TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Ballarat — 28 April 2016

Members

Mr David Davis — Chair
Ms Harriet Shing — Deputy Chair

Mr Richard Dalla-Riva
Mr Shaun Leane

Staff

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

Witnesses

Mr Jim Nolan (sworn), chief executive officer, Pyrenees Shire Council;
Mr Andrew David Evans (sworn), chief executive officer, and
Mr Alistair Rowe (sworn), manager corporate support, Ararat Rural City Council; and
Ms Justine Linley (sworn), executive officer,
Cr Murray Emerson (sworn), mayor, and
Mr Vaughan Williams (affirmed), director corporate services, Northern Grampians Shire Council.
The CHAIR — Can I welcome Pyrenees, Ararat and North Grampians municipalities to the hearing and indicate this is our hearing on rate capping and the impact of rate capping. The evidence that you give here today is evidence under oath and protected. Commentary that you make outside is not necessarily protected. We will begin with a short statement from each municipality and then follow up with some questions. If I can perhaps start with Pyrenees and get a short introduction, and then we will follow with some questions.

Mr NOLAN — Thank you, Chair. I will start by giving a snapshot of the Pyrenees and then speak specifically about the issues around our application for a higher rate cap. The Pyrenees has a population of about 7000 people over 3500 square kilometres. The major towns are Beaufort and Avoca. It has about 2000 kilometres of local roads, 156 bridges and 135 major culverts. We have an annual budget of around $20 million, including about $13 million in operating and $7.9 million in capital. We have 5835 rateable properties, with an average rate of $1388 per assessment, which is 27 per cent lower than the state average on a rate per assessment basis.

Council is responsible for around $285 million worth of assets. Thirty per cent of the population in the shire is involved in agriculture. Wine production and grape growing is the highest economic output sector in the shire.

I make reference to disadvantage. The Pyrenees is 1 of 11 shires that are currently impacted by drought. A number of health indicators place Pyrenees above the state average. The number of smokers per head of population is the highest of any LGA in the state. The average rates of diabetes, cancer, soft drink consumption, obesity, insufficient consumption of fruit and vegetables et cetera are all well above state averages. The rate of disability support pension recipients is more than double the state average.

There is a lack of telecommunications and a lack of access to internet. Fifty one per cent have an income of less than $400 per week; the state average is 39 per cent. The median household income is $732; the state average is $1216. The percentage of the population who have completed a higher education qualification is 24 per cent compared with the state average of 45 per cent. The percentage that have not completed year 12 is 67 per cent with the state average at 43 per cent. A number of those statistics come from the department of health in its publication of December 2014.

In respect of council’s budget, approximately $6.5 million of our expenditure relates to employees. That is about 32 per cent of the total $20 million budget. We are talking about the draft budget for 15–16 at this stage. Excluding depreciation, which is our biggest expense in our budget, the employee costs are around 49 per cent, so the employee costs are quite significant and that is a relevant factor when it comes to rate capping.

Council’s revenue comprises $8.9 million of rates, which is about 42 per cent of our total revenue. About $10.6 million of that, which is 51 per cent, is from capital and operating grants.

Council has a significant asset gap, principally driven by its roads and bridges network, in the order of $1.5 million to $2 million per annum. That is the gap between the demand for renewal as compared to the amount of capital renewal that is actually undertaken.

Council’s higher rate cap application was made on the basis of a 3.83 per cent rate increase, which is a 1.33 per cent higher cap. That equates to around $100 000 or just under — 1 per cent of rates equates to about $74 000. The purpose of the additional rate revenue was for it to be quarantined for road renewal, and in particular the rescaling of our sealed road network.

Council undertakes an asset assessment on a three-yearly basis, using a qualified consultant, Peter Moloney, who undertakes the same work for over 40 councils across the state. In his report, which concluded in December 2015, there is significant evidence of under-servicing of our road network. Our resales in particular have an existing rescale rate of around 24 years. The optimum rate for rescaling is 17.

In addition to the evidence from Moloney, council also relied on its community satisfaction survey results from its constituents which indicated that 56 per cent of the population felt that council’s roads were either average, poor or very poor. So the combination of an infrastructure gap and deteriorating assets, which are not being renewed in an appropriate manner, along with a community that is indicating a general dissatisfaction with the level of their road network, meant that council made their application for a higher cap. During the process of preparing its application, council consulted with the community. Council received significant advice from the
community that affordability was a key issue and with the disadvantage that I referred to earlier, it is not surprising that ratepayers were concerned about any additional increase in their rates.

Council had originally intended to set a higher cap of an additional 2 per cent over and above the 2.5 per cent cap. As a result of its labouring on the matter and consulting with the community, it eventually resolved to make an application for the 1.33 per cent.

The difference in revenue between the cap and the anticipated rate revenue that council had provided for in its 10-year, long-term financial plan was a shortfall of $193 000 in 2016–17, with a cumulative impact of $9.2 million over the 10-year period of the original 10-year financial plan.

The issue around salaries I indicated was significant and was a significant driver for council seeking an application as well. Council’s enterprise agreement provides for a 3.5 per cent increase in salaries in the current financial year. In addition to that annual incremental increase, the increase due to movement through the bands equates to a further 0.7 per cent increase, which is a total of 4.2 per cent average increase in salaries over the period.

That has been referred to previously as salary creep. Effectively the movement through the bands is a non-negotiable item, it is provided for in the local government award and it is something that has to be borne by council. Council is scheduled to renegotiate its enterprise agreement, which ends in December 2016, so we will be entering into that negotiation soon.

Other factors that are impacting on council’s financial position: of course the federal assistance grants and the freezing of those grants over a three-year period had an impact on council in the order of $462 000 which, compounding year on year over a 10-year period, equates to $577 000. The loss of the country roads and bridges program, which was introduced by the previous state government, was a significant loss to our council. It went quite some way to addressing our infrastructure gap.

There are a range of cost-shifting measures that have been well reported by others and I will not go into details at this point in time, but that is a factor that impacts on our council.

Council is also mindful, and I will submit as well, of other state revenue increases and in particular the fire services levy. Council collects that on behalf of the state government and the revenue from the fire services levy increased in the 13–14 to 14–15 year by 12 per cent and in the 14–15 to 2015–16 year by 10 per cent, so a total of 22 per cent over that two-year period.

Landfill levies have increased in the order of 8.3 per cent over the period from 2011–12 to 2015–16, where the levy has increased from $22 to $30.23.

I note also the recent outcome of the Victorian public sector enterprise agreement, which identified a salary increase of a total of 3.25 per cent was provided for, comprising a 2.5 per cent base, a 0.5 per cent increment for productivity improvement and a 0.25 per cent additional increase, totalling 3.25 per cent.

I guess I will also make mention of the fact that as part of its submission council was required to undertake considerable assessment of offsets in respect of its application — offsets that it might be able to provide in other service areas to offset the loss of revenue through rates.

Council is currently undertaking a review of its libraries, VICs and resource centres. Those services cost council in the order of $500 000 a year. Council recently made a decision to withdraw its VTIC accreditation on the basis that VTIC requires those centres to be operating seven days a week from 9 a.m. to 5 p.m. to provide visitor information services in an accredited format. Council’s withdrawal from VTIC accreditation was essentially decided on the basis that it would provide greater flexibility for council to be able to operate those centres at reduced hours.

Council has undertaken a review of its planning services. As a result, the planning services did not result in any cost savings. It effectively identified ways of being able to provide the service in a better way, being able to ensure that council meets its statutory obligations and provides the service that is expected of it and meets its responsibilities.
Essentially whilst offsets are good in theory, a number of the reviews that have been undertaken to date have not identified any significant financial savings to council and, as such, the expectation that savings are going to come through that process is not greatly expected at this point in time. At this point in time, I might just leave it there.

The CHAIR — I think we have got to make sure there is time for everyone. Jim, I think that is actually a very comprehensive submission and I am thankful for it. Ararat, please.

Mr EVANS — I will not go through the same sort of detailed statistics as Jim did. I think most of those statistics, in terms of how big we are, how many kilometres of road we have and how many people we have, are all well-known, documented statistics that are all public information, other than to say that we have only one major centre, Ararat, which has around 9000 of our 11 000 to 12 000 people and we have large tracts of dirt roads, culverts, drains, bridges et cetera, as do the other shires here.

Just to answer one of the earlier questions, not only have we never thought of employing a rate capping officer, we are unlikely to do so. Some of the things that we have done over the last four years — without knowing that this was coming, and I will come back to the reasons why in a few minutes — are that we have reduced our budget significantly. We have gone through it and cut some $2.5-odd million out of ancillary areas. We have reduced 5.5 indoor staff positions. Our last EBA was 3 per cent, 3 per cent, 3 per cent. At the time it was negotiated, it was the lowest in the state. It ended up being the second lowest in the state. We are currently negotiating our EBA which runs out in October. Our initial position, which I really cannot see how we can move past, is CPI — whatever that is — because that is reasonable to both the organisation and to the employees concerned.

The CHAIR — So 1.1 per cent to the end of the last financial year.

Mr EVANS — Whatever CPI turns out to be. If CPI goes up, then the amount the employees gets, it goes up.

The CHAIR — We obviously do not know what this year’s is going to be.

Ms SHING — It is now forecast at 2 per cent coming out of this week’s budget.

The CHAIR — Forecast?

Ms SHING — Yes.

Mr EVANS — My view of the world I suppose is that a flat percentage amount ends up being unfair to somebody. It is either unfair to the employees if CPI rises, or it is unfair to the organisation if CPI drops. That is my view of the world, and we will see how that tracks with the unions. They have not been terribly favourably disposed towards CPI-type rises; they have always tended to want a fixed percentage, but that is my view of the world and we will see where that gets to.

Some of the statistics I will give you. When you take out our non-recurrent grants, our rates are about 60.72 per cent of our revenue. Our employee costs account for about 42 per cent, and one of the obvious things that councils have been talking about is the inability to raise some of the fees that we have. The state government reviewed the fees and increased them to $24.80 for land information certificates, with the fee being indexed each year. But with that increase, being 24 per cent, the wages of the person preparing that since it was last raised in 1999 have gone up by 77 per cent. That is just one example of a whole series of things that councils are wearing as a result of cost shifting from both the state and the federal governments. I am sure you have heard all of that stuff over and over again, but it probably just needs to be said one more time.

I am not unique, but one of the things that I have is a perspective that a lot of other council CEOs do not have, because I worked in New South Wales as a CEO in a couple of different councils and as the director corporate services in a third. I can tell you the effects that rate pegging has over time. Ararat did not choose to apply for a rise for a combination of things. We have our finances under control, we are a low borrowing council, we have gone through and we have reduced our costs substantially over the last four years and our councillors in the lead-up to an election decided that 2.5 per cent was acceptable, both to them and to the public. Okay. I have no problem with that. But if you look at our long-term financial plan, which was previously based on 4 per cent rises over time, and you compare that, the results over a 10-year period are significant.
The CHAIR — And cumulative.

Mr EVANS — They are detrimentally significant and cumulative. When you go into New South Wales and you work in a council in New South Wales, there are a couple of fundamental differences. One of the differences is that in New South Wales we were able to cost shift — that might be the polite way of putting it — against our water and sewerage funds, which were not rate capped. So there was a significant amount of accounting work done to ensure that the general fund benefited by us running water and sewer and not having a cap on the water and sewerage rates. We do not have that, because the water assets in Victoria are run by the water corporations, so we do not even have the ability to tinker at the edges, as they do in New South Wales, or have done for many years in the rural areas.

The rural areas are primarily what I am talking about, because those are the councils I have worked in and there is a completely different scenario when you are talking about urban councils versus rural councils. I see a huge delineation. I know in political circles in New South Wales there was lots and lots of talk about: ‘How do we divide the rate capping thing? How do we actually give more to the rural councils without it ending up on the front page of the Sydney Morning Herald?’.

Councils survive — no question, and they do innovative things and they do all sorts of things — but the infrastructure does not. If you look at any rural council, particularly councils of the size of Ararat, Pyrenees and the Northern Grampians, and you look at the long-term effect of rate capping on the infrastructure that is provided to those communities and the happiness of those communities towards that infrastructure, particularly the roads and the drainage, it is appalling. That is the only word I can use.

We are told, through our accounting standards and certainly through the state and federal governments, that we need to manage our infrastructure. We have step systems and we have asset managing systems and then we bluntly ignore them; we take absolutely no account of them. We do exactly what Pyrenees have done, where we have renewal periods of 24 years when it should be 17 years. In New South Wales we went through and instead of reconstructing roads we just poured another layer of bitumen over the top to get rid of the old potholes. They were still under there; the road surface looked a little better for a year or two, but that is all it lasted. In actual fact what we should have been doing is taking 2 foot of gravel out and completely rebuilding the road so that we had something that would last for the next 24 years instead of lasting two and half or three or four years. It was that sort of stuff; that is where we are all headed under rate capping, as well as a reduction of services and the fact that you do not open things for hours. We have already done a little bit of that at Ararat as part of this.

It comes back to the philosophy I came into council with, which is about the need to be lean and mean. Some of those experiences in New South Wales allowed me to look for those things, but there is only a certain level you can go to before something gives, and it will be the roads, it will be the bridges, it will be the buildings and it will be the future generations of these rural communities not being able to have the infrastructure that they have had in the past and not even being able to have reasonable infrastructure.

The CHAIR — Or a big catch-up.

Mr EVANS — And at some point, when that occurs, no-one is going to allow for that big catch-up. The money is just not going to be there. One of the issues in all of this — and maybe it is not my position, but I am old enough and ugly enough that I no longer care — is that we are all told that we need to go out to our communities and talk to our communities and get our communities on board agreeing with all of these things. Our communities often do not understand. How much community consultation has been done? Other than in the Herald Sun, how much consultation was done about the implementation of this?

I said it before the election and I have said it since the election: this is really bad public policy. What it says is that this level of government knows best and this level of government is a bunch of children who needs to be constrained and told what is best for them when they are actually the level of government which maintains greater levels of infrastructure, are much closer to the people and have much more responsibility on their shoulders for that on the ground, day-to-day infrastructure that the community needs in order to have the lifestyle that that community wants.

Ms LINLEY — Thank you, Chair, Justine Linley from Northern Grampians Shire. Again I will not necessarily go through all the data and the points; our shire is very similar to both Ararat and Pyrenees. But I
will make a couple of short points, and they are probably things that you have heard before. For us in our local
government situation, CPI does not equal our cost increases, particularly in a small rural shire, and it never has.

With regard to wage increases, cost shifting from other tiers of government, our increased legislative burdens,
whether it is roadside pests and weeds, the fire services levy or even the implications of having to report on a
new round of performance indicators, the cost of managing ageing infrastructure and the requirement to have
assets meet the demands of users in our communities.

For Northern Grampians our annual budget is around about $32 million per annum, of which just over
$15 million is derived from rates and municipal charges, and we cover a population of just over 12 000 people.
A significant proportion of the shire is actually public land and/or areas that are under mine or mine licence, and
of course neither of those categories are rateable. We also have one of the most generous rating differentials for
farming property in the state at 35 per cent differential.

For us, in terms of other financial implications, the freezing of financial assistance grants has cost us $500 000
that we will never recover. We have witnessed or lived through low or no increases in funding for particular
services that we run or offer, including aged care and home and community care. Child care and the pensioner
rebate have not increased. Similarly non-indexed statutory fees and statutory fees have been set well below the
cost of service provision.

Service provision is higher in rural shires, particularly with the disbursed populations and large areas that we
need to travel. Again, unlike Ararat, we are not confined to one city; we have Stawell and St Arnaud. Those two
towns are 72 kilometres to 75 kilometres apart. We need to provide the same level or standard of service to both
those areas. For a service area, for example, like home and community care, we actually do provide remote
service to people in the intervening towns of Navarre, Marnoo and out to Halls Gap, which requires us to have
our staff travel and to have fleet and vehicles provided for them for which we are not recompensed in any rebate
or other scheme. That comes from the ratepayers.

For us, too, we have not elected and are unlikely to seek a variation to the rate cap and we have not for
this particular year, mainly because of the resourcing required to even put that variation report together. For us a
1 per cent rate increase is around about $150 000 so it is not worth it.

Borrowing is not a solution to funding shortfalls, mainly because you have to pay it back and we have a very
limited capacity to borrow in any case.

In terms of undergoing service reviews, we have undertaken some very rigorous service reviews and made
some substantial cuts to services and staffing over the last couple of years in advance of the rate capping
scenario, and we have done that despite having suffered multiple natural disasters. I think at one stage we were
known as the natural disaster shire of the state. We have had everything from two major floods, landslides,
locust plagues, two major fires and now drought.

We have reduced staff in the last two and a half years from 182 full-time equivalent to 152. We have reduced
our building assets from 170 to 143. We have reduced materials and services budget items and employee
benefits dramatically over that period of time.

We do not disagree with the premise that rates are actually too high; we believe that is an issue, and we accept
that we have already well and truly reached the capacity of our community members to pay, more in council
rates and municipal charges. We are in a low socio-economic area, similar to Pyrenees and Ararat, where
hyperinflationary rate increases are unacceptable. However, in our view the state government putting a cap on
rates does not solve this problem of limited capacity to pay; rather, what it does is undermine the autonomy and
the self-determining aspects of local government and it removes the rights of local people to determine what
they think is appropriate to pay in terms of a land or property tax and what services they want in their local
community and the standard of those services.

Councillors are now in the invidious position of having to make those decisions about whether we provide child
care, school crossing supervision, aged and community care or other human-based services that do not fall
directly within the remit of local government. One of the solutions that we have looked at — and Cr Emerson
may well wish to talk about that in a little bit more detail — surrounds the notion of 3, 16, 81. Currently the split
of total tax revenues in Australia is 3 per cent for local government, 16 per cent for state government and 81 per
cent for federal government. Yet we are required to provide the servicing for a 34 per cent share of the infrastructure burden.

One option available would be to allocate a percentage of GST, but it is only one option that we have looked at to promulgate. Funding reductions and reduced capacity to raise revenue will require an increase in grant funding from other tiers of government if local governments are to maintain particularly the human services aspects of our business; and also, as Andrew and Jim have outlined, to maintain the infrastructure capacity that we have.

If funding is not increased to local governments, we are faced with severe service reductions — we have already undertaken those — as the difference is too large to deal with through efficiency improvements alone. Reductions in revenue and reduced capacity to raise additional revenue are severely restricted for us. As I have said, currently in Victoria we know that roughly 34 per cent of the share of the community and public assets is controlled by local councils. Really I think that is where we are at.

In terms of just picking up on the enterprise bargaining agreement issues, we are in the final few months of a current enterprise agreement. It expires on 30 June, so we have commenced discussions with the unions. At this point we are, again, as is Ararat, looking at a CPI increase as a limit and have done modelling at 1.9 per cent increase. Currently our EB is at 3.25 — I think that is correct. The log of claims that has been lodged with us from the union is a 4 per cent increase.

Mr EVANS — I think that is absolutely right. I think there is an issue of equity and fairness. The award allows for those rises, and Jim is quite right: they are not optional, they are not bracket creep; they are what the legitimate industrial award requires us to pay as increments to employees as they gain experience and skills. So they are not optional, and it is not creep; this is a legitimate requirement. The underlying issue is how much do we take up our overall salary bill, and I think from our perspective at least, CPI is the fairest way to do that in a rate capped environment.

Mr EVANS — I think that is absolutely right. I think there is an issue of equity and fairness. The award allows for those rises, and Jim is quite right: they are not optional, they are not bracket creep; they are what the legitimate industrial award requires us to pay as increments to employees as they gain experience and skills. So they are not optional, and it is not creep; this is a legitimate requirement. The underlying issue is how much do we take up our overall salary bill, and I think from our perspective at least, CPI is the fairest way to do that in a rate capped environment.

Mr WILLIAMS — There are already prudential rules around for local government — or guidelines, I suppose, from LGV really — about how much borrowing you can have. We always inform our councils of that capacity. Certainly in the Northern Grampians case, we can operate within the boundaries of those prudential requirements and invest another $6 million into our council, but the issue is, as Justine mentioned beforehand, the cost of feeding that debt takes away from your recurrent expenditure.

Mr WILLIAMS — Yes, that is right.

The CHAIR — But then it comes home, you know — my words — to haunt the council and as a millstone around communities forevermore.
Mr WILLIAMS — Because you cannot borrow your way out of this problem. I suppose when you look at the infrastructure of a council, you know, we have a lot of infrastructure now which was put in in the 1950s, 1960s, 1970s and 1980s, which is ageing, and when that was first put in it was not funded just by the local people themselves; it was a national and state-funded infrastructure build-up, to build capacity, to get things going. That was the whole thing of it. But now we are at that other cycle, and we are sort of in effect being asked to fund that completely ourselves. Quite frankly just the numbers do not add up for us.

The CHAIR — So all three councils have had the wink and the nod from the ESC?

Mr WILLIAMS — Yes.

Ms LINLEY — Yes.

Mr WILLIAMS — That has been their push.

Mr EVANS — In fact, they have presented to the CEOs the intergenerational argument that councils are low borrowing and that borrowing is the way that this should occur. While I understand the intergenerational equity argument, I am afraid that that is not — —

The CHAIR — Persuasive.

Mr EVANS — Well, the difficulty is in the long term, and again, go into New South Wales and look at the situation in those small rural councils.

The CHAIR — You end up with clapped out infrastructure and a big debt.

Mr EVANS — Clapped out infrastructure and your debt is at the maximum it can possibly be at without you actually falling over; and there are a couple of councils that, if they were actually not councils —

The CHAIR — If they were trading enterprises, they would be in deep.

Mr EVANS — if they were any other sort of corporation, they would actually be trading — that is right — insolvent. There are a couple of them that have been identified, but what can they do about them? They cannot do anything about them because they have led them to that path.

The CHAIR — So another issue all three councils have pointed to is their significant road and bridge infrastructure, and obviously the large distances and culverts and drainage and bridges and roads. The country roads and bridges program was $1 million a year. What has the impact of the cessation of that been?

Mr EVANS — A million dollars a year.

The CHAIR — No, but what has it been in a practical sense? I understand the quantum.

Mr EVANS — It is huge. It does not allow you — well, now that you do not have it, you cannot go ahead. And for the next year or so we are all buffered a little bit by the extra Roads to Recovery money.

The CHAIR — Federal money.

Mr EVANS — Federal money, but at the end of the day that will come home to haunt us as well — the culverts are still there, the bridges are still there and the roads are still there. Apart from all of that, the roads are now being driven on by much, much larger trucks. We have seen an increase in productivity in our agricultural areas of 2 per cent every year for the last 30 or 40 years and part of that is that you have got to get the crops off the farm and into the central repositories, and then you have got to get them out of the central repositories and down to the mill or to the processing plant. And all that is not being done on 1-tonne or 2-tonne Dodge trucks anymore; it is being done on B-doubles.

The CHAIR — So I guess my question is what does it mean; it is $1 million a year — I get that — but what does that actually mean for your roads?

Mr NOLAN — In the case of Pyrenees, the majority of that $1 million went towards renewal, which is an annual demand. The loss of that in the long term will require council to consider closure of low-impact roads or
handing low-traffic roads back or ceasing to actually continue to maintain and renew them. In the case of low-traffic bridges, it may result in council looking to a lower cost treatment when those bridges come up for renewal. So instead of replacing like for like, it might be replacing a high-level bridge with a low-level crossing, or in some cases it might mean closure of the bridge, so restricting access. Those decisions are expected to be made in time, as things continue to progress down this path.

The CHAIR — I am conscious of time. I have got one further question and then I will get Shaun to ask a question. I just want to pick up on Andrew’s point about one of level of government lecturing another level of government. The state budget came down yesterday, and we have seen a 15.2 per cent increase in public sector wages over two years and a 20.7 per cent increase in state taxes over two years. I am just interested in how councils respond, how they feel about that contrast.

Mr EVANS — Right. I think that from my perspective at least, and I certainly believe that my councillors are much of the same view, the issue of should it be 2.5 per cent or should it be 4 per cent or what have you is a completely other issue. The issue here is that you actually have one level government doing one thing, but then preaching and forcing another level of government to do something else.

The CHAIR — Hypocrisy.

Mr EVANS — Yes. At the absolute extreme end of hypocrisy, with one level of government saying, ‘Oh well, you can go to your communities and you must consult with them and you must get them on side’, but then they did not do any of that on the premise of bringing this in in the first instance. So, there is a whole level of that hypocrisy going on, so I will step back and let others have a say.

Mr NOLAN — I guess from a Pyrenees point of view, one of the points that I perhaps did not make before was the fact that the rate capping policy has been based on a one-size-fits-all basis — —

The CHAIR — Although the legislation allows a different model.

Mr NOLAN — I guess in our presentation today I have made a point of identifying elements of disadvantage, things that demonstrate the difference between a small rural council and other councils, and our expectation is that we would be treated differently because of those differences and because of those disadvantages. I guess the fact that the state has chosen to increase their taxes, I make no immediate comment on that other than to say that we would be looking for a share of those taxes to assist us in our delivery of essential services to our community.

The CHAIR — Rather than further cost shifting?

Mr WILLIAMS — I think this is an important point, because rate capping is particularly focused in on rate capping. As we have all said beforehand, we are in areas where there is a low socio-economic situation with a lot of our populace, and we are actually in favour of not having rate increases, because we understand that that is a bit of a burden. We are sort of naturally more expensive because of the distances and the whole tyranny there, but what it should come down to really is our funding sources. What has happened to us over the last few years is: firstly, the freezing of the federal assistance grants, and secondly, the rate capping. The rate capping works fine — —

The CHAIR — Thirdly, there has been a fall in state government payments. Flat fall.

Mr WILLIAMS — Yes. Just for our normal operating activities as well.

Ms LINLEY — Chair, so for things like an increase in the fire services levy that we are still required to collect, there is also an expectation that we still support the State Emergency Service, and it is not homogenous across the state. Northern Grampians has two SES units; Pyrenees has none. Our SES units have to service the national park — the Grampians National Park — so our community is paying for something that is a state asset, and yet we are required to collect the 7 per cent increase in the fire services levy every year, and then we get decried if we question that cost shift. So there are issues that have not been dealt with.

The other thing that I just wanted to make a point of particularly — and you asked that question about the country roads and bridges program — is there is a human impact and a human element to that particular program and that funding not coming through. For our modelling for the next strategic resource plan period of
four years, in that four-year period we are likely, if we do not get an increase in roads funding or roads-related funding, to have to put off staff in our St Arnaud depot. So that is people who have a long-term career based in a country town.

The CHAIR — Skills.

Ms LINLEY — We could be looking at depleting our staff further.

Mr LEANE — I think it is important to acknowledge, after the chair just bowled you that full toss down leg side, the reality is that rate capping policy has become legislation. Every MLC sitting in front of you voted for that enabling legislation. But I do take into account — and, Mr Nolan, you touched on some evidence that we have had — that this is the second report that we are about to present. The first report, when there was discussion around policy — and now that is a reality — there was evidence not just from rural councils but from other parties stating that consideration should be given to rural councils because of the limited revenue stream compared to other councils. So I suppose two questions to help us with our report: should sources of revenue be taken into account when a variation is being applied for, as in limited revenue streams compared to other councils? And also — and this year the cap was 2.5 — what would you think a fair percentage is, as in: 2.5, but it is plus ‘x’ for rural councils, considering the larger challenges that you have, which we as a committee have taken genuinely?

Mr WILLIAMS — Over the last probably 10 years a number of rural councils have taken the view that their rate increase is a lower percentage, plus 2 or 3 per cent, depending on the council, to fund infrastructure renewal shortfalls. That has been quite often a heavily publicised feature, so I suppose in fairness it is probably in those sorts of ranges the figures that I would suggest.

The CHAIR — I think that is a good point that Shaun has made, but your point is that it depends on the infrastructure support that is coming from elsewhere too?

Mr WILLIAMS — True. That is true. And there is a different composition between councils. For example, our council has close to 500 bridges. It is just the geography of our region. We are at the foothills of mountains, and as a result there are lots of rivers, which require lots of bridges, but it is slightly different for others, and also soil types and what have you. But, yes, they are similar issues.

Mr LEANE — And what I am taking into account is that you have always had these challenges, and you always will have these challenges.

Mr WILLIAMS — Yes.

Mr LEANE — So there would have been different funding policies from different state and federal governments forever, which would make you pleased or make you un-pleased over a long time. So that may be a constant, but the point I am making is you will always have these challenges, so is there a fair mark that would assist?

Mr EVANS — Your original question was: should there be a capacity to raise revenue, and the answer is obviously yes.

Mr LEANE — Yes.

Mr EVANS — I think one of the other constraints that country councils have is that in order to maintain, not even to build but to maintain, our populations at the level they are, the community is requiring more and more city-type services, so you have to be able to provide those services if you want to keep people living there. In Ararat we have an indoor heated pool; we have a range of city services. We are the smallest one that has some of these services, but we still have a leaking to Ballarat. We still have people who commute every day from Ballarat to Ararat, because of the services they can receive by living in Ballarat. If we are to maintain those rural populations, then there needs to be a level of community infrastructure provided in those towns and cities for people to want to go and live there. What happens is that that infrastructure — those community services — are the things that slowly get cut.

So, yes, the revenue — capacity to generate revenue — but if your population is falling then your capacity also falls, and there needs to be a thought process behind that. The second thing is that it is not just about revenue, it
is about revenue versus the infrastructure you have to maintain, and this is the critical difference between the rural councils and the urban councils. The urban councils have this incredible density, and we get people coming out and saying, ‘Well, hang on a minute, I have got a house worth $1 million in Sandringham and I’m only charged this much’, but the roads are all made, the foot paths et cetera.

You know all of those arguments, but it is that issue of that infrastructure. If that infrastructure is to be maintained, there needs to be a level of money that comes in in order to allow that maintenance, and as we have noticed — and thank you to all of the federal and state governments that have provided us with money along the way to help us with our infrastructure — the bottom line is that politics change. State government priorities and federal government priorities change, and the rural roads and bridges program is dropped.

All of that stuff changes. The population does not change. The infrastructure and maintenance requirements do not change. So somewhere along the line someone has to look at that stuff and say, ‘What is that worth? What’s the figure? Is it 2 per cent or 2.5 per cent?’. We were in the bottom 20 councils in this state when the report was put out on infrastructure backlog, and we have improved on that, no question, but that does not mean we are at the point where we are actually moving forward, and rate pegging will just mean that goes down the hill.

**Cr Emerson** — Chair, if I may, can I put a perspective quickly from the publicly elected point of view, because it is a little bit different from these learned gentleman next to me — —

**The Chair** — And women.

**Ms Shing** — Noting that we now at last have a woman appearing before this committee today.

**Cr Emerson** — My CEO is quite used to me doing that.

**Ms Shing** — Thank you, Ms Linley, for being here, by the way.

**Cr Emerson** — The seriousness of rate capping from a publicly appointed point of view is that in 10 years time the Northern Grampians shire will not be in existence. We cannot burden our ratepayers anymore. Our ongoing rating percentage has been 5 per cent for the last few years. We are reasonably happily taking the government’s advice and doing it at 2.5, but having done that, we have cut back our services by $1.7 million. For some services, like children’s crossings, where people accuse us of throwing people under the bus — our children’s services, our state emergency services and things like that — over the next 10 years our loss in revenue is going to be gigantic. Unless we can get some form of income back into our organisation, in 10 years we will not be here, and in my opinion neither will these others.

**The Chair** — So those services that you have named, they are services that are joint state-council services where there is an agreement or a requirement or a bit of both.

**Cr Emerson** — I would agree with that, but we would argue that we are the ones providing the greatest percentage of the funds that go into it, and that is what I was going to quickly try to get around to. If we look at our libraries, a decade ago it was 80 per cent government investment and 20 per cent local government investment. Now it is the other way around. The same thing with school crossings over the last decade.

Our 3, 16, 81 campaign is the only way our shire can survive, and it is going to be a hard fight, but we are up for it. A decade ago we got 6 cents in every dollar. Now we are getting 3. In fact we are not even getting 3; we are getting about 1.7 cents per dollar. Those are the latest figures that have been provided to us.

We cannot have rate capping without being able to have some other form of income. We have not got $101 million worth of parking meters and traffic fines. We need more government assistance from state and federal taxation — GST, income tax. Put it all together and give us 5 or 6 per cent of that, where at the moment we are getting 3, and we will be able to survive. We will not be banging on the state government’s or the federal government’s door every second day of the week to try to find some more money. We do not want to be on our hands and knees begging for money, but in 10 years time we will be out the door if we do not.

**Mr Evans** — One last thing — and I do not know if the other two have got their stats or even done their stats — but we have just had a change to the legislation, which requires us to pay a greater minimum hourly payment to people. Our HACC workers would go out and work half an hour and get paid for an hour. The
requirement now — I do not know what the minimum is — might be 2 hours or 3 hours. That has increased our costs by 0.5 per cent on our rates.

The CHAIR — Some details on that would be helpful.

Mr EVANS — Somebody has just gone ‘tick’, and all of a sudden we are up for another so many thousand dollars payment to our staff who were not employed on that basis. It has just been an across-the-board change: here is the new rule.

Ms SHING — What do you mean, ‘Somebody has just gone’ — and you have made a gesture like ticking a box? Did you have no input into the change to the minimum hours to be worked by HACC workers?

Mr EVANS — What input?

The CHAIR — I think the answer is no.

Mr EVANS — No is the answer. It has just come out as, ‘These are the new rules’, and we have gone, ‘Oh, what’s that going to cost us?’, and we have done the calculations. It is this stuff that happens all the time. There is a list. You can go and find the list.

Mr DALLA-RIVA — I am conscious of the time. I wish to ask about the ESC. We have heard evidence in respect of the amount of detail that is required in the ESC application to vary the rate cap. We have had one council provide us with a brick of material that had to be submitted. Do you have a view one way or the other as to the process that could be engaged or have a view on having a rate cap variation that could be simplified rather than having some bureaucratic nonsense and process that seems to take a lot of effort and a lot of work by councils? You raised the point, I think, that a 1 per cent increase is only returning $150 000, but you may spend $50 000, and as I indicated earlier, you would be better to put it on race 8 — —

Ms SHING — All these equine tips from you, Mr Dalla-Riva. These are not to be relied upon.

Mr DALLA-RIVA — Why not? Just gamble it away.

Ms SHING — He did not say where the horses were racing, or when. That is the disclaimer.

Mr DALLA-RIVA — I was going to say Crown Casino. I am just saying that in the sense that there is a general need for streamlining some of the processes, and I just want to get the council’s view. Do you think that the rate cap variation would be a lot simplified or easier to vary if there was perhaps an easier process than what is required?

Mr NOLAN — Definitely.

Mr DALLA-RIVA — I know it is a Dorothy Dixer in a sense. I do not need just a yes; I want to know how. Unusually for me, I might start from my left, which is your right, which is all right for me.

Mr NOLAN — Pyrenees actually made an application, so we were subject to the information requests and so forth that were necessary to accommodate that. We engaged some external help to assist us to prepare the application. That cost us something like $10 000 to $15 000. Our early estimates were that it was going to cost somewhere in the order of $30 000 to $40 000. We tried our best to keep it as simple as possible to avoid any unnecessary costs. One of the factors that was somewhat problematic was a fairly detailed spreadsheet of information that had to be provided, and it was a bit unclear as to what the purpose of a lot of that information was.

I guess in terms of our application, as I said, we tried to keep it simple in terms of what the purpose was and provide clear evidence to substantiate that, which assisted us to keep our application as brief as possible. But I would have to say that the fairly detailed spreadsheet that had to be prepared was probably one element that could be looked at in terms of future applications.

Mr DALLA-RIVA — Just on that, was the amount of documentation substantial? Was it voluminous? If anyone else was to read it, would they say — —
Mr NOLAN — Our application is available on the Essential Services Commission website. We did get a request for further information after we submitted that.

Mr DALLA-RIVA — What was that?

Mr NOLAN — That was a 17-page request.

Mr DALLA-RIVA — You had a 17-page request?

Mr NOLAN — Yes, there was a request for further information that was about 17 pages. We provided fairly straightforward answers to most of them.

Mr DALLA-RIVA — Do we had access to that?

Mr NOLAN — I am not sure if it is publicly accessible, but I am happy to provide our response.

Mr DALLA-RIVA — Can you provide that to us? I would love to see it.

Ms SHING — Did that include templates and the way in which information should be set out, or was it simply 17 pages of detail?

Mr NOLAN — No, they were mostly questions about clarification and additional information.

Mr DALLA-RIVA — Seventeen pages of clarification. That is a lawyer’s picnic, isn’t it.

Ms SHING — It depends on what font size you are talking about, Mr Dalla-Riva.

Mr DALLA-RIVA — It might be font size 8.

Ms SHING — He picks on me because I have practised previously.

Mr DALLA-RIVA — I am an ex-detective, so we are always going to clash.

Ms SHING — And I am an ex-lawyer, so obviously there is a natural tension there.

Cr EMERSON — I think that would be a small amount from what I hear from the other mayors. They are gigantic amounts.

Mr DALLA-RIVA — Thank you. That would be really good.

Ms SHING — If we could get that further information.

Mr EVANS — The ESC are going to be collecting data from all councils regardless of whether you apply. The simplest process, I think, you could come up with, if you assume that we stick with this system and you assume that there is some thought process that says that rural councils deserve something more for their infrastructure or whatever, is that the ESC will have a whole series of data. If you look at that data and then you look at the local government data and you look at the My Council or whatever website data and you put all that together, it is not rocket science to work it out based on the length of road, its condition assessment, income, population, the sort of city or shire you are talking about and the facilities that they provide to their community. It is not that hard to sit down and go, ‘Okay, based on all of that, Ararat should get another 2 per cent and Northern Grampians should get another 3 per cent and Pyrenees should get another 2 per cent or whatever’. You should be able to do that in a relatively efficient way if you can pull it out from the politics, and that is the issue.

The system that has been brought in allows for differential rises. But it is not what happened, is it? We all got 2.5 per cent regardless of whether you are Buloke and are known to be completely broke and going out backwards or the City of Melbourne, who raises $90-something million a year in parking fines. We all got the same 2.5 per cent. There was no allowance and no accounting for it. The only conclusion you can reach from that is that that is a political decision, because it is not an administrative decision, it is not a rational decision and it is not an efficient decision in terms of the infrastructure that the rural councils have to maintain.
If it was done on the basis of the infrastructure and the infrastructure needs et cetera, then each council would have had a different rise, because each of us has our own unique circumstances and our own road length and our own number of culverts and our own number of timber bridges et cetera. So it was effectively a political decision and cannot be framed in any other way. If you wanted to build a system, then you would go to the ESC and you would take the politics out of it. You would go to them and you would look at all of the data and you would say, ‘This is what this council deserves and this is what this council deserves as an amount over and above something that is nominally for CPI or nominally an amount’.

Mr ROWE — I think every council in Victoria is required to do their SRP, their strategic resource plan. This is where I think the state government has implemented the policy without due consideration of whatever the current financial situation was for every individual council. For me, there would have been the onerous task of filling in those spreadsheets. I had a look at them, and I was glad that the council did not do it, because I would have had to prepare those sheets. If you look at the strategic resource plans, all the data is there to work out who is financially sustainable and who is not financially sustainable.

The CHAIR — And the auditor’s reports.

Mr ROWE — VAGO put out the financial indicators every time, and that is where you could perhaps get another request for information if it was there. The framework is there, but what has happened is the Essential Services Commission have come in and created a whole new reporting regime that is not reflected in our grants commission reporting or in our local government performance reporting framework either.

Getting back to the ability to pay, each council is different. We got $1 million, Pyrenees got $1 million and Northern Grampians did. Ours is worth 8 per cent. It might only be worth 5 to 7 per cent for Northern Grampians. It could be worth 12 per cent for that. There is this whole thing that it is based on these percentages without actually saying that there is a fixed cost involved in preparing this document. It is going to cost Pyrenees a lot more because their rates are not as great as what ours are, so this ability to pay too, I think, is important.

Mr DALLA-RIVA — Back to the issue of the process of the ESC, I should have asked a question specifically to Ararat and Northern Grampians, because Pyrenees did put a variation in. Was your determination that you would not do it based on the amount of effort for return?

Mr WILLIAMS — That is certainly a component of it, I think. There was another thing about the political will of our elected representatives. It is a challenge to go and do that. Also, the other thing for us is it equated to something like $150 000. There was talk initially about the cost of putting in a claim; a couple of hundred thousand was a mooted one. I think quite clearly the ESC approach does not really work in its current state. I think there are about 15 applications in, and there is some question as to whether they are actually going to get them back in time for people’s budgets to be completed.

Ms SHING — Ten.

Mr WILLIAMS — Ten, is it? So it is essentially really a failed process. It obviously needs to be simplified rather dramatically, and I think there needs to be some concession for small councils to be exempted if their increase is only over a bit — a couple of percent. That is a simple thing. The bigger issue is about funding, I think.

Ms SHING — Thanks, everybody. My apologies for excusing myself earlier. I had to supplement the revenue of the Ballarat City Council for the purposes of parking meterage, and I am very happy to do so.

I note the various comments that have been expressed by way of evidence and the initial opening remarks from people today, and the fact that the Labor government and the coalition in opposition have voted for rate capping and that we are now actually working out how the system should operate. I note also commentary from you, Mr Evans, and also from you, Mr Williams, around the fact that we have to work within the government framework that operates at the state level and at the federal level around the way in which funding changes and moves, and that populations do not in fact move, which I think was the comment that you may have made, Mr Nolan. There is ongoing work to do not only in terms of gathering the data but also in terms of understanding how changes to, say, roads funding operates.
I note that it is probably very early in the piece for me to ask you your views in relation to state government funding that was announced yesterday as part of the second budget from the Andrews government, which includes $426.6 million of funding for roads, with a focus on regional and rural roads and improving the situation there. I would just like to get, I suppose, general views from you as to how you will incorporate changes that happen at the state level regarding increases in funding to, say, roadside weed management programs as well as roads infrastructure as we go ahead. How will that actually impact upon the revenue streams that you have available to you to manage those ongoing infrastructure challenges?

Cr EMERSON — Would you like a quick reply?

Ms SHING — I would like a quick reply from anybody who would like to provide one.

Cr EMERSON — If it is not legislated, we will be giving it back. Anything that the government gives us that is not legislated, we will not be doing, because we cannot. Roadside weeds and pests are a legislated thing, so we have got to do it. Children’s crossings are not legislated, so we will not be doing it anymore. It is as simple as that.

Ms SHING — So where the funding is made available and you are not required to provide an outcome by way of legislation, you will not be completing it.

Cr EMERSON — Because we never get the funding for nothing. There is always some of our funding going into it, and we cannot afford to do it.

Ms SHING — And from an operational perspective in the Northern Grampians?

Ms LINLEY — From an operational perspective I have not had a chance to look at all the budget detail.

The CHAIR — Is it your understanding on those things that Harriet has referred to there — road funding — that these are actually VicRoads’ roads?

Ms LINLEY — That is what I was about to say. I have not read the documentation, so I am not sure. But if it is road funding that is going into VicRoads for VicRoads-managed and controlled roads rather than local government roads, that is beneficial to the community so long as VicRoads runs out the program. But it does not at all impact on the infrastructure renewal gap that we have of $7 million in our roads.

Ms SHING — But the example that I used of roads is one of a number, and I also referred to roadside pests and vegetation management. Also there is the libraries program. There was increased funding in the last state budget for regional and rural libraries. It is about how you respond to that and, to quote the current Prime Minister, being ‘nimble and agile’ in relation to the funding sources that are either removed as a consequence of ceasing or lapsed programs on the one hand or that are increased. So how do you propose to be able to deal with those when and as they change?

Ms LINLEY — We are actually very responsive to those sorts of things. The first thing that we look at is potential grant funding and grant programs. We are geared up to provide applications, but as Cr Emerson just alluded to, if there is a requirement to put ratepayer dollars in, we are very limited. There is a matching requirement of 2 for 1 or 1 for 1. Any sort of contributory amount makes it incredibly difficult to take advantage of those funding programs that might come forward.

Ms SHING — Thank you.

Mr NOLAN — I guess from a Pyrenees point of view, so far as the Roadside Weeds and Pests Program is concerned we welcome that funding, principally because it did not require a major contribution from local government —

Ms SHING — That is the same point that Ms Linley has just made.

Mr NOLAN — and it was able to deliver some really important work on roadsides, because there is a need, and also the fact that the federal government actually provided additional roadside weed funding to bolster that program was very welcome.
In terms of the state government announcements in respect of their budget, whilst we have not analysed those in any great detail —

Ms SHING — There is a lot to get through.

Mr NOLAN — my understanding is that a lot of the road funding that is allocated there is for state-managed roads. There is some provision in there around local roads. Although I have not got the information in front of me, I believe there was an allocation of something like $52 million for certain local roads, but I understand that they were quite specific projects, quite specific treatments. There is no indication that I have seen that it is for a program of any equivalent to the country roads and bridges program. I guess from a Pyrenees point of view one of the things that we do struggle with is actually coming up with matching contributions for those sorts of programs in the same way that other councils do.

Ms SHING — That Northern Grampians has indicated, yes.

Mr NOLAN — I will just quote from the budget document where it refers to the $52 million:

Planning will also start on a number of key projects, with $52 million for a package of works that includes the duplication of Barwon Heads Road and transport improvements on Phillip Island.

There is a range of other specific projects in there, but my understanding is that it seems to be quarantined to those specific works.

Ms SHING — In that context, and using roads as an example, it would be useful to see how councils are able to incorporate any other sources of funding that flow from this budget that alleviate or offset or help to mitigate the cost pressures that you are under. Thank you.

The CHAIR — Can I thank all three councils and I do so because you have really put a lot of effort into this, and I am very aware of the burden on councils in providing this level of information — so thank you. The secretariat may come back for some follow-up information if we need that. I should also formally record our thanks to the City of Ballarat for hosting this hearing today, thank you.

Witnesses withdrew.