TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Bendigo — 29 April 2016

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Ms Diane Hood (affirmed), Corporate Services General Manager, Shire of Campaspe; and
Ms Marg Allan (sworn), Acting Chief Executive Officer, and
Ms Jude Holt (sworn), Council Corporate Services Director, Shire of Loddon.
The CHAIR — I welcome to the table representatives of Greater Bendigo, Mount Alexander, Campaspe and Loddon municipalities. We have apologies from Central Goldfields and Macedon Ranges.

I begin with a couple of formalities. I thank the witnesses and indicate that this evidence is taken under parliamentary privilege so it is protected, but what is said outside the hearing room may not be protected. Can I also put on the record, Craig, our thanks to Bendigo for providing the venue today. We are very thankful for that. What I thought we might do is just start with some brief introductory comments by each of the municipalities. Then we will follow up with some questions. This relates directly to our inquiry on the impact of rate capping. Maybe if you want to start, Marg.

Ms ALLAN — Thank you. I am currently the acting CEO at the Shire of Loddon. Jude Holt is the director of corporate services. Jude will actually present our submission. I think a key thing for us is that we are quite a small municipality, 7200 population, but very significant in size, with a geographic area of 6700 square kilometres. We are much smaller in population than everyone else here but much bigger in area. I think that is an important context for the presentation that Jude is about to make.

Ms HOLT — Thank you for the opportunity. The speaking notes that I have are actually in the last page of the document that we have handed out to you if you wanted to refer to those. As Marg said, we are a large geographic shire of 6700 square kilometres. We have a population that is small, declining and ageing. We are primarily rural, with many farmers currently suffering through a lack of water in dams and catchments and the need to buy water to handfeed their stock. We also have a low socio-economic factor, making it difficult for our community to pay.

I will give you a little bit of information about our council. We have a small budget, but a large capacity to serve our community with a can-do attitude. We have been historically conservative in nature, and that really reflects the conservative nature of our community. We have applied sound financial management in the past and now have very good cash reserves and no loans or leases. At 31 March our cash on hand was $19.4 million, but $16.5 million of that money was held in discretionary reserves, and $1.9 million represents our long service leave liability. We are very good at doing more with less.

We have an understanding community that do not place unrealistic demands on us. We know our community, because of the size of our towns. We want our communities to be more attractive to attract new residents, but we do have little ability to raise income other than rates and grants, with rates and grants representing 86 per cent of our income for 2015–16.

The impact of rate capping, although we embrace the challenge of needing to deliver the most appropriate services in the most efficient and effective way and getting the best value for money for our community, will reduce our expected rate income by 3 per cent in 2016–17. It will cut an estimated $16 million from our long-term financial plan in rates income. But we have always operated within our financial means and will continue to do so.

Our concerns with the rate capping policy are that the application process for a rate cap variation for those who have undertaken it this year seems to be quite onerous. If it is done thoroughly, we believe it could be an expensive process. Our ability to make our own financial decisions is now mandated by an external authority that does not know our organisation as well as we do. There is no allowance in the model for what has happened in the past. Loddon has rates in the dollar sitting at between 57 per cent and 87 per cent of two of our neighbours. Just to put that in context for you, a rural property worth $1 million in Loddon would pay $4500 in rates. For one of our neighbours that would be 5000, and for the other one of our neighbours that would be 8000. We are coming from a very low rate base.

We are concerned our infrastructure demands cannot be met and a renewal gap will grow without income required to support the demand. Less income means that service delivery will be reduced in some areas of council’s business, particularly due to the travelling costs associated with providing services to all geographic parts of our shire. However, we are extremely committed to commencing an organisation-wide review and have estimated that this will cost us in the order of $650 000 over four years to undertake, given that we believe the best value will be gained by undertaking an organisation-wide analysis. This will need time to take effect, while the rate capping effect is immediate.
We are concerned about compliance requirements and how they are increasing. With the introduction of the local government performance reporting framework in 2014–15 we were given an understanding that reporting would be decreased, but now we believe the Essential Services Commission is going to require an extensive report to be provided on our operations, and that is due at the same time as our Victoria Grants Commission return is due to be submitted, and that is a large piece of work in itself. There is no scalability for reporting by councils, so a small rural has the same requirements as a large metropolitan council, but of course a large metropolitan council has access to much more resource.

Finally, our real concern is that good financial management in the past may determine the success or failure of an application for variation to the rate cap in the future. Loddon may be disadvantaged by high discretionary reserves and no borrowings, which is a position that has taken many years to get to. Thank you.

Ms HOOD — Thank you to the committee. Firstly, I would like to offer an apology from our CEO, Mr Jason Russell; he was unable to be here today. Just to briefly summarise, I guess we have the same known issues around demographics et cetera. The Shire of Campaspe enjoys a healthy cash balance and an excellent balance sheet. However, when you look at our 15–16 budget, it actually projected an operational deficit. It had some assumed lines in there of savings that could reverse that situation, and I am happy to say that after we have done the midyear review we have found those and more and have now integrated them into the budget and will have an operational surplus for 15–16. We projected the impact over 10 years of the long-term financial plan of the rate capping and other things, such as the FAGs indexation freezing. Basically, for the Shire of Campaspe, over that 10 years from an operational bottom line point of view it came out at just under negative $50 million across that 10 years, and that was with nothing else changing from the base of our forecast.

We have taken the tack that we are initially continuing our focus on productivity and efficiency, and that should be the first driver of how to improve that 10-year financial position. The productivity and efficiency gains I have just mentioned that we discovered we had realised in our 15–16 midyear review, and what we have planned for next year improve that 10-year picture by just about $35 million, so it now projects across the 10 years at negative $14 million from an operational deficit-surplus point of view.

The reason we raise that is that while we have a healthy bank balance, once you move into operational deficits, that bank balance declines. So the underlying trend remains, and while we will really focus on that productivity and efficiency while the revenue is as a smaller growth curve than the expenses, those lines will cross at some point and you will run out of the productivity and efficiency measures that we have. We have done a longer term projection, so our rates map out to kind of keep a zero or better operational balance after the productivity and efficiency at around 5 to 6 per cent just in terms of that longer term projection.

What Campaspe believes is that we need a different solution, because after the productivity and efficiency enhancements are realised, really we have the choice of increasing fees and charges, going for a rate variation, perhaps expanding council’s commercial role to bring revenue in through another mechanism or reducing or removing services. All of those options have some big cons in terms of the public perception and the impact on the community.

I guess our position is that we think as a state and local government, and perhaps even federally, we really need to look very closely at the roles across the government. I guess we are endorsing that process of looking at federation and determining what services are done where, how they are done and how the revenue matching should take place. Thank you for your time.

Ms ROFFEY — I am just going to expand on our submission. I first want to cover the issue of financial sustainability. I think a lot of work has been undertaken in the sector to improve financial management, and most councils have good, robust 10-year financial plans. We are in a strong financial position going into rate capping, but that will be eroded by the rate cap. The strong financial position was enabling us to catch up on infrastructure investment. Our community have a desire to have a contemporary, indoor aquatic centre that most metropolitan councils would enjoy as a matter of course. That is a difficult thing for us to fund. Under our previous long-term financial plan it was covered, but with rate capping we will be losing $12 million of revenue over 10 years — that is on our revised long-term financial plan. On our original long-term financial plan the gap is closer to $20 million. With that loss of funds it will be difficult for us to fund the operations of an indoor aquatic centre that brings significant health benefits to our community.
There are other unfunded pressures for our council. We have recently identified $3 million in flood works from the flood management study that was undertaken. We do expect to receive some grant funding to supplement that, but the cost to council will be over $1 million. Again, that was not funded in our long-term financial plan, and the funds will need to come from somewhere.

The cutting of $12 million from our long-term financial plan will also impact on our service delivery. We have started to undertake service reviews similar to Loddon. The cost of running the service review program in itself adds an expense. With our first reviews — a good example would be our parks and garden review — it just found that we were falling short in proactive tree maintenance and that we needed to invest more in this area to meet statutory obligations and to reduce the risk to the community and visitors. It did not necessarily identify more efficiencies; it found actually that there was more that we are supposed to be doing. This will probably be the same across a large number of rural councils, which have always had less resources to meet statutory obligations.

Other programs at risk of underinvestment will include the replacement of our bridges. We have over 200 bridges, which should be replaced at least two or three per annum. But unfortunately it does not work that way; most of them were built at the same time, and a lot of them are going to fail at the same time. The cost per bridge can be between $250 000 and $1 million. The loss of the country roads and bridges program that was cut by the state government will further impact on rural councils to be able to provide replacement of their bridges.

We also recently completed a full condition audit of our community buildings. Many are of similar age and are beginning to fail, so on top of having bridges failing, we have also got our community buildings failing. Last year we spent over $1 million replacing our town hall roof. There are many roofs and floors of these buildings beginning to fail. Through the previous period of capped rates during the Kennett government, we had a building maintenance budget of just $20 000 to maintain over 200 buildings. Through financial management and being able to increase rates at a reasonable level, we have been able to increase that investment to $500 000 in recent years, which is much more practical for 200 buildings, but again that will put pressure on our ability to proactively manage the maintenance required.

The cuts to services in our last budget included reduced funding for home and community care. We have cut some funds for our arts program, strategic land use planning and strategic planning for the organisation. In future years I expect there will need to be more cuts to non-discretionary program areas such as arts, youth services and environmental management, areas where there is not a statutory obligation but the community expects services in those areas and the metro councils are most certainly able to deliver.

The VGC grants that are received by councils are adjusted to take into account the various challenges that we face, and we are talking about population dispersion, the length of roads that we need to maintain and the low SEIFA index of our communities. However, it might be time to review this model and adjust the grants more in favour of rural councils, which have bigger cost burdens and receive less services from all levels of government. I would like to point out that in our shire there are many services that we have to access through here, the regional city of Bendigo, that are not available to our community as a matter of course.

I will say, however, that one outcome from the rate capping policy has resulted in our EBAs being negotiated closer to CPI levels, and this will assist councils in managing employee costs.

I would like to also support Loddon’s submission about the reporting requirements. A number of years ago when the Essential Services Commission was leading the development of KPIs for local government, part of its mandate was to reduce the reporting burden to councils. When the new local government performance reporting framework was introduced last year, the objective had been lost or forgotten and councils have borne the burden of additional reporting requirements. There is now an additional financial reporting required as part of the rate capping policy to provide the annual baseline information. This is information that we are already providing as part of our VGC returns, and it could be — —

**The CHAIR** — And to the auditor?

**Ms ROFFEY** — And to the auditor, exactly. The annual baseline information is at the service level, so it is quite detailed compared to our financial statements, but there is that level of detail in the VGC returns, and they could actually utilise that information as opposed to asking us to duplicate it.
The last added cost burden that I see is the additional confusion and concern for ratepayers who will not be able to understand the various increases on their rates bill this year. The rates and municipal charge will be capped at 2.5 per cent, but our rate notices also include waste charges and the fire services levy, which is not our charge but a state government charge. It is also valuation year, so I can imagine that we are going to be inundated with calls and confusion in this first year of rate capping, and it would be useful if the state government was able to assist in investing in communications for the sector. Thank you.

Mr NIEMANN — Thank you for the opportunity to be here and present to the inquiry. With me is Kerryn Ellis, the director of organisation support with the City of Greater Bendigo. We acknowledge that we are meeting on Dja Dja Wurrung country and pay our respects to elders past and present.

A bit of Bendigo context first, if I may: it has a population of 110 000, which is growing at between 1.5 and 2 per cent. We cover an area of 3000 square kilometres, so do not just think this is the urban area of Bendigo; we go out to Heathcote and Elmore and down to Ravenswood et cetera. Our budget is approximately $200 million per annum. Fifty per cent of our revenue is rates and charges, so 1 per cent of our rates generates approximately $900 000. The 10-year cumulative effect of rate capping on our organisation compared to the 5 per cent long-term financial plan projection that existed previously is $168 million in lost revenue.

Can I just make some other comments, some of which have already been picked up by the previous speakers? We believe that one of the principal roles of a council is to set the council plan and then to set the council budget to deliver on that plan. The introduction of rate capping seriously impacts on that democratic role of local government and councils. I think one of the biggest challenges of this rate capping regime is to take away one of the principal objectives and responsibilities of our elected councils.

In a local context we are trying to address the needs of our local community and understand what those local community needs are. They are many and varied. The council is then being asked to deliver on those needs with limited revenue, or reduced revenue. That is a real challenge for councils, and it is a real challenge to sell that message back to the community.

We are really concerned about cost shifting in local government. That is seen as happening over a long period of time, and it is continuing to happen where state and federal governments are pushing services and responsibilities onto local government without sufficient funds to meet the delivery of those services. There are direct and indirect responsibilities. We have seen shifts over the years of state contributions to things like library services, maternal and child health services, home and community care services, and responsibilities for the management of Crown land, and they are significant impacts on our budgets. They are things that our community demands and needs of us, but they are impacting significantly on the costs of our business.

I think you have probably heard enough about the local government performance reporting framework. We agree with what has been said previously about extra expectations of local government to report and deliver, with no real benefit that we see coming from that — and the costs associated with that.

On the revenue side of our business is the lack of increasing statutory planning fees and the pensioner discount scheme administration, which we are delivering on behalf of the state in a lot of ways but the revenue streams that we are allowed to apply to that are limited by state control. So we are restricted by the revenue that we can increase to meet the costs of the delivery in those areas.

We see our role as a regional city as being significant, so our services do go well beyond our municipal boundaries. It is important for the people sitting beside me that their communities can come to Bendigo for some of the regional services. We work very well together with our neighbouring municipalities, and we see this as a really important relationship that we have — that we can together provide the services and the infrastructure that the total region needs. We play a big part in this role. It is not just the building of these facilities but then the ongoing operation costs that are significant for us on behalf of the region, so we see that as a pretty important part that we play in regional local government.

How the cap was set was really frustrating for us in terms of the Essential Services Commission coming out with a report that included the wage price index. That was then removed, and we went back to CPI. We believe that CPI is not a — —

The CHAIR — It is not actually CPI.
Mr NIEMANN — I think that was how it was based at the time.

The CHAIR — The CPI is an historical figure, I will just be quite clear. So it is a forecast CPI.

Mr NIEMANN — Sorry. Yes, you are right.

The CHAIR — It is actually a significant difference.

Mr NIEMANN — Yes, I understand that. The timing was really challenging. A lot of our local government services have a significant wage component in costs, so we thought the inclusion of the wage price index was a good thing to consider. We are very disappointed that that was taken out. We do not think that CPI, even in a forward projection, is a good test of cost increases in local government expenditure. So we think there needs to be further review of the number — if it is going to be a continued rate cap — that is required to be applied for local government rating. It was particularly challenging to work through the timing process of this, being advised in December of the rate cap and then having to apply that in a year that is leading up to a council election year. So there is obviously a high interest amongst councillors in budget setting and so on.

We also agree that applying the rate cap in a re-evaluation year is going to be an extremely difficult message to every one of our ratepayers — the 53,000-odd of them. We are disappointed that the state has not played a stronger role in that. Our valuations will increase on average by 4.26 per cent across the municipality this year, so that will be a new number on their rate notice. It will be highly likely that very few properties will get a 2.5 per cent rate increase, and that is going to be a huge issue for us as an — —

The CHAIR — And that is without the FSL component as well.

Mr NIEMANN — The fire services levy. Our garbage waste charges will be different to the rate cap because we need that to meet the needs of the costs of our waste collection and processing, and the revaluation is going to be another factor. This is going to be really confusing for the community to understand.

Just in terms of our current position, the City of Greater Bendigo did not apply for a rate cap variation to the Essential Services Commission. This was as a result of a number of matters. It was based on timing; there was not enough time for us to go out and effectively engage with the community on getting their support for a rate cap variation.

Our long-term financial plan, as I said before, was based on a 5 per cent rate increase over a 10-year period. That was particularly required to meet the provision of existing service levels at existing service standards, to cover the costs of cost pressures coming from outside our control — utility costs, those sorts of things — as well as delivering on government services, which have continued to increase, and to accommodate growth in a regional city. That extra 1500 to 2000 people who are coming to Bendigo every year is applying significant cost pressures to us in terms of additional delivery of service.

The important strain on this council will not be felt in this year, the 2016–17 financial year. We have done a lot of cost trimming and cutting in our budget for the next financial year, and we can deliver a 2.5 per cent rate increase for next year. It will be seen in the years to come, with the impact on our asset renewal and the impact on our ability to build new infrastructure and new projects for our community to meet community demand. That is when we will feel the pinch of this. So it is going to be a slow and steady impact on our organisation and on the community to be able to deliver the services that we need.

We have been fortunate that we have been building the ability to deliver some major projects over the next two years. We have three projects on our books that are together worth $70 million. We have been supported by federal and state governments in those three projects — in grants — and there is a significant council contribution to those, so we are now in a nice position to deliver those. I would argue that we will really struggle to deliver those types of projects in the future because we will not be able to put up our cash contribution to apply to the state and federal governments for funding to deliver on those major regional and important community projects.

Just quickly, over the last couple of years we have done major reviews of home and community services and children’s services. The impact of those was pretty significant on our community. We were proposing to get out of home and community care. That brought the unions to the table, and the unions then started to renegotiate our enterprise agreement, which looked at changes to the terms and conditions of our staff in that home and
community care area so we were able to identify some savings. But that is a one-off in terms of those savings; that will not happen again, I do not think. We have applied those savings over the next year, but ongoing we are going to run out of opportunities to have those sorts of initiatives to help fund the rate cap or the loss of revenue that we would normally receive as a result of our ability to set our own rates.

We have started a process of service reviews across our whole organisation, as others are doing. We expect that that might help drive some efficiencies, but it is also going to mean that we are under-servicing in other parts. So I do not see that it is just a cost-saving exercise; it is likely to help us clearly demonstrate the needs of the community and what they expect from us, and it will put us in a better position to be able to determine — —

The CHAIR — It is a good practice move anyway.

Mr NIEMANN — And to determine how we will deliver service to the community in the future and how we are going to fund that. Thank you for the opportunity to present. I am happy to take any questions.

The CHAIR — Thank you, too, for a very comprehensive submission. I am going to just start with a couple of key points that I want to establish to get some information that would be very helpful to the committee. First of all, is there a change in the net payments by state government to council? I would just be interested in a response from each council for this financial year coming and the current one we are in compared to the one before and the one before that. What is the net payments in aggregate from state?

Mr NIEMANN — In real terms?

The CHAIR — No, just in actual nominal terms. Have they gone up, down or stayed the same?

Mr NIEMANN — Gone up by not as much as what costs have gone up would be my response to that.

Ms ROFFEY — I might add that because of things like the country roads and bridges initiative being cut that they would have gone down.

The CHAIR — You have got a net fall?

Ms ROFFEY — Yes.

Ms HOLT — Country roads and bridges was $1 million a year for us, so that is no longer being received. Also the freezing of the grants commission, even though it goes through the state from the commonwealth, the freezing certainly has impacted the industry.

The CHAIR — That is a freeze, but the other is an actual net fall. Am I correct in saying Mount Alexander will get less money this financial year that we are in now compared to two years ago?

Ms ROFFEY — Definitely, yes.

The CHAIR — I just want to be quite clear on that. That is the first point. The other is the issue around debt. We have heard at a number of locations that the Essential Services Commission and others, perhaps Local Government Victoria, have indicated that councils should feel free to use their balance sheets to free up — — ‘Lazy balance sheets’ was one phrase that was used. Is that a set of comments that you have heard too? So, in other words, use debt to fund the current expenditure?

Mr NIEMANN — We are using debt to fund capital expenditure. Probably over the last six or seven years we have gone from around $10 million in debt to I think next year we will be at $50 million in debt, and that is us accumulating funds to particularly fund major projects. We are opposed to increasing debt to provide recurrent services.

Ms HOOD — From the Shire of Campaspe, I would concur with that. We are using debt. We have what we feel is a modest but reasonable level of debt and it is funding major capital projects but not recurrent expenditure, because we would believe that in some ways is having the future pay for the services to the present — if you use debt in that way as opposed to capital, where you are setting things up for the future.
The CHAIR — So were any councils told by the Essential Services Commission that they should look at using debt as a way to respond to rate capping?

Ms HOLT — I think where the comments are coming from is in one of the Essential Services Commission’s documents that they put out in the lead-up to the introduction of rate capping it was suggested that councils are very debt and risk averse and they really should look at using the cash reserves that they have, and borrowings, before looking at rate cap variations.

The CHAIR — One lot of councils indicated that there was a meeting where this was discussed at some length.

Mr NIEMANN — I have certainly heard the ESC suggest that we should make our balance sheets work harder, implying that we should borrow and use cash reserves to fund service delivery and projects.

The CHAIR — Run down cash reserves. The other point I wanted to get to was the actual impact of the loss of country roads and bridges. This might be more for a couple of the municipalities, but I think it may still impact on Bendigo.

Mr NIEMANN — We were not provided with those funds, albeit that we are as big as some of the rural municipalities probably, but I can appreciate that that is a pretty significant impact on their works.

Ms HOLT — And certainly in the short term the impact is not as big as it is going to been in the long term because —

The CHAIR — Additional federal money.

Ms HOLT — at the same time there is federal money coming through Roads to Recovery. So in the short term the impact has not actually affected us too much, but it will be the longer term when Roads to Recovery stabilisers and we no longer have country roads and bridges that we will actually feel it.

Ms HOOD — Yes, I agree.

Ms ROFFEY — And we lost a similar amount, which was $1 million, from that program. We were using the majority of ours on bridges, and it has impacted our bridge program.

The CHAIR — And the EBA. This is been alluded to by a number of submissions. Can we just perhaps have the date of your EBA and increments that are in the current one and when that rolls over and what the impact will be on rate capping? So it is sort of a bit historic, but also to the future.

Ms HOLT — Our EBA is 3 per cent currently.

The CHAIR — Annually?

Ms HOLT — Yes, sorry. It expires at the end of 2017, so we will be negotiating about this time next year. We will be looking to negotiate. Just to put it into perspective, we have a self-mandated cap on salary and wages which the council has implemented, which is 4 per cent overall, so if we have a 3 per cent EBA do not go over 4 per cent. With that, for the 2016–17 budget, we have been able to maintain our salary increase at just under $350 000. Our rate capping increase is $218 000, so the rate cap increase is less than the wages increase currently.

The CHAIR — Thank you.

Ms HOOD — The Shire of Campaspe’s EBA is also currently 3 per cent. It has actually just expired, but it is still being negotiated. It looks like it will finalise on 2.25 per cent; that is certainly the target, and it is nearing agreement if I can put it that way, which would give us some benefit moving forward. But I would say though, with the 2.5 per cent rate cap, that is pretty much all taken up, even with the 2.25 per cent and the election costs, which albeit they are a one-year cost.

The CHAIR — I was going to come to that in a minute, but let us just talk about that 2.25 per cent.

Ms HOOD — Yes.
The CHAIR — That is the nominal increases. There is also, as I understand it, with a lot of councils some impact with band movements, which might be equivalent to about 1 per cent.

Ms HOOD — Yes, it is about 1 per cent. There is absolutely in the EBA several words that suggest that at around about the 12 month anniversary, on average, for staff that if they have performed satisfactorily then they would move up a level within their band, and that can be an additional 1 per cent.

The CHAIR — So if you are actually saying 2.25 per cent, you are looking at about another per cent on top of that.

Ms HOOD — Yes. On top of that.

The CHAIR — So it is actually about 3.25 per cent increase in salary costs, all other things being equal, with a rate cap of 2.5 per cent.

Ms HOOD — Yes. The only thing that stops that creep is when people are at the top of their band. It is accepted that then they cannot move further without changing roles, basically, and taking on a role with a higher band or expectation.

Ms ROFFEY — Mount Alexander Shire Council’s EBA expires in September this year, so we are about to start negotiations. Our current increase is 3.5 per cent. We have done that analysis as well that the additional for moving up the band is about 1 per cent, and that is based on the current profile of staff. So we have looked historically at how many are on the top of the band and how many we have who are coming in at the bottom of the band. Taking that into account it is about 1 per cent on top of the increase. Our analysis shows that I think EBAs negotiated over the last six months are looking at an average of about 2.8 per cent, and they are obviously coming down further, so that has been an impact.

The CHAIR — Going forward? I know you are in negotiations probably or near to; is there a way forward?

Ms ROFFEY — We are just about to start our negotiations, so we are doing our planning for that now and have not had any conversations with the unions yet, so I am not sure where they are going, but we will be looking I suppose at that 2.5 per cent to start.

Mr NIEMANN — The City of Greater Bendigo’s current agreement expires in October 2017. Our current increment is at 3.4 per cent, so we drove that down for 4 per cent previously. We will start negotiations next calendar year. I agree with the 1 per cent extra as a result of banding movements and other movements that happen within the organisation. As I said, our employee costs are high — as in, the total part of our expenditure — because of the nature of local government services.

I would expect going forward that our push would be towards 2 per cent — 2 per cent to 2.5 per cent — in an enterprise agreement. Last agreement we had 160 claims put on the table by the unions, so working your way through those and trying to negotiate an outcome can be pretty challenging. You always end up giving something to get an agreement over the line, and it is the extra costs of those things sometimes that are the hidden costs of providing additional support for staff that perhaps are not captured in the costs at all.

The CHAIR — I note for the record that the CPI figures in the last 48 hours are well sub 2 per cent and falling, so I mean you have budget projections at a state level of 2 per cent, you have 2.5 per cent cap on councils and actual CPI of 1.1 per cent for the 12 months to 30 June last year. But this year’s one, I mean it is going to be considerably lower.

Mr NIEMANN — Yes.

The CHAIR — I have one further question before I hand over to members. I am interested in your reaction to the fact that the new state budget that has just come down leads to a 20.7 per cent rise over two years in state taxes, and land tax next year — the take statewide — will go up 28.5 per cent. That is a 28.5 per cent increase in take in the financial year that is coming that this new budget relates to. How does that sit with a 2.5 per cent cap in council rating capacity, and also property taxes I might add?
Mr NIEMANN — It seems grossly unfair to me. I was not aware of those numbers, Chair, but that seems a bit I will use the word ‘hypocritical’ in terms of expecting local government to go one way and then increasing revenue streams from a similar source by the state government. It seems a bit odd to me.

Ms ROFFEY — I think under the rate capping policy the area that is particularly onerous for local government that is not imposed on federal and state government coming into a budget round is getting the community engagement to accept higher than the rate cap rise. I know that a couple of councils have been through that process. If you are looking at a particular project, often you will ask the question, ‘What would you like? What services do you like? Do you want these services?’ The reply is, ‘Yes, yes, yes’. ‘Are you prepared to pay more?’ ‘No’.

That kind of process, and the expense of going through that process, which most of the time when you ask people do they want to pay more, they are mostly going to say no. Rarely, they will say yes. At the state and federal government level, they do not really go through such an extensive level of community consultation and engagement that local government does.

The CHAIR — No, I do not think there has been any consultation on the land tax and the stamp duty increases.

Ms ROFFEY — Absolutely. And for us it is over 60 per cent of our revenue that we have to go through that consultation for, and they are able to obviously put up theirs at quite significant amounts with no consultation.

Ms HOOD — Just from Campaspe’s point of view, it comes back to the comment made by the City of Greater Bendigo about the democratic process that on one hand local government does not have the control of that revenue but has the service ownership, and it is the separation of those two sides of what essentially is one equation that I think causes the issues.

Ms ALLAN — I think you will note that all of us have spoken as if we are not going to apply for a rate cap variation, and I think the challenges around that probably go to your question around what is our response. The issue of the unknown quantity of the information that we need to provide to be able to get agreement on a rate cap and for a council of our size the resourcing investment that is required when the outcome is unknown is really challenging. So, as Craig said, it sounds grossly unfair to us that the state can increase taxes like that when there is such a restriction on local government to be able to make a choice in terms of what their rating should be.

The CHAIR — Thank you.

Mr DALLA-RIVA — Thanks, Chair, and thank you to the witnesses. Diane, you indicated there were four points, which I just did not quite get down, in terms of dealing with the rate cap. You had increasing fees and charges; there was fee for service — —

Ms HOOD — Yes.

Mr DALLA-RIVA — Could you just outline those again?

Ms HOOD — So I guess once you do your productivity and efficiency savings, which is always the starting point, longer term there is still that projected 5 to 6 per cent gap that you would normally need to raise the rates by to the cover the services — staying the same, basically. So your choices at that point are either to increase your fees and charges, expand the commercial role of council —

Mr DALLA-RIVA — Commercial role?

Ms HOOD — which may well have its own problems within that statement, or reduce or remove services, and have that conversation with council and the constituents. It comes back down to the old basic of ‘you increase revenue or you reduce costs’, and they are your two choices.

Mr DALLA-RIVA — Can I ask the other witnesses have any of the councils or shires here started to undertake that process of looking at where you can increase your revenue streams in terms of the fees and charges? Are you looking at commercial roles that may be taken that were traditionally provided by council in a free capacity? And are you looking at reducing services and cost reduction?
Ms HOLT — In relation to revenue streams, we are extremely limited, so 86 per cent of our income comes from rates and grants. Fees and charges are very low. There are things like diesel fuel rebates, WorkCover reimbursements, interest on investments and those sorts of things, so they are our only other revenue streams.

The only commercial entities that we have currently are caravan parks. And we are actually trying to acquire them from the state to be in a position to put in stronger development leases and the like with private operators, because at the moment they are costing us money. So from a revenue perspective we are quite limited. It is why we work so hard to plan ahead to spend later. I mentioned earlier we have $16.5 million in discretionary reserves, and that is the way we operate. We have to look ahead to make sure that we have money to spend when we want to do major projects.

From the cost reduction side, we are about to embark on service delivery reviews. The council has agreed to our business case. We have to go backwards to go forward. We are about to engage a coordinator to undertake that process for us. Obviously there is a lot of internal administrative support required to do a review like that, and then also we need to get the community on board. That in itself is an interesting thing for us, given that our community really are quite accepting of our council decisions and they do not really get involved unless something agitates them.

Even for us to have a conversation with them about what services we may need to adjust in order to balance the budget into the long term is going to be really interesting for us, because normally we ask them for feedback and they do not give us too much. But I think in this particular instance we will be able to get some people interested. Like the others, we are almost doing a citizen jury-type process, where we are actually going to give people a payment to come into the room and spend some serious time with us and really analyse our business and try to make some really good decisions about what they will and will not accept as we go forward in terms of the reductions that we are going to have to look at.

Just to put it in context — it is in my document but it is not in my speaking notes — the impact of preparing a long-term financial plan this time last year to this time the year before was $22 million. Rates were $16 million of that, but it was $22 million. We would like to think we have done a very solid long-term financial plan, so I am very confident in those numbers. We know we have to change something very quickly. Our challenge is getting service reviews done, which do take time, and then implementing the changes that come out of the recommendations from the service delivery reviews. So we need a little bit of time to get the impact of what they will do for us, but of course in the meantime we have rate capping, which is impacting immediately.

Mr DALLA-RIVA — Thank you.

Ms ROFFEY — With the fees and charges, there are a large number of fees and charges that are statutory and so are set for us, which we have no control over. Planning fees have been recently reviewed by state government. My understanding is that they will go up. We would like to think we have done a very solid long-term financial plan, so I am very confident in those numbers. We know we have to change something very quickly. Our challenge is getting service reviews done, which do take time, and then implementing the changes that come out of the recommendations from the service delivery reviews. So we need a little bit of time to get the impact of what they will do for us, but of course in the meantime we have rate capping, which is impacting immediately.

We will be more robust about that across all of our services, so we have a pricing policy that sets out a clear cost allocation model so that we can look at all of our fees and charges more closely, and work out which ones are subsidised and which ones are not and whether they should be from a community benefit point of view. When we have tried to increase those types of fees and charges, we have had significant community backlash. A good example would be our Phee Broadway Theatre, where we looked at a better cost recovery model, and the community theatre groups have said that they would no longer be viable if they had to pay at those rates.

We have also had a lot of media, which people may have noticed, with the CWA using one of our community rooms. They were paying $500 about 20 years ago; they are refusing to pay the small amount towards utilities because they feel they have ownership of that asset. I think in rural councils there are a lot of things like halls and local facilities, recreation reserves, where they have not made a contribution for a number of years. You can most certainly look at more robust models with user fees and charges from recreation groups and community groups, but it has not been in place, and every time we look at that model we get significant negative media and a big push back from the community.
It is not insurmountable. We can work through it, but it will take us a while. After all of that and the negative community feel from it, we are not going to be able to raise that much anyway, so it is not a significant amount of revenue. I think that is the bottom line.

Mr NIEMANN — Similarly we, through our budget process every year, review all of our revenue streams through pricing policies, fees and charges, where our grants are sitting, opportunities to borrow if we need to for major capital works. It is all part of this process that has been ongoing every year previously, and it just puts more pressure on reviewing those amounts going forward, I guess. It is still the same community that pays, so it is still citizens of the City of Greater Bendigo that will pay the fees to the council to help it all balance. So we can reduce rates or have a less significant increase in rates and charges, but they are still going to pay, whether it is an increase in pool fees, an increase in parking fees, an increase in waste charges, whatever that might be.

We are, as I said, reviewing services, so we will go through that process in a planned way over the next couple of years. I also should note that at the beginning of this council they ordered an independent review of the City of Greater Bendigo — a $250 000 consultancy — that came up with 69 recommendations about how we can improve the way we deliver business. They were very complimentary of a lot of the things that we already do. We are working our way through those 69 recommendations. I think we have about five to deliver; the rest are complete. Putting a value on the service improvement is really difficult. We would think that that has resulted in some better services to our community, some reduced costs to the organisation, but it is really hard to quantify what those are over a long period of time.

I want to put on the table volunteerism. We would have over 500 volunteers who support the delivery of service in the City of Greater Bendigo through the visitor information centre, meals on wheels services, in our art gallery, in our theatre. We could not provide those services that we do out of those venues if we do not have that level of volunteerism happening, and I would expect it is very much similar with our neighbouring municipalities. We are going to be asking more and more of these people, and it is going to be harder and harder to attract them.

Mr DALLA-RIVA — Thank you. While we are on volunteerism —

Ms ELLIS — Sorry, I just wanted to add a quick point. I actually do think there are opportunities for local government to consider more commercial options. There are some limitations, as you are probably aware, under the current act in terms of what we can do, so the review of the Local Government Act is an opportunity, I think, for councils, particularly in the shared services space or potentially around leveraging some of our assets better. We do hold a lot of assets on behalf of the community that potentially we could use differently. But I very much support Lucy’s point that that is not always easy and sometimes it does result in a challenging conversation with sections of the community that have a very strong level of ownership over a particular community asset that they may have had a very strong traditional tie to and they actually do not want to see their use of that asset changed or compromised.

Mr DALLA-RIVA — And you often find that the amount of savings you make, or revenue stream that you make, is not worth the anxiety.

Ms ELLIS — Not worth the trouble. That is right.

Mr DALLA-RIVA — I will continue on the volunteerism base. We had the State Emergency Service present earlier today. We have heard from various councils and shires around the state, shires in particular, on the concerns about the cost of the SES and looking at perhaps withdrawing some of the funding that is provided to the SES. Some of the overlying issues are that you may not have an SES based in your LGA but the SES works beyond the boundaries of the relevant LGA. Firstly, can I ask: are there any shires here that have an SES operational unit within their boundaries? Yes?

Mr NIEMANN — Yes.

Ms HOOD — Yes, we all do.

The CHAIR — All three.

Mr DALLA-RIVA — Yes, okay.
Mr NIEMANN — So you can imagine that Bendigo is sort of a regional headquarters of the SES. We have also got SES facilities out at Marong and at Heathcote. We are currently supporting them on an equal basis with their government grant at this point in time.

Mr DALLA-RIVA — Right. Just for Hansard, so that we get it, does every other shire provide equal funding to the SES unit?

Ms HOLT — We actually reassessed ours I am thinking in the last 12 months. We provide a building, a site, free of charge, but I think what had happened was that the contribution from council was increasing while the grant was not increasing at the same rate. My understanding is our decision was to bring our contribution back to being equal with the grant but still provide the building to the unit.

Mr DALLA-RIVA — And who provides the maintenance for the building? Who does that?

Ms HOLT — I believe the unit does.

Mr DALLA-RIVA — The unit does?

Ms HOLT — Yes.

Mr DALLA-RIVA — Okay. Thank you

Ms HOOD — I will have to take that on notice because I am new at Campaspe, so I will get back to you with those details.

Mr DALLA-RIVA — Yes, along the same lines of funding, how much, and if there is a building issue. That would be worthwhile.

Ms ROFFEY — We provide matching funding and we also provide a building. The building — they would pay for all the costs associated with maintaining the building and utilities et cetera, but they do not pay a lease.

Mr DALLA-RIVA — And your cost, your payment, to the SES?

Ms ROFFEY — It is matched with their grant. I think it is $15 000.

The CHAIR — How much?

Ms ROFFEY — I think it is $15 000.

Mr DALLA-RIVA — I should have asked Jude.

Ms HOLT — I am not sure of the exact amount, but I am thinking in the order of $12 000.

Mr NIEMANN — I think ours would be around $30 000 for the three. I think Bendigo is about $15 000, but the other two are smaller units. We have actually got the SES asking council to support them in the delivery of a new facility north of Bendigo in Huntly. We have not made a determination as to whether we will support them in the recurrent funding that will come with that. They also asked for capital contributions in terms of the development of those facilities.

Mr DALLA-RIVA — So they want a new building?

Mr NIEMANN — Yes.

Mr DALLA-RIVA — They are requesting a new building?

Mr NIEMANN — Yes, and to set up a further service on the northern side of Bendigo.

Ms ROFFEY — Our local SES asked to do works on their building, but I have to say they were going to get the funding from the SES themselves or from other grants

The CHAIR — Fundraising or something?
Ms ROFFEY — They were not expecting us to provide that funding; they just wanted our approval,

Mr DALLA-RIVA — And beside the SES that is based in your LGA, do you have an adjacent LGA where there is not an SES based? In other words, are there other local shires nearby that do not have the funding — —

Mr NIEMANN — I think every council around Bendigo has got an SES, but if you go back to the floods of 2011, which became an SES-controlled matter, you can imagine that that was right across the whole region and everyone was having to chip in, so municipal boundaries are not really the stopping point of their service delivery, and I would imagine that all of our SESs — eight units — cross boundaries.

The CHAIR — Just on that exact funding, has one or other of the municipalities costed up as it were a contribution-in-kind for providing that land and building? Has that exercise been undertaken?

Ms HOLT — No.

Mr NIEMANN — No, not formally by us.

Ms ROFFEY — It would come out in service reviews. When we are doing service reviews we would be looking at that as part of the cost.

The CHAIR — It would be naturally substantial.

Ms HOLT — Yes.

Mr NIEMANN — Absolutely.

The CHAIR — And an important contribution.

Mr DALLA-RIVA — None of the shires here have sought a rate cap variation — correct?

Mr NIEMANN — That is right.

Mr DALLA-RIVA — You may have said it briefly in your introduction, but if there were to be a primary reason why you did not apply, can you perhaps outline it? I know there are probably going to be 20 different reasons.

Ms HOLT — Probably a couple of reasons. Because of the opinion by the ESC quite early that if councils had strong cash reserves and low borrowings, they should look at those alternatives. We have strong cash reserves and no borrowings so we actually did not feel that we would be in a position to be successful if we had applied; but having said that, we also recognised that very early in the process we could deal with it.

Craig made the comment earlier that we are going to deal in the short term with what we have. It is actually going to be the long-term impact that is really going to change the way we do things as the organisations that we are today. So short term we believe that we can probably balance our budget, definitely for the first year and perhaps for the second year, but anything further out we would probably be needing to look at.

Ms DALLA-RIVA — This will be a question similar to everyone else when they answer. How much were you expected to dip into your reserves? Was there an expectation? Was it a 20 per cent, 30 per cent, 5?

Ms HOLT — In the first year it will be quite low because we are coming off a healthy cash surplus in 15–16, because we have been really trying to save every dollar we can going into the 16–17 budget knowing that rate capping was going to impact. So in the first year certainly it is not going to impact our reserves, but once again, long term it will.

Ms HOOD — From our point of view, we had already commenced at Campaspe a productivity and efficiency kind of detailed project and the results of that to date mean that we can drive an operational surplus, again for the short term, to use Jude’s words, and that is ongoing. So we are comfortable for the next year or two that we can balance the books and get that operational surplus, which we see as a financial sustainability issue.
We are dipping into our reserves in a small amount, mainly focused on the asset renewal gap, to make sure we maintain a focus on that. In the longer term we will have to look at those choices I outlined earlier or seek a rate cap increase, but basically those choices I talked about will be what will come into play after — —

Mr DALLA-RIVA — And how much have you dipped into your asset renewal gap?

Ms HOOD — I think it is about $1.5 million. I should say in terms of our asset renewal gap — and there is a graph in our current budget documents — we are actually entering a sweet spot where we will have funding that is at a level or slightly exceeds the need for intervention in our assets. Our issue will come into play in four years time onwards when the assets needing intervention will rapidly increase over the amount of funding we will have available. That will coincide with this longer term picture, if you like.

Mr DALLA-RIVA — You will all be retired by then.

Ms ROFFEY — We have the same issues as over there. Just another political dimension — why we did not apply for the rate cap variation — I think the minister made it fairly clear that there would be very few that would be approved. My prediction was that out of the ones that did put in — I think 20 put in; only 15 actually applied because of the burden of actually — —

The CHAIR — It is less than that actually.

Ms ROFFEY — Pardon?

The CHAIR — It is less than that.

Ms ROFFEY — It is even less than that. Right. And that was my prediction. Because of the burden of the paperwork that was required and the short time frames, I knew that it would be really difficult to be ready. Then I think the amount that will actually be approved will be possibly a political decision because it was indicated well up-front that there would be very few that would be approved in that first year. So it made more sense to go back to see how things panned out. The Essential Services Commission have not had the time either to get ready; they are not well experienced in local government costings.

The CHAIR — They are relishing the task.

Ms ROFFEY — They are enjoying it, but I think it will be easier for us with less resources when they actually know what they want, what they expect and what the requirements will be to meet their needs. Because of the financial planning that we have done, we have all been in a strong financial position to really get through that first year or two. But being realistic with our own resources, it is not a good time to apply for the cap. Let us wait and see what is really required so that we can focus our resources into putting the best case forward.

We have identified, I think in my earlier submission, probably two areas where we might apply for a cap. One is to fund the operations of an indoor aquatic centre so we can provide that to the community — they have been wanting that for a very long time — and for things like flood management works, which are new emerging issues that come through that will not have been planned for in the past and for which we would have a good argument for a rate cap variation. We are being very strategic about it.

Just to answer some of those questions around our reserves, we are going back through and looking at the condition of all our roads and our bridges. We do that on a regular basis, just so that we know absolutely what our renewal gap is and so that we can match that to any rate cap variation that we need to apply for.

Mr DALLA-RIVA — Thank you. Before you go, just so you know, we had one shire — somebody who did a variation; it is on the public record — that received requests for further information from the ESC. It was very small; it was only 17 pages of queries.

Ms ELLIS — We chose not to apply for a rate cap variation for a number of reasons. Probably there were two key things. One was that we wanted to invest a very limited time frame in the first year in doing a whole lot of work on reviewing our whole budget. We did a very comprehensive line-by-line analysis of spend over the last four years so that we felt we had the foundation in place to potentially apply for a rate cap but certainly do some better strategic financial planning in future years.
A big part of the hesitancy on our part was that it was very unclear, based on the documentation we had available to us at the time, what the burden of proof or the level of evidence was going to be, and there is no doubt that that would have required a substantial investment of our community’s resources as well. Probably our view and the view of our councillors was that that was not justified given that in the first year we were only able to apply for a single-year variation in any case, so it would have been a lot of investment of resources potentially not for a particularly strategic or long-term benefit.

I suppose the other element is that we were quite keen to see, to sort of sit back and watch a bit, the lengths other councils had to go to and what was required. We did not feel, hand on heart, that we had the time to actually have a meaningful dialogue with our community to inform that application. We have since, through the 16–17 budget, made a substantial investment in a citizens jury process that we believe will enable us to, I think, plan far better for the longer term with some genuine community dialogue and strategic input.

**Mr DALLA-RIVA** — Thank you.

**Mr RAMSAY** — I have some questions for each of you. I perhaps would like to deal collectively with the rural councils because I see Bendigo as probably somewhat different in how they are responding to the cap. To Loddon — do you have a farm rate?

**Ms HOLT** — We do.

**Mr RAMSAY** — And what percentage of the general rate is it?

**Ms HOLT** — Our farm rate sits at 11 per cent below the general rate. We only have two rates — one for residential commercial industrial.

**Mr RAMSAY** — And will you continue that differential, given the introduction of the rate cap?

**Ms HOLT** — Yes, we will. In the 16–17 budget we have proposed the same and it has been like that for quite a while. The council is quite wedded to the split and so we proposed that in 16–17.

**Mr RAMSAY** — What was the general rate percentage last year, prior to the introduction?

**Ms HOLT** — I think it is in this document. Is it? No, I do not think it is in this document. I could get that back to you. I do not think I included it in the document. No, I do have it in the document. For 15–16, the farming rate at Loddon —

**Mr RAMSAY** — No, just the general rate; the general increase across the board.

**Ms HOLT** — The general rate was 0.005069 of CIV.

**Mr RAMSAY** — The general rate, though, — the percentage increase — 4, 5, 6?

**Ms HOLT** — We have had a consistent increase of 5 per cent for a number of years.

**Mr RAMSAY** — Okay. I guess my point is that you are carrying no debt up to this point. You have been having an annual 5 per cent increase over a period of time; you are reliant on 80 per cent of your revenue coming through rates; you have a decreasing population; you are suddenly exposed. That is how I see the three councils because I suspect all three are suffering the same issues if that percentage depended on rates.

The impact of rate capping immediately puts you into a position where you are highly geared in relation to administrative staff — 200 seems a lot on 7000. You can tell me if I am wrong. So the alternatives are, even despite revaluations, that you will have to increase debt to carry on services or improve services or continue the programs that you had under the old country roads and bridges program of backlog maintenance of roads and bridges.

I am wondering if you had discussions with the government prior to the introduction of the rate capping about your exposure in relation to those points that I made.

**Ms HOLT** — No, we have not, but can I say that we are in a position a little bit like Campaspe at the moment where — Diane used the words ‘sweet spot’ in terms of renewal — coming off the back of the flood in
2011 we had $35 million to $36 million put into roads and infrastructure in a two-year period, so at the moment our renewal levels are very good. But we also have an issue 5 to 7 to 10 years out when that is really where the investment in our infrastructure is going to have to really be increased quite considerably.

Probably in the short term, though, the projects that we would like to deliver, which are really around liveability and economic development, are streetscapes. We have significant streetscapes in our budget at the moment which, when you get the long-term financial plan, is not sustainable. That is really where our council is going to have to give some serious consideration around whether they will or they will not borrow to do those sorts of projects or whether they will apply for a rate cap.

But we are extremely nervous about the comments that have been made previously about cash reserves et cetera. The comment I would make about cash reserves, or discretionary reserves, is that the money has been put away for a specific purpose and if we start to pull it out for those specific purposes, then something else is going to suffer anyway. For instance, a number of councils now are putting reserve moneys away for unfunded superannuation liability calls. We are one of them. We have $1 million sitting there so that, if we get a call, we can cope with that quite easily. We do not want to use that money for any other purpose.

If we apply for a rate cap variation and we are unsuccessful because we have got good cash reserves and we have got no borrowings, then we have to look at other avenues. One of those will be to take money out of our discretionary reserves which we have worked very hard to build up for specific-purpose purchases in the future.

The CHAIR — You are in effect being penalised for being prudent.

Ms HOLT — That is what we are hoping will not happen, and that was part of our submission today. We feel like we will be penalised for being prudent but we hope that the opinion can change so that we are not penalised for being prudent.

Mr RAMSAY — Have you done an estimate of the cost of what the council will have to pay in relation to the local government elections this year?

Ms HOLT — Yes, ours is $90 000.

Mr RAMSAY — How much?

The CHAIR — Ninety.

Ms HOLT — Ninety.

The CHAIR — How much was it previously?

Ms HOLT — Sixty.

The CHAIR — So it has gone up 50 per cent in four years.

Ms HOLT — Yes.

Mr RAMSAY — Campaspe?

Ms HOOD — We take our residential properties as our base rate. For farming we go minus 10 per cent and for industrial commercial plus 16 per cent. That is how we balance the comparison of the rates for the different types of property. Our standard increase has been 5 per cent or 6 per cent, looking at history in terms of prior to the rate capping. As I said, though, with it approaching we had already commenced that productivity initiative so we can cope with maintaining services for 16–17 and it will be the longer term outlook where it comes back closer to that need of 6 per cent or reducing services, increasing charges et cetera.

I will also note we are currently investigating and have representations from two of the community groups to introduce a special charge in terms of a rate to businesses in terms of encouraging tourism and visitors to the region. So that is an avenue we are also looking at for that specific purpose.

Mr RAMSAY — Can I ask: has the government encouraged a user-pays principle?
Ms HOOD — Sorry?

Mr RAMSAY — A user-pays principle. Services traditionally have been given within the capacity of the council. Is government now pushing towards a user-pays principle? That if you want a service, you now pay for it over and above what previously has been given as a normal activity of the council.

Ms HOOD — We actually did some analysis on this going into this year’s budget. I cannot probably comment on how much government has been pushing or not, because I have been there for four months. But from the analysis we looked at we have some areas that certainly are user pays and waste would be one of them. We have those fees and charges at a level where it covers the costs and puts some away for landfill remediation and things like that.

Mr RAMSAY — That is over and above the municipal charges?

Ms HOOD — Yes, over and above the municipal charge. We are undergoing an analysis at the moment of our pools, so people may have seen press on that. We know that our larger centres and the pools in the larger centres come close to breaking even in terms of the amount people pay versus the cost per visit. It is the small locations — we have four small towns with outdoor pools — where there is an astronomical difference in terms of what the user pays fee is and the cost per visit. So we actually do have a discussion paper open at the moment with the community to look at options to better service the pools, or what we should do there in terms of user pays. There have been about, as I understand it, 9 to 12 months of consultation with the communities. The paper outlines three very high-level options, one of which is to close the outdoor pools in the four small towns, and there has been an immediate and almost vitriolic outcry from several areas.

Mr RAMSAY — You will never win that argument.

Ms HOOD — So in terms of the user-pays principle, I certainly agree we need to move more towards that. In more regional areas it is a very difficult thing to do with some services, and pools are an excellent example of that, where people have an expectation based on what they know the charges are elsewhere in the state and in the country. So to form the argument that because you are more remote the fee has to be higher to cover some additional costs becomes a quite difficult one to raise. But we have done some analysis on what we subsidise and what we do not.

The other one that is heavily subsidised is library services. That takes a great chunk of council’s money. The amount of state input into those services has decreased as a relative percentage over the years and councils are pretty much supporting those services. Again, they are ones that are very, very dear to communities’ hearts, and a user-pays charge that covered the cost of those would probably not get up.

Mr RAMSAY — I am glad you raised that because one of the concerns I have heard through the inquiry was that the state’s contributions or the withdrawal of them, particularly into libraries now, means councils have had to look at their library assets and actually just consolidate and amalgamate into larger ones, which is not good for remote areas.

Ms HOOD — Yes, and it is not good for the small towns and that is where you get the pushback.

Mr RAMSAY — So the cost of the local government elections — what have you calculated?

Ms HOOD — I will confirm this, but my memory is that it was 240 000 for Campaspe. But I will confirm that, because it seems higher compared to your 90 000.

The CHAIR — And the time before?

Ms HOOD — I would have to check that for you.

The CHAIR — That would be useful.

Mr RAMSAY — Lucy, can I ask if you have similar issues? What is the percentage of rates revenue being collected through your shire against total revenue?

Ms ROFFEY — Sixty per cent.
Mr RAMSAY — Sixty per cent, so you are not quite as exposed as Loddon.

Ms ROFFEY — No, not quite as exposed. With the farm rate, we have just reviewed our rating strategy and rather than a farm rate, we call it a land management rate. In order for farmers to access that rate they do an annual submission around sustainable land management practices just so that there is something for that rate. As part of our review of the rating strategy, we had the University of Technology Sydney partner with us to do that rating strategy review, and one of the things we asked them to do was to provide evidence as to why farms should get a rate discount — it has been a concern of mine for some time that it is not evidence-based as to why farmers should have a discount over other ratepayers — and then also to substantiate that if we were to have a discount, then something like a land management scheme is probably more reasonable than just having a discount with no evidence. Their review found that to be the case, that there was probably not compelling evidence as to why farms should have a rate discount other than our neighbours have them at certain levels and therefore they may be disadvantaged from that perspective.

Mr RAMSAY — I will have a chat to you about that, Lucy, off the record.

Ms ROFFEY — We could have a debate at some point.

Mr RAMSAY — Particularly on a property tax.

Ms ROFFEY — Yes.

Mr RAMSAY — The current system and methodology is — —

Ms ROFFEY — We also compared it to our commercial properties. Commercial properties pay a rate premium and have tax deductions. So there are all sorts of different things that come into it.

Mr RAMSAY — Yes, I did not want to get stuck on that. It was more about, with the introduction of rate capping, whether that was going to actually make it more difficult for councils to provide the equity between their ratepayer base.

Ms ROFFEY — The rating differential moves the burden from one group to another and it is kind of separate to the rate capping.

Mr RAMSAY — That is right.

Ms ROFFEY — We are actually reducing our farm discount to 20 per cent and upping the requirements of that land management program. But rate capping does not really impact on those differentials. It is a separate exercise.

Mr RAMSAY — Have you calculated your local government election costs as against previous — —

Ms ROFFEY — Our election costs are $160 000. I am not sure what they were last time. It is $160 000; it would have been an extra $30 000 if we were unable to provide an electoral office. We have been able to provide one of our own buildings for the period, which will reduce the cost to us by $30 000.

Mr RAMSAY — That has been approved by the VEC, has it?

Ms ROFFEY — They have reviewed the facility and they are happy with the facility. Yes.

Mr RAMSAY — Can I just ask: in relation to funding, you know the country roads and bridges program, which your council I assume was a recipient of, the million dollars went directly to you to be able to do the maintenance on roads and bridges. With the current funding model now, have you found it difficult to access a comparative funding stream specifically for that sort of activity?

Ms ROFFEY — There is no funding stream in the state, I think. The federal government one is for regional and freight routes. So there is no funding for rural roads specifically, other than the grants commission grant that we get, which is based on the length of road.

The CHAIR — It is state government money?
Mr RAMSAY — Yes.

The CHAIR — No. It is not for local council roads, that is my understanding. It is for a number of nominated roads.

Ms ROFFEY — That is right.

Mr RAMSAY — So with the loss of that particular funding program, how do you actually cover that off now? Is that coming out of reserves?

Ms ROFFEY — We basically reprioritise our bridges program and it means that bridges are sometimes closed. We actually have one bridge that is closed, and that is impacting on a small community of about 10 people.

The CHAIR — Where is that?

Ms ROFFEY — That is Vaughan-Tarilta Bridge.

The CHAIR — Sorry?

Ms ROFFEY — It is called the Vaughan-Tarilta Bridge, so it is in Vaughan Springs and the community are now driving an additional 20 minutes to get to Castlemaine and have been significantly impacted by that closure. The bridge estimate, I think, is about $1.5 million. It is a quite complex bridge to replace, and for a community of 10 people and expenditure of $1.5 million for that bridge it has been a very difficult issue to manage.

The CHAIR — But they should not be penalised. Obviously bridge infrastructure is important, even if it is a small community.

Ms ROFFEY — That is right, and it was a bridge that they had had for — —

There are things like emergency access. There are some workarounds across the river when the river is low, but if we had a flood situation, then they would only have one exit out of that area. So there are a lot of issues around that particular bridge.

The other way of managing bridge assets is to reduce load limits, so again you may find that some people are inconvenienced by having to drive further around because of the load limits on those bridges. You can extend the life of the asset to a certain point to deal with having less revenue to replace — —

Mr RAMSAY — But that decreases the productivity of freight, because they are actually wanting to use larger vehicles, which is more efficient and cost-effective.

Ms ROFFEY — Absolutely.

Mr RAMSAY — So I do not think that is an alternative for regional Victoria to be looking at — reducing weight loads on bridges. More funding for bridges would be far more practical.

Ms ROFFEY — More funding for bridges would be good.

Mr RAMSAY — Thank you. I guess onto Bendigo now, my questions are more generic — that is, you have raised a number of issues in relation to population, cost shifting and service provision, and the cap setting and the impact. Can you just tell me the sort of impacts in relation to not next year, but next year and the year after assuming that the cap continues in its current form. Presumably if it is not increasing debt, how will you continue to be able to provide those sorts of services when it is not an external user-pays charge? I am just wondering how you are setting yourself up for the next 10 years, given you have indicated, you know, a $168 million loss, through the introduction of rate capping, to the City of Greater Bendigo? What do you see long term then if you are not going to request a variation to the cap?

Mr NIEMANN — We will reserve the right whether we do or do not. We have now produced a 2.5 per cent long-term financial plan. We have had to drive costs down, so our materials and contracts costs, which might
have been increasing at 3 per cent, are only increasing at 1 per cent or 2 per cent in that long-term financial planning. So there are going to be reductions in what we can do. Employment costs — —

Mr RAMSAY — Does that mean loss of staff, though?

Mr NIEMANN — It will be. Ultimately we will not be able to deliver what we are delivering today. We have to do a bit of work on how to quantify that in terms of what it really means on the ground, but the numbers are saying that there will be a real challenge in particularly service delivery, so the operating expenditure and then the capital works — the renewal program for our assets. We are putting $30 million a year into the renewal of our assets. To sustain that level is going to be really complex, and we will probably not be able to achieve that. We have been adding new assets into that mix, with building new infrastructure, and then the contribution that we can allocate to new capital projects is declining every year. As I said before, we will not be able to fund major regional projects into the future because we will not have the financial resources to be able to contribute to that.

Ms ELLIS — Can I just make an additional point. Absolutely, Craig is right that one of the pressures will be on obviously staff costs and also contractors. It is an obvious point but it is a very important one for us in regional Victoria that our contractors and our staff are also our residents, so the bulk of the rates we raise we reinvest back in our community. We are one of the biggest employers. These guys probably are too in their communities. For the contractors that do work for us we are one of their biggest — often — sources of business. If we spend less, that also injects less into regional and rural communities.

Mr RAMSAY — That is a good point.

Mr NIEMANN — Can I also make the point that we have got over 1000 farms in the City of Greater Bendigo, so we do have a farm rate that is below the residential rate, and we rate much higher for our commercial/industrial area.

The CHAIR — Could we get some figures on the election costs in Bendigo too?

Mr NIEMANN — I will come back to confirm them with you. I understand they are in the order of greater than $250 000 this financial year. I would have to check what they were for the previous election. I will come back to you on that.

The CHAIR — Previously. That would be helpful because we think there has been a big increase around the state.

Mr NIEMANN — I think there is a big increase in cost and less service.

The CHAIR — We would certainly be interested in any quantification of that lessened service too.

Mr NIEMANN — Certainly.

Mr RAMSAY — Can I just quickly ask: I notice the City of Greater Geelong indicated they are looking at having to consolidate some of their assets like small libraries, because the ongoing cost of maintaining and servicing the libraries is such now that — and now with the introduction of the rate cap — they are looking at consolidating into large central-type library systems, which means that those who are unable to travel or do not have the transport services now are not getting access to those libraries and the socialisation that libraries give, particularly for more elderly people, more mature people. Do you see that as an issue going forward under this system?

Ms ELLIS — I do, and I think that does not just apply to library services. I think there are probably other services where potentially the model of delivering a lot of them in different places may not be as sustainable. We are part of the Goldfields Library Corporation with a number of other councils here, and one of the things that we are looking at is how we can deliver a fixed library service potentially in partnership with a community agency rather than necessarily having to deliver the service ourselves. That is a model of looking at how we can keep a physical space and a direct service in regional areas so that the community are still able to access the space, the social connection and hopefully potentially programs and other resources through the library.
The CHAIR — Can I thank Loddon, Campaspe, Mount Alexander and Greater Bendigo for their presentations today. It is very much appreciated. I record again our thanks, particularly to Bendigo for providing the venue. Staff will be in touch on some of those issues to follow up. Please feel free if you want to make further submissions to the committee. There is a lot of detail in this topic and in cost structures for local government longer term, and we are interested to have that information so that we can advocate on behalf of communities. Thank you.

Committee adjourned.