recurrent, if you like, capital works program, but we were ready to address the question.

Mr SOMYUREK — I get what you are saying. We need to make sure that it is not too onerous to discourage councils from going to the ESC.

Mr DALLA-RIVA — Thank God they are not my bank manager.

The CHAIR — And your strategic plan has already been signed off by the council after community consultation is my understanding.

Mr TYLER — The community consultation occurred back in October and December of last year. The strategic resource plan is in our budget that the council has now adopted and will place on exhibition, depending on the outcome of the application.

The CHAIR — The reason I am asking this is that I am trying to understand. With the ESC, some of their criteria relates to a variation requiring consultation. So your strategic resource plan, which is a guidance document, has had that community consultation already and you are drawing on that to put a framework in and then will request further — —

Mr TYLER — It certainly has had the benefit of that consultation, and one of the things that was discussed in that consultation was the long-term impact of debt and our inability to fund it, and that was appreciated by the people who were there.

Mr DALLA-RIVA — I have a follow-up question, maybe for Kathryn in particular. Your CEO mentioned $200 000 in terms of so far putting together the document that I am holding. Are you the first type of person employed within council with the title of rate capping strategy coordinator? Is that the first within the council hierarchy in Victoria?

Ms SEIRLIS — Through you, Mr Chair, it is my understanding and I think it is the case that, yes, this is the only council that has dedicated a resource to coordinate the development of the rate capping response. It is just demonstrative of the way that we are agile and able to allocate and redeploy resources to respond to the council’s priorities.

Mr DALLA-RIVA — So taking that further — this sounds like a job interview, but it is not — in terms of the role, what is it? Maybe the CEO can answer it, but was it a role created for which there was a very clear set of criteria for what the position was, or has it grown? You were doing something else, obviously — you must have been — and then this position came up. I am trying to work out, again for other councils that may be looking at the same, what some of the pitfalls you found are and, when you are trying to look for somebody, what the criteria were you were trying to find, just to get a bit of an idea.
Mr TYLER — Kathryn was certainly employed prior to this by the council, doing a range of a strategic-type activities. Rather than the council’s; it was my decision that we needed to have such a focus on the rate capping response because of its significance for the council long term that to dedicate a resource was the way to go. I am sure a lot of councils pull people together in order to address the challenge, but having a dedicated person to do it seemed to me to be the sensible way to do it. As Kathryn says, it is an agile response. Kathryn’s role will not always, obviously, be on rate capping coordination — we will have other strategic things for Kathryn to do once this demand has gone — but we made it very clear that this was the role. It was not as specific as saying, ‘Well, here’s the list of the duties’, because it was a constantly changing thing that we were dealing with. It would have been great if it was very, very simple to deal with rate capping, but it was not. It is complex and a moving feast.

Mr DALLA-RIVA — Can I, just on that, ask the other councils: have you considered the type of role that has been put forward, into the future? I am not saying you are going to do a rate capping variation application in the future, but has either Knox or Mornington council considered that type of role, given the amount of work that is required?

Ms TRUMAN — Through you, Mr Chair, it is certainly my expectation that if Knox council determined to apply for a variation to the rate cap it would certainly need to divert resources in much the same way as Casey has done, and it would either put a project team together or have a dedicated project manager looking after a team that would do that, given the short time frames and the significant amount of work that would be involved.

Mr HUBBARD — Mornington Peninsula has not considered that sort of role at this point in time.

The CHAIR — I want to ask also about EBAs and the forthcoming EBAs. I would be interested to know from each of the councils your time cycle with EBAs, the current increase factor and how that relates to the 2.5 per cent and a 1.1 per cent CPI.

Ms TRUMAN — I might start, Mr Chair. Council has just negotiated a 2.5, 2.5 and 2.6 per cent EBA. It is currently before the commission for signing off. But as Mayor Tony indicated earlier, with the inclusion of additional costs, such as staff moving through the bracket ranges in their salary bandings, it is actually around a 3.2 per cent impact that it has on our budget.

The CHAIR — Does that reflect what you think you will do in terms of budget increases in the future? Is that the council in a sense crystal balling out to what rate caps might be, because I think it is a difficult process?

Ms TRUMAN — Our position prior to the imposition of the rate cap legislation was that a 5 per cent rate increase was forecast in our long-term financial strategy over the 10-year period, and that was in part to build provision for funding of significant and major community infrastructure projects, so to use a combination of debt and also the accumulation of some funds to pay for major community infrastructure projects. Obviously with that capacity gone that does change all of those sorts of things. It is fair to say that having government set a rate cap on an annual basis in December of each year during the budget preparation process makes it incredibly difficult to develop effective long-term budget planning.

The CHAIR — Including EBAs?

Ms TRUMAN — Correct.

The CHAIR — I would be interested to know what share of your budget is for staff and a number — how many millions that is — and also what the increments come out at.

Ms TRUMAN — I can tell you that at present our staff costs are around 45 per cent of our budget. I do not have the other figures on me, but I am certainly happy to provide those.

The CHAIR — Let me conceptualise this. If you have a 2.5 per cent cap and 45 per cent of it is growing at something over 3 per cent, the other 55 per cent has to grow at something less than that.

Ms TRUMAN — That is correct.

The CHAIR — That equals, it seems to me, services or infrastructure.
Ms TRUMAN — That is correct.

Cr HOLLAND — Can I comment on that? Through you, Mr Chair, where I see the problem is that that is fine at the moment. We have agreed on this EBA at effectively 3.2 per cent, where rate capping is at 2.5 this year. Where I see the problem is that if next year CPI comes in at 1.1 per cent, we are already committed to 3.2 for the wages, and that represents 45 per cent of our costs. That is where I see a major problem. If it comes in at 3, that is different, but if it comes in at a lower amount, we will be even further behind the eight ball. What do we do — remove staff, get rid of services?

The CHAIR — So your choices then are to remove staff or cut services or infrastructure.

Cr HOLLAND — Or a mixture or stop repairing the roads. What do we do?

The CHAIR — Slow on maintenance.

Cr HOLLAND — Yes, defer maintenance.

The CHAIR — Are there similar issues at Mornington?

Mr HUBBARD — Yes. At Mornington Peninsula we have a current EBA which expires on 31 December this year. That current document includes 3.3 per cent effective from 1 July 2016. I would not like to prejudice or speculate around what we may end up with in the next document, so I will leave it there. In terms of our employee costs, we have significant outsourced service provision. Where our employee costs probably represent, say, 33 per cent of our revenue, we have probably got another call it 55 per cent which is in some significant large outsourcing contracts, and those contracts are not tied to CPI; they are tied to a number of other applicable indices that reflect the underlying costs of the service delivery of those contracts. So for us in particular CPI is not indicative, and even our wage growth is not indicative of CPI.

Mr TYLER — Mr Chair, it is interesting to reflect, I suppose, that the Essential Services Commission recognised that the wage price index should have applied to a proportion of the indexed amount of rate increase, but the government did not accept that.

The CHAIR — The minister did not accept that.

Mr TYLER — That is correct, so that went by the by. But I am saying that the ESC recognised that there was a difference between some of the costs that the councils face and the wages. Our EBA runs out within about the next 12 months, so we will be about to commence some discussions with the union. I note that the unions have been very concerned about rate capping, and they have led some representation against it because I think they recognise that in the greatly constrained environment councils are going to struggle to deliver the sorts of pay increases that the unions are going to be chasing, so it is certainly going to be a difficult EBA discussion next time round.

Mr DALLA-RIVA — Which union is that, if I may ask?

Mr TYLER — The ASU.

Mr DALLA-RIVA — The ASU for all of the councils, predominantly?

Ms TRUMAN — And also the engineering union as well. The engineering staff also have a union, and also some health service workers, so we have got three unions that we have at Knox.

Mr DALLA-RIVA — Three unions. Have the other councils got three?

The CHAIR — That is your HACC workers and so forth.

Ms TRUMAN — That is correct.

The CHAIR — The other point that Mike Tyler made mention of earlier is GAIC, and this is a particular matter I think for growth councils, interface councils in particular. Just in terms of GAIC and development collections, have you had access to all of the GAIC that is collected in the City of Casey or from projects in the City of Casey?
Mr TYLER — Casey and Cardinia are collected and accounted for together, and we do not get access to it; it is held by the government. There has been some small amount of money spent, I think on a car park at the Berwick railway station, and another $1 million was allocated but not spent for the improvement of a particular intersection. But there has been other than that no expenditure of GAIC moneys collected in the south-east. We think that that is an indictment — that in fact the GAIC money should be spent on some of the projects that are desperately needed — and both Cardinia and Casey say that the government should be spending the GAIC money that is collected in our municipalities on the upgrading and duplication and extension of Thompsons Road.

The CHAIR — I will just say for the record that as health minister I was successful in getting $5 million out of Treasury in GAIC money for Cardinia’s community health facility, which is obviously a subregional service. The issue I am drawing on flows from my experiences there, and it is pretty clear to me — and any council here could contradict this point if they think that is not correct — that it is actually very hard to get the GAIC that is collected back out of Treasury and spent in the municipalities in which it is collected.

Mr TYLER — That is the first I have heard of the Cardinia health money, but we will have a look at that. But there has certainly been nothing other than what I mentioned in Casey.

The CHAIR — Mornington?

Mr HUBBARD — I am not aware of that. I would have to go back and have a look.

Cr HOLLAND — We do not have any GAIC, but we do have a landfill levy that we would not mind getting our hands on.

The CHAIR — You would like to get the landfill levy as well?

Cr HOLLAND — Yes, we would.

The CHAIR — Is there any other comment on the landfill levy?

Ms TRUMAN — We could open that Pandora’s box.

The CHAIR — Seriously, though, we might just ask councils to take it on notice now to know how much landfill levy has been collected over the last, say, three years and how much has actually come back into the municipalities or into projects on which the municipalities draw.

Ms TRUMAN — I can answer the second question and say zero, but we will take on notice the first question.

The CHAIR — Okay. Do you have a comment?

Mr SOMYUREK — No, a question. Can I please have your feedback on the freeze in the cuts to the financial assistance grants by the federal government, whoever wants to take that first?

Mr DAVIS — Through you, Mr Chair. I guess the impact on Casey over the three years will be over $1 million a year. Certainly this year it is in the order of $350 000 to $400 000, but really we have had three years effect of that, so the impact now is that it has more or less frozen. I guess council got a small benefit from population growth, but as one of the councils mentioned in the earlier session, because they have been changing the formulas each year, certainly council, from — —

The CHAIR — So you actually got more in nominal terms because of the population change.

Mr DAVIS — Well, because of population growth, but —

The CHAIR — But per head of population it remained.

Mr DAVIS — the amount per capita reduced. Certainly from 2014–15 into 2015–16, because of the movements in the formulas and all that, it was calculated that our grant was actually lower this year than it was last year.
Mr SOMYUREK — Just to clarify, in absolute numbers you got more, but in real terms you got less — to the tune of $1 million.

Mr DAVIS — Into this current financial year we actually got less than we did last year.

Mr SOMYUREK — Even in absolute numbers?

Mr DAVIS — In absolute numbers we got less, because of —

The CHAIR — The grants commission adjustments.

Mr DAVIS — movement in how the formula fell out for Casey.

The CHAIR — Just on the same matter, state government payments aggregate: what are they this year and the year before? Have they gone up or down or remained static?

Mr DAVIS — In aggregate terms they have gone up; in real terms they have reduced. So if you were to use a school crossing or a HACC — and I know it is hard to tell if it is state or federal at the minute with HACC — we might get indexation of 1.5 or 1.8 per cent, whereas our growth in costs is around 4 per cent because of our EBA and the impacts that some other councils have mentioned about progression, plus how it applies to our lowest paid employees. So in essence about 1 per cent of the cost of the service is transferring to council every year because of that indexation gap. I know that even at one of your earlier inquiries the chairman of the ESC was saying, ‘Well, cost shifting doesn’t apply; it’s all caught up in the legacy sort of cap that has been set’, but that is inaccurate. In future years that indexation gap continues to affect all councils.

The CHAIR — Is that the same for other councils?

Mr HUBBARD — I would have to go back and do some more detailed analysis to confirm that precisely, but I am certainly aware that we have, at Mornington Peninsula, benefited from some things such as the infrastructure grant for the interface councils, so you are introducing a completely new source of funding, if you like, in that scenario. My understanding is that our financial assistance grants are roughly the same on a per capita basis, but I would have to confirm in terms of the overall state payment take.

The CHAIR — I think Joanne’s nodding is a ‘yes’ to the earlier question.

Ms TRUMAN — Yes. I am certainly happy to take it on notice and provide some more detail, but the impacts of a lack of indexation are the same as what was mentioned at Casey.

The CHAIR — I thank all three councils for your forthrightness and the information provided. That is actually very helpful indeed. There may be need for the staff to come back and follow up with a number of questions taken on notice, and we will be wanting to communicate with councils over the forthcoming period as well. I want to particularly thank Casey for the information regarding the variation, because obviously this is an important process for councils and their communities, and it certainly helped us understand it. Thank you.

Witnesses withdrew.