TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Melbourne — 3 May 2016

Members
Mr David Davis — Chair
Ms Harriet Shing — Deputy Chair
Ms Melina Bath
Mr Richard Dalla-Riva

Ms Samantha Dunn
Mr Adem Somyurek
Ms Gayle Tierney
Mr Daniel Young

Participating Members
Mr Jeff Bourman
Ms Colleen Hartland

Mr James Purcell
Mr Simon Ramsay

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

Witnesses
Mr Chris Eddy (sworn), Chief Executive Officer, Hobsons Bay City Council;
Mr Andrew Day (affirmed), Director, Corporate, Business and Finance, City of Yarra; and
Ms Tracey Slatter (affirmed), Chief Executive Officer, City of Port Phillip.
The CHAIR — Can I welcome to the hearing of the environment and planning committee representatives of the City of Port Phillip, City of Yarra and City of Hobsons Bay, noting an apology from the CEO of the City of Bayside, who is ill. We can catch up with the City of Bayside at another time. Matters given in evidence today are protected by parliamentary privilege. However, if you repeat those matters outside, they may not be protected by parliamentary privilege. A transcript will come through in a few days for you to look at and make any typographical corrections. If I can begin by thanking you for appearing and indicate that this is evidence in relation to the committee’s inquiry into the impact of rate capping. Perhaps if I can start with you, Tracey, for a short introduction.

Ms SHING — Sorry, just before you begin, Chair, I noted that two of you gave an affirmation while you were holding the bible. I just wanted to confirm that you did intend to affirm and not to swear.

Ms SLATTER — Yes.

Mr DAY — Correct.

Ms SHING — Yes. Okay, that is fine. I just wanted to make sure. Thank you very much.

The CHAIR — It is doubly powerful.

Ms SHING — Doubly powerful?

The CHAIR — There we are.

Ms SHING — No, it is just important to make sure that you committed on the appropriate standard. Thank you.

The CHAIR — Tracey.

Ms SLATTER — Thank you, Chair. Just by way of opening remarks, like all councils, rate capping is a significant challenge for the City of Port Phillip. We have estimated that the challenge for 16–17 is in the order of $1.4 million, and over a 10-year time frame the cumulative effect is just over $60 million, compared to our previous long-term financial plan forecasts.

Our council has decided to approach this challenge with a very positive mindset, and this builds on our council’s strong commitment to efficiency, productivity and delivering improving value to our community. Over the last two years, and including the 16/17 budget, we have delivered $7 million cumulatively in savings through efficiencies to our community, whilst maintaining our strong commitment to services and service levels and outcome for our community. That represents a 4.3 per cent improvement in our recurrent budget. So we have a strong commitment to prudent financial management and financial disciplines. This puts us in a good position culturally to manage the challenge of rate capping, but it is a challenge nonetheless, and we have had to implement a range of measures in 16–17 and going forward to address the change between forecast revenue and actual revenue as a consequence of the rate capping measures, but, as I have said, our council is committed to bringing a positive mindset and a constructive approach to this.

Mr DAY — Andrew Day, director of corporate, business and finance at the City of Yarra. I am here for our CEO, Vijaya Vaidyanath. Similar projections in terms of the overall impact on our income stream over the next 12 months and also 10 years. Again, as Tracey pointed out, we are taking a similar approach. Council originally considered their position in relation to looking for some kind of exemption in the first year and decided not to proceed with that on the basis that we were taking on the challenge in the first financial year to see what the impact would be for us.

In terms of the big challenge, I think for most councils — and particularly our challenge — it will be having ongoing conversations with our community in terms of overall service levels into the future. Similarly, we have been taking an approach in terms of systematically working through our services to look for efficiencies both next financial year and into the future, but we recognise that in order to manage the cap in a responsible way, we are going to have to actively have conversations with our communities around overall service levels and indeed community expectation in terms of what their local government can provide for them within the means that we have.
Mr EDDY — Thank you, Chair, and thank you for the opportunity to speak to you today. My comments are very similar to those of Tracey and Andrew. From the Hobsons Bay perspective, our council has a very high reliance on rate revenue, one of the highest in the state. As I understand it, it is around the 77, 78 per cent mark. Our council has long been aware of that, and recognised long before the rate capping legislation was mooted that we needed to take longer term measures to ensure our financial sustainability as much as possible for the longer term. Our long-term financial plan provided for a 4 per cent increase in rates in the first three years, declining to 3 per cent for years 4 to 10. The impact of the 2.5 per cent rate cap in the first year for us is around the million dollars, or a little more, and — similar to Port Phillip, in fact — $60 million in round figures over 10 years.

One of the many challenges with that is that the long-term financial plan, which we have now recast, is predicated on 2.5 per cent each year for 10 years, and of course there is no certainty about what that rate would be in year 2 and beyond. So we do our best to estimate the revenue and the expenditure that we need to commit to to deliver on our council plan, but to some extent we are not in control of our destiny in that respect.

We too have worked very hard to find efficiencies within our organisation, particularly from the operational side, which is amounting to about $5 million over these past two financial years, including the one we are currently in, and that is still a work in progress. I am hopeful that figure will increase somewhat. That has allowed us to be very well positioned probably for the first three years under a rate capping scenario, certainly the first two.

We have projected, in terms of our capital works expenditure, that we now have a shortfall of about $14 million over the 10-year term, and that is $14 million we are obviously going to need to find. While at the same time we are working very hard to pin down the exact requirements, particularly from an asset renewal and maintenance point of view, so that figure could change somewhat.

The only other comment I would wish to make is the other factor that influences us very strongly is as a service delivery organisation. As well as capital works delivery responsibilities, we have more than 50 per cent of our budget committed to employee costs. It is about 47 per cent or thereabouts.

Ms SLATTER — So the City of Port Phillip’s EBA is due to expire in June of this year. Our last EBA ran at about 3.75 per cent for the first two years, dropping to 3.5 per cent last year. Was that all of the parts of your question, Chair?

Ms SLATTER — Yes, and perhaps on that, there is also a question, I think, about the nominal figure, but the actual cost in terms of taking into account bracket movements between — —

Ms SLATTER — So total employee costs?

The CHAIR — Yes.

Ms SLATTER — I am not sure of that figure off the top of my head.

The CHAIR — You may be able to provide that.

Ms SLATTER — Yes.
Ms SHING — And obviously you are not being asked for any answers in relation to what might pre-empt and step over the line of good faith bargaining around the trajectory that the Chair referred to, just in your answers.

Mr DAY — My understanding — and my apologies, because I am relatively new at the City of Yarra — is we are due next year; I think it is around August next year. We have been running at about 4 per cent in terms of EBA commitments. I suppose in terms of just a broad figure in relation to your overall ongoing calculations, taking into account what we would call increment increases — so moving up through bandings — you are probably looking just at a salary level at, in our case, around about a 4.6 per cent increase. But obviously there is a whole range of other factors that go into that with on costs and those sorts of things.

The CHAIR — So that would be an aggregate of 6 per cent with the whole arrangement, and that is obviously a pretty significant difference from a 2.5 per cent increase in your rate revenue. Chris?

Mr EDDY — Yes, Mr Chair, as I mentioned, our current agreement expires 30 June, so we are in the middle of a process of negotiating a new agreement now. So I appreciate the comments about good faith bargaining — that is very relevant to the stage that we are currently in. Our expiring agreement has been three years of 3.4 per cent. I understand in broad terms that the additional expense factor for bracket creep and on costs et cetera is in the order of 1 to 1.5 per cent. I am actually getting that pinned down a little bit more specifically as we speak. Therefore you can see the issue that we have with a cap on our revenue of 2.5 per cent, trying to fit within the bucket of funds that we have and negotiate a good faith agreement with our staff.

The CHAIR — And Chris, 77, 78 per cent of your income is rates?

Mr EDDY — Roughly, yes. Correct.

The CHAIR — And what is the percentage, Andrew, at Yarra and, Tracey, at — —

Mr DAY — The exact figure I do not have in front of me. It is closer to the 58 per cent at Yarra. Yes, so we have got things such as parking revenue and those sorts of things that other cities do not necessarily have. I will check that figure.

Ms SLATTER — We, in our draft budget for 16–17, have projected income from rates and charges of $117 million

Sorry, employee costs — $83 million out of total expenses of $190 million, so that is less than 50 per cent in the City of Port Phillip, 43.6 per cent, in fact.

The CHAIR — I appreciate that you are obviously going to be bargaining, but the impact of the EBAs — and perhaps you might want to talk in a historical context in that sense — how would the 2.5 per cent cap have worked where you had increases of 3, 4 per cent plus bracket movements?

Mr EDDY — How would it have worked if we were still in a current agreement?

The CHAIR — Yes.

Mr EDDY — It would have created for us some very significant challenges in terms of meeting those commitments. But they are commitments that need to be met, so we would need to have found savings elsewhere to fund those commitments.

The CHAIR — So is it likely that there will need to be a recalibration of the EBAs?

Ms SLATTER — I think, as the Deputy Chair pointed out, in the City of Port Phillip’s case and in Hobsons Bay, without speaking for you, we are about to enter into those negotiations.

Ms SHING — Speculation might have little utility.

Ms SLATTER — The rate cap is obviously one of the factors that we would be taking into account in those negotiations.
The CHAIR — My second question to the three of you relates to potential funding via debt mechanisms. I understand that the Essential Services Commission has indicated to a number of councils, in groups and singularly, that they ought or could consider taking on greater debt. Has that occurred in any of your cases?

Mr EDDY — Chair, I can start with that one. I have had no direct conversations with the ESC around that matter, but it has been very clear to me from the outset that there is an expectation that council will use all of the avenues available to them to fund their activities, and a certain level of debt would be expected, particularly in the event of council seeking rate variations. I have certainly taken the view, as has my council, that unless we were prepared to seriously change our debt policy, which is very much maintaining a low debt — —

The CHAIR — No debt? Or low debt?

Mr EDDY — Yes, we do have some debt, but probably low in comparison to many others — that that would count against us if we were not prepared to do that in terms of seeking a rate variation. We have certainly chosen not to seek one in the first year for the reasons I have outlined previously. However, in subsequent years it would remain an option for us to pursue, and we would need to be very mindful of our level of debt in that conversation.

Ms SLATTER — Similarly, the City of Port Phillip is not proposing significant increase in debt this year, but I think what is important here is we have a number of principles that underpin our financial planning, and one of those principles is that we would not be using debt to meet operating expense gaps, and that remains the case. So if there are — —

The CHAIR — Shortfalls.

Ms SLATTER — If there is a challenge between the expected revenue and expenses in the operating side of the budget, we would meet those through operating measures, not through debt.

The CHAIR — And have you had conversations with the ESC on this matter?

Ms SLATTER — No.

The CHAIR — Andrew?

Mr DAY — Yes, certainly this year we have recommended to council that they increase their debt levels to pay for capital.

The CHAIR — How much by?

Mr DAY — $13.5 million. So there is a major community development that is occurring in the City of Yarra, we have recommended council realign their long-term financial strategy and their debt strategy and fund that with debt. Originally that was coming just straight out of, if you like, the rate base and the capital program, and we have recommended to council that they use borrowings. That will still have them sitting reasonably within VAGO indicators as well as managing it from an indebtedness level perspective, but that has been our recommendation and what has gone out in the proposed budget.

The CHAIR — Perhaps if I can ask all three the question of whether increased debt will be an additional burden on future generations and whether clamping charges now, with an expectation perhaps from a number of the authorities that debt go up, might lead to bad consequences down the track.

Ms SLATTER — Certainly I can say that our council takes the responsibility of setting their budget themselves, and I do not believe that they would be influenced by those comments. They might take them on board, like any other feedback, into their considerations, but it would not be a determining factor.

The CHAIR — Andrew?

Mr DAY — Similarly, from that perspective, certainly one of the other elements, I suppose, that council is determining their position on in the annual budget is obviously that long-term financial strategy as well, which each council does. Obviously there is a requirement to have a four-year strategic resource plan with each budget. But our council, and I think most councils, is taking a longer term view and needing to take a longer
term view as well in adopting quite clear long-term financial strategies that factor at this point in time that 2.5 per cent across the board for that 10 years and obviously looking at that across a whole range of factors, including EBAs, debt levels over that time and debt redemption.

**Mr EDDY** — Very similarly, Chair, we borrowed $5 million a couple of years ago to specifically invest in asset renewal, and there was a strong business case and sound reasons for doing that. It was unusual for our council to do — as I have mentioned, traditionally a low-debt policy. Our council is very cognisant of the fact that borrowing does not actually give you extra money to spend. It gives you extra expenditure in one particular year, but over the longer term that debt obviously needs to be funded, so there is the intergenerational principle that comes into play about borrowing against the benefits for future generations but very much mindful of the principle that it does not actually give you additional money over the long term.

**Ms SHING** — Thank you, everyone, for appearing before the committee today and also for your opening comments and the answers to questions put by the Chair to date. I would like to pick up on what has just been said in relation to the issue of debt and noting first perhaps from you, Mr Eddy, the reference to the $5 million that was borrowed a number of years ago. That, as far as my understanding goes, has contributed to the loans and borrowings repayments as a percentage of rates being at 10.9 per cent according to the DELWP site, with Port Phillip having debt at 9.7 per cent and Yarra being at 1.57. So noting for the purposes of this question that the $5 million is probably a significant component of that 10.9 per cent, the debt levels appear to be very low and appear to demonstrate that there has been a specific medium to long-play strategy around asset management and revenue streams to offset and minimise outgoings on the other hand.

The question I would like to ask relates specifically to the way in which your medium to long-term strategies will evolve to accommodate the fact that you have not put in a variation to the capped rate amount and how you propose then to be able to be dexterous to the needs of your individual LGAs and also to continue to provide that value for money for ratepayers as we also deal with the rollout of the Local Government Act review and the best value principles. It is really open slather, I suppose, across all of those 18 different components I set out in that sort of omnibus question, but I welcome your views in relation to that interaction on the one hand between debt and revenue on the other and the medium to long-play planning.

**Ms SLATTER** — I am happy to kick off. We recognise that debt has an important role in financing certain decisions, and that is consistent with our principles — for example, we are using some debt financing this year (via internal borrowings) to fund council’s contribution towards some capital upgrades where that is going to have significant intergenerational benefits, and so that is a proper use of debt. For example, we are proposing to use debt to fund solar panels being installed on the St Kilda town hall roof because not only will that help achieve our zero carbon emissions target but it actually has a payback period of 13 years, so in that sense it is an investment, and borrowings is an appropriate mechanism for that. So that strategy is consistent with principles that council adopted prior to rate capping, but council was not of the view to change those principles in the light of rate capping.

**Ms SHING** — What had been the catalyst to establishing those principles? You said it was before rate capping.

**Ms SLATTER** — There is a requirement of course to have a basis for your long-term financial planning, so Council has a set of principles that helps guide the organisation in providing recommendations to Council on a year-to-year basis with the budget and setting the long-term direction for the council. But as I indicated previously, our response to delivering improved value to our community is really about looking at the operating expense side of our budget and also ensuring that any fees and charges are fair and reasonable in terms of the impact and beneficiaries of those. For example, some of the measures that we have recently put in place are some smarter procurement practices, including introduction of best and final offers for every one of our contract negotiations and some structural changes of reduced managers from four positions into two this year.

**Ms SHING** — Just with the procurement process, has that involved an open tender process at any point?

**Ms SLATTER** — Yes, so all of our processes comply with the Local Government Act and our own internal policies. The best and final offer is a reasonably common commercial practice. It is not as common in local government but we have introduced it to just make sure that even though we have got the price of the final operator that you are dealing with but you do not necessarily accept their final price until you have asked them to come back with a best and final offer. It is a standard commercial practice.
We have also introduced some tighter controls over vacancy management and recruitment to make sure that we are reviewing positions rather than just automatically having them filled. We have changed some of our fees and charges policies. As I have said, it is important that fees and charges are supporting council’s policy for social justice and supporting the vulnerable people in our community but that those that can afford to pay ought pay an appropriate level. Then there is the longer term view where we are completely reviewing our property portfolio and selling properties of low strategic value to invest in the acquisition of property and other assets that have a higher strategic value. A good example of that would be our council’s recent decision to invest in open space in Buckhurst Street in Fishermans Bend to provide for open space parkland for future generations moving into that area.

**Ms SHING** — Absolutely crucial. Thank you for that. Mr Day? Mr Eddy?

**Mr DAY** — Similar to what Tracey was saying, in terms of looking at, if you like, the management-operational side of things, I think rate capping has certainly heightened organisational awareness across the board, probably because of the publicity that it has got internally amongst the organisation but the systems and the practices, I suppose, in terms of service reviews, trying to deliver best value and looking at the overall expenditure side of things. It has certainly heightened awareness on those sorts of things, but I think a number of those fundamentals from Yarra’s perspective were already in place in terms of needing to go through and look at a number of those, if you like, management-type efficiencies and processes.

I certainly highlight and agree with a number of the things that Tracey said in relation to raising the bar in relation to our procurement practices and those sorts of things and really looking to drive efficiencies through those, given the amount of procurement that local government actually does. I suppose I would add to that as well it has probably again focused our attention much more on collaborative aggregated procurement opportunities and indeed shared services as well. So I would endorse everything that Tracey said. It certainly rings true at the City of Yarra. I certainly think it has provided a little bit more attention to really seriously exploring some of those aggregated and joint procurement efforts.

**Mr EDDY** — Yes, I would agree with virtually everything that has been said in terms of how it relates to Hobsons Bay. If I remember the question correctly, it was more about debt in relation to other revenue mixes. We have also spent considerable time reviewing our property portfolio, for the same reasons that have been outlined. The recent surplus schools site process comes to mind. There have been four schools in Hobsons Bay that were earmarked for sale, and the council purchased one of those, in Laverton, to provide for open space needs as well as some other potentially revenue-generating activity on that site. That is currently going through a master planning process. We successfully advocated for another one of those to be removed from the list, and the other two unfortunately we would like to buy but we cannot afford to. To fund those sorts of activities we are also identifying low-value sites or low strategic-value sites that we can sell to fund those sorts of activities.

Just coming back to what I understood as part of the original question, in terms of council’s deliberations around appropriate levels of debt and how to fund its activities, we on an annual basis have — as most do, I think, have to have — a rating strategy and a borrowing strategy, and that is part of our budget-setting process. I would just provide the example, as I mentioned before, of recently a decision to borrow $5 million. There was a decision at the same time made to borrow $3 million in the subsequent year but an undertaking from myself and the organisation that if we could avoid that borrowing we would do so. The efficiency savings that we have found, particularly in the last financial year, have negated the need to borrow those funds. The balance of our debt is entirely to fund unfunded superannuation liability over I think two calls in the last probably decade.

Sorry, I have forgotten the rest of the question. I hope that answers it.

**Ms SHING** — No, that is fine. You have actually all canvassed the responses very thoroughly. The final very quick question that I would like to put to you is what the community response has been to the introduction of rate capping in your respective councils, as you have engaged with them around what it means and the variation or lack of variation being sought by your council.

**Mr EDDY** — I am happy to start on that one because we have just recently received I guess the high-level results of our community satisfaction survey. We specifically asked a question around rate capping I think in the past few years. I cannot recall the exact numbers, but around a quarter of respondents had no opinion on rate capping and the impact it would have on delivery of services. We asked a question around: would you prefer to see a rate cap and a cut in services and how would you like to see that cut funded? Then about a similar number...
felt that the shortfall should be funded by other levels of government, and a similar number thought that the shortfall should be funded through savings and more efficient delivery within the local government area. That is probably the best guide that I have had around community opinion on rate capping. There has not been a groundswell of feedback or comment on that factor.

What I would take the opportunity to say at this point is the concern that until rate notices go out later this year there is I think a lack of understanding of what this regime is actually all about. I think the unfortunate use of the term ‘rate capping’ — and I note that it is not actually the name of the legislation but it is the commonly used term — suggests to people that they can expect that their rates will not increase at all. It is a revaluation year. We have something like an average — again, do not quote me on the numbers — of 15–17 per cent increase in value across our residential sector, which of course is going to impact as we redistribute the rate burden. So while our proposed budget, which is currently on exhibition, is predicated on 2.33 per cent total increase in rates, the reality is that most people will not see a corresponding increase to their rates notices; for some it will be considerably more than that. I think that presents a challenge for us all across the sector in terms of our messaging, and I think that that is when we will start to really discover what the community thinks in more general terms.

Mr DAY — No, I do not have a great deal to add other than similarly we have not had a groundswell of opinion one way or the other. I tend to agree that it will probably be once we get rate notices going out, particularly in a reval. year, that the community will have more to say on that. As I said earlier, I think the bigger challenge for us, and most councils that have not applied, is I think we are looking to just manage within our means for 12 months or two years; I think Chris indicated two to three years from an impact perspective. I do not think it will really hit the ground until we start to have those active conversations with community around overall service levels and expectations, once we feel as though we have hit that ceiling in terms of efficiencies, in terms of what we can manage ourselves.

Ms SLATTER — Deputy Chair, we conducted, as we always do, a very proactive approach to community engagement in the lead-up to our budget process, and overall we gathered about 1000 different pieces of feedback. What we were really seeking was not so much a decision about whether or not we should seek an exemption from the rate cap, because that was a decision the Council took not to seek that exemption, but more to help share the dilemma with the community about the challenges that we face going forward, and what we were seeking was what is more or less important to the community in weighing up some of the options that we have. And so we got good feedback about where the priorities were. We also got feedback from the community about what they would be more prepared to accept as change, and the areas that they were more to accept were some service model reviews to ensure that services were well targeted to those in most need, and also the organisation being productive and efficient.

Mr DALLA-RIVA — Thanks to the witnesses for appearing. I might just go to some questions I have asked previously, also of nearby councils, in particular the City of Yarra. You mentioned, Andrew, living within our means. Can you explain how that reconciles with the council spending $300,000 of ratepayers money fighting the east–west link tunnel during the last state election? How do you reconcile your concerns about ratepayers money and the rate cap when councils are just blowing a fair proportion of ratepayers money on essentially campaigns that are outside of the council’s domain?

Mr DAY — Ultimately I would have to say that was a political decision. That was a council-based decision, and I would prefer not to make comments as an officer on the political decisions of council. I think what it does going forward, though, is obviously give a heightened level of expectation and spotlight on decisions such as advocacy campaigns, and it puts an obligation back on the organisation to make it really clear to councillors when they are making some of these decisions what the ultimate financial implication may well be of those advocacy campaigns and any legal issues that might flow on from that.

Mr DALLA-RIVA — Yes, because reading the reports it appeared that there was this emergency meeting held by the councillors to deal with it. I understand the politics around it make it a difficult position for you as officers to say, ‘Look, the rate cap position is going to be difficult’. Then you have councillors off on a tangent doing what they want, and then it puts it back on the officers to try to deal with it. So I hear what you are saying, and I will leave it there.

Along the same lines I might just go to Tracey, who might be expecting a similar type of question. There was a report last year in the Leader of 30 June 2015. Again, your concerns were about having a proactive approach,
yet the ratepayers had to fork out — I will not use the media terminology, but there was an 8.5 per cent performance bonus paid on your salary, which I will not read into the transcript. But that equated to $28,000 in bonus, and on top of that you are talking about dealing with the EBA and the cost constraints there. You also, on top of that, received a 3.75 per cent annual salary increase.

I am trying to reconcile again your presentation, your evidence here, with the councillors who were quite happy to provide a substantial amount of ratepayers money to a bonus — whether it is justified or not it is not for me to say, but I am trying to reconcile, as I did with Andrew, how you can sit here and talk about the concerns of rate cap when there appear to be no constraints imposed upon the councillors in terms of your own internal cost constraints that should have been perhaps applied. Do you have any comments on that?

Ms SLATTER — The Council sets KPIs, and the CEO’s KPIs and the performance report are presented transparently to Council. The Council has a contract with the CEO. That is the council’s decision; they employ the CEO. If those KPIs are around delivering improved value to the community and the council determines that they want to provide an incentive for results in their contractual relationship, that is not an unusual measure. It is common right across the Victorian public service and in the commercial sector. It is a mechanism that my Council thinks helps to get the highest level of performance from me. It is not my decision; it is their decision.

Mr DALLA-RIVA — So in the sense that — and this is a general question — all the general salaries applied to CEOs and the executive seem to be far outstripping community expectations, maybe, Chris, you may wish to explain, with your presentation, how you are dealing with the financial aspects, and are you looking at imposing debt to fund perhaps your executive operations into the future?

Mr EDDY — I think I have already answered that question rather clearly. The answer is no.

Mr SOMYUREK — Just in terms of cutting financial assistance by the federal government, how has that impacted your council and your bottom line in service delivery?

Ms SLATTER — I think there have been some reductions there. It is just another of the financial challenges. Our council, like the other two, I am sure, delivers over 140 services to our community. There are a range of funding sources. Managing the budget every year and making sure we deliver on our budget is one of our key performance requirements, and we — and certainly I as the CEO, but all CEOs are in the same position — it is our job to manage those financial challenges and continue to deliver the services to our community.

Mr EDDY — I could not draw a link from the freeze in federal assistance grants to any particular service cuts. I think, similar to the other councils represented here, we are now firmly in the phase of service planning. As part of that process we review service levels, and we plan to continue to have adult conversations with our community around the types of services and the level of services that are expected while at the same time being very clear about the circumstances in which we are now operating. So, as Tracey said, it is just another constraint on our revenue that we hope to see rectified at some near future point.

Mr DAY — Similarly, from Yarra’s perspective, in terms of particularly the freezing of the federal assistance grants, we have just had to factor that in to obviously our proposed budget for next year and our long-term financial strategy. Council have obviously also written to the federal government in relation to dealing with the freeze and to get some more clarity around that.

Ms DUNN — Thank you, everyone, for your presentation and submissions today. I am interested in exploring in relation to the development of your long-term financial strategy, which would span 10 years. I am wondering in terms of recasting that strategy whether any of the councils here have looked at their asset maintenance renewal plans and programs, and have they been amended in any way as part of that development of that 10-year financial strategy?

Ms SLATTER — Through you, Chair, we the City of Port Phillip have a very strong commitment to asset renewal, and the rate cap has not changed our strategy. We are constantly improving, I would say, our approach to asset renewal to make sure that we are not renewing assets before they need to be renewed and are renewing them at an appropriate service level in agreement with our community. So we certainly would not see any compromise and are not forecasting any compromise to our commitment to asset renewal in the current environment.
Ms DUNN — And, Tracey, just to pick up — thank you for that: no changes to maintenance regimes as well?

Ms SLATTER — Not as a consequence of rate capping; I mean we obviously are constantly reviewing and seeking to improve what we do and making sure we are delivering value for money.

Mr DAY — No — a similar answer to Tracey’s: certainly council values and obviously understands the importance particularly of that renewal and maintenance side of things and certainly have not made any adjustments to intent in relation to the long-term capital works budget to change the settings as far as renewals and maintenance go.

Mr EDDY — Yes, it is the same answer, pretty much. We have invested a lot of time and effort in recent years, particularly the last two, in refining our data that helps us to manage our asset base. The more we understand that I guess the clearer the challenges are to us. The figure I quoted earlier of a $14 million shortfall is perhaps understated as we continue to do further work to understand exactly what our asset maintenance backlog is. So it is a constant challenge with ageing infrastructure — parts of our municipality are very old and have significant challenges — and systems, being fairly new in the overall scheme of things, are being refined to help us understand exactly what that situation is more acutely. But none of that is as a direct result of rate capping.

Ms DUNN — I am also wondering, in terms of discussions you have had around how to manage future events, whether there has been any discussion about whether there might be another superannuation liability call and how your councils might deal with that call into the future? I do not know if there will — there probably will.

Ms SLATTER — None of us knows.

Ms DUNN — No, we never know, but you kind of know.

Ms SHING — Speculation being something that has a sliding scale of relevance here!

Ms DUNN — I am sure all of you have had a superannuation call in the past, and I am sure that probably you discussed that as a council — that that may be a consequence in the future, certainly in my experience on councils. So I am wondering whether your councils have done the same.

Mr EDDY — Yes, and we monitor that very closely. At the moment there is no major cause for concern. But you are absolutely right; at some point in the future it may be. I would simply point to the past. As a low-debt council and with challenges around having cash sitting around for such a call, we just do not. So if there was another call we would be seriously looking at the levers available to us to fund that, and in the past on two occasions it has been through taking on debt.

Mr DAY — In terms of our long-term financial strategy, absolutely we have thought about a number of contingencies and recognise that from a debt perspective but also other avenues available to us we need to be thinking about what some of those potential scenarios are. We have not built any lumps, if you like, into the long-term financial strategies to try to predict when that call might be, but it is certainly something that, in developing it, we have recognised that we have got to have that capacity to be able to react to situations like that over the term of the long-term financial strategy.

Ms SLATTER — I do not have anything further to add.

Ms BATH — It sounds like, lady and gentlemen, it is exciting times in councils: you have a number of constraints and pressures. Certainly EBAs will add pressure into the system at asset maintenance and renewal. I guess the person living in the street wants to make sure that they are getting their best results in terms of services, and I think, Ms Slatter, you commented from your survey that there were people wanting to make sure that you targeted the best results in terms of services and service delivery. What criteria would you measure, if there are pressures on services, whether some would go and some would stay? Can you comment about the massive number of services that you provide; how are you going to shift if you need to?

Ms SLATTER — In the first instance for the City of Port Phillip our commitment is to maintain service outcomes. What that leads to is, first and foremost, reviewing the service model rather than reviewing the
service itself. There may, for example, in any service be a more cost-effective way of delivering the same or a better outcome to the community, so we have a rolling program of service reviews to go through the array of services that we provide to assess that and make any changes, and community consultation is always a part of that equation. We do not at this point in time envisage completely dropping out of particular lines of service delivery.

**Ms BATH** — Good to hear.

**Mr DAY** — Similarly from our perspective, and Tracey indicated before about the amount of community surveying that occurs. Obviously each council has a number of different ways of engaging with their community over service-specific areas as well as more generally across community satisfaction, if you like, around council service, both levels and also expectation and quality. For us, I think it is about continuing to get a bit more sophisticated about the way we collect that information and then use that data to inform the things that we were already doing pre rate capping around service reviews.

As I have indicated a couple of times already, I think the opportunity, if you like, and the challenge over the next 12 months and couple of years for the sector is to continue to develop our skills, I suppose, in talking to community actively about those service levels and service quality and service expectation, and make sure that the changes that we do make are in line with community expectations. I am confident that that was occurring previously. I think this particular challenge has probably just heightened our awareness and our need to have those active conversations with community.

**Mr EDDY** — Not a lot I could add to that. There is no doubt that it is incumbent upon us now to have more regular, more open, more mature conversations with our community on an ongoing basis and to aid understanding of the challenges that we all face together as a community in delivering services with the constraints that are not just being placed upon us but that are occurring whether we like it or not.

I guess I could not sit here and say that our services will not change, because we have very recently taken the decision — the council has taken the decision — to no longer be a provider of long day care. That decision was in train as part of our service review process before rate capping was widely spoken of. I guess to answer your question, that was partly about recognising that in the past the market was not mature enough to provide the outcomes to our community in terms of long day care places and quality without some level of intervention from the council. With national quality frameworks, with the maturity of the private market and the not-for-profit market, the council has recognised that it is a different set of circumstances in play now, and in conversation with the community — and very controversially it was — we had to make the call about whether the council actually needed to be in that space given the changes that have occurred in the market. There is one real example of where our service delivery has changed.

The other thing I think that has changed since that time is the more service planning focus we take now rather than service reviews so that it takes into account those issues that both Tracey and Andrew have raised about community expectations and community understanding.

**Ms BATH** — I appreciate your answers. Thank you.

**Mr RAMSAY** — I am a member for western Victoria. I have a couple of questions for the three of you. It is interesting that in past witness hearings all councils have said to us that they are quite efficient, most have a low debt portfolio, they can tweak their budgets to be able to satisfy the million-odd dollars that are lost through the cap. Many have sort of sat on around 5 per cent and are being asked to be drawn back to 2.5 per cent, with a million dollars per year or thereabouts or a bit more to find in efficiencies. At the same time the state government has imposed a 7.2 per cent increase in the fire services levy on councils to collect. You had a revaluation this year for most, and for the mug punter ratepayers the rate notice probably this year will be no different or perhaps slightly increased. From an impact point of view to the ratepayer, probably not a great deal in relation to the cap, but what I can see and the question I would like to ask you is: when the councils have done their tweaking, staff costs seem to be a considerable item of expenditure — most of you are around 50 per cent plus in relation to your expenditure that goes to staff costs — yet most do not see the need to reduce staff levels to accommodate the sort of imposition of the cap. I have not heard a lot of evidence to suggest that councils are actually looking at their staff costs and seeing where they might be able to reduce or minimise that expenditure.
Having said that then, that brings me to a point where: well, where else do councils go if they are not willing to increase debt, they are not willing to increase staff costs or create some redundancies in their operations in relation to staffing? Do they then look at a user-pays model? Have you had discussions with the ESC in relation to maybe exempting some services you provide from the rate cap? I go to garbage collection, waste disposal and other user-pays systems that might not fit under the cap. Have you had some thoughts about that?

My fear is the government has imposed a rate cap to create efficiencies presumably, but really the return to the ratepayer is zilch at this time. So councils then I fear are going to start looking at a user-pays model across the board, where we will expect to pay for services that perhaps will not fit under the cap or councils may seem not to fit under the cap. Is that a proposition you have been thinking about?

Mr SOMYUREK — Take it as a comment.

Mr RAMSAY — Why?

The CHAIR — No.

Mr RAMSAY — It is an important issue for ratepayers.

Ms SLATTER — I think, through the Chair, what I can say is that I do not think that any of us have responded to the rate capping challenge by a series of tweaks. Developing a budget in any one year is a very difficult, complex and serious exercise. Meeting these challenges and delivering efficiency savings is something I know I take very seriously. I am pleased with the culture of the organisation that we collectively take that seriously, and I am sure other councils are the same. In terms of staff and employee costs, that is one of a number of areas of costs that of course we look at and seek to improve.

The question though is around what is the most efficient service delivery method. Some councils’ or organisations’ proportion of spend on employee costs might be lower, but they might have a higher outsourced cost or contracting cost. What is really important is what are the services that are being delivered, and can you undertake benchmarking to ascertain the value for money for those services? I think over the decades local government have actually improved their ability to demonstrate that. They are probably one of the most transparent levels of government in terms of what services are provided at what cost and what the rate increases are. I certainly have not had any one-on-one discussions with the Essential Services Commission. I have participated in forums, and our Council has prepared a submission like every other council, which is on the public record.

Mr DAY — And from Yarra’s perspective, in reality my understanding — again this is the first budget that I have prepared with Yarra, but certainly done some with other councils — is the approach we have taken with this particular budget reputation in terms of looking at revenue streams as well as expenditure items and doing that throughout the year has not changed significantly in terms of the way we have approached it. We have treated rate capping and the 2.5 per cent as one of the factors that we have to take into consideration, but as with all budget processes we have gone through it organisationally line by line — everything from our capital works program right through to fees and charges — and that really has not shifted fundamentally, I would have to say, in terms of what I have seen, in terms of our approach to look at making sure that we are doing things within a reasonable budget parameter from a community perspective and not radically changing or adjusting our overall service levels but doing it in a planned and disciplined way.

Mr EDDY — Not a lot that I can add. I certainly have not had any conversations along those lines with the ESC. We review our fees and charges as part of our budget process. We are, I think, somewhat below the standard across the sector, so that is something we are looking at seriously over the longer term, noting that for many of those fees and charges we do not have the capacity to set them; they are set by legislation. The other point I would make is that if you looked around, there is certainly plenty of anecdotal evidence of councils making structural changes both recently, since the introduction of the rate capping, and prior to. The example I gave of our decision to exit long day care means 50 positions removed from our structure. I think there are probably a few examples like that could demonstrate that there are some real impacts. It is just part of responsibly managing our finance and our services.

Mr DALLA-RIVA — Andrew, you raised it, and Chris did as well. We took evidence from other LGAs in relation to fees and charges. Obviously looking at the expense side and the revenue side, you mentioned cutting
some of the services. Some of the evidence we got is where councils have started to look at full fee recovery on, for example, community halls or opportunities. Have you started looking at that as a sort of a way of cost recovery where you are saying, ‘Okay, we used to provide this. We are now going to charge basically commercial rates.’? Do you want to start, Tracey?

Ms SLATTER — What Andrew said before, for every budget you look at every element of your expenditure and your income and you assess and review. Fees and charges are reviewed every year at the City of Port Phillip. It is one of the areas where, I think, Council’s policy to support the most vulnerable members of our community is relevant. For example, in our childcare subsidies, is it reasonable? This is just a hypothetical question — it is not something we are actively engaged at the moment — but should the subsidy be different for more vulnerable members of the community than for those who are better off? That could be a question that could be reasonably explored whether or not you had a rate capping environment. I think it is appropriate, in looking through the eyes of the community to always ensure that those fees and charges are fair and justifiable.

Mr DALLA-RIVA — But with the rate capping, have you looked at that more in earnest than perhaps previously? That is what other councils have started — —

Ms SLATTER — I think there are a few areas where, as Chris alluded to, I think the fees and charges are not fair at the moment, and one of those would be in respect of planning permit applications, where those fees are set by the state government and have not increased for some time. I think I am right there. Effectively you have non-developers — ratepayers — subsidising developers for the processing of planning permit applications. We have got a very cost-effective planning permit processing process at the City of Port Phillip, so I think it is an area that should be explored.

The CHAIR — I will be very quick because I am conscious we are over time. It would defeat the aim of rate capping if suddenly charges and fees went up willy-nilly across the range of things to backfill some of the losses.

Ms SLATTER — Yes, I agree. I do not believe my colleagues and I have indicated one iota that there would be any willy-nilly approaches to our budget in process. What I am trying to convey is that in any and every year, as we develop our budget we should be looking to provide and improve value to our community. We should look at all aspects of our revenue and expenditure. What we are doing to respond to the additional challenge of rate capping is to work harder at identifying areas of efficiency and productivity and reviewing service models; fees and charges are just one of the areas. But we are certainly not, and I have not heard anyone else say that they are, looking to just simply fill the gap through charging more.

Mr EDDY — I completely agree.

Mr DAY — We have not changed our approach in relation to developing fees and charges for this budget as preparation for rate capping.

The CHAIR — Can I thank all three councils for your evidence today. I just want to put on the record, before we finish, that two other committee members are not here: Gayle Tierney is not well, and Daniel Young also wanted his apology noted. That is on the record, and I want to reiterate our thanks.

Ms SLATTER — And can I just confirm your offer earlier that the transcript will come out and we can correct any errors that are in that?

The CHAIR — Yes.

Ms SLATTER — Thank you.

The CHAIR — The normal process. Thank you.

Committee adjourned.