TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Wodonga — 20 July 2016

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Mr Trevor Ierino (sworn), Director, Business Services, and
Ms Narelle Klein (affirmed), Manager, Finance, Wodonga City Council;
Mr Dave Barry (affirmed), Chief Executive Officer, and
Cr Ron Janas (sworn), Mayor, Alpine Shire Council;
Mr Gerry Smith (affirmed), Chief Executive Officer, Indigo Shire Council; and
Ms Ruth Kneebone (sworn), Director, Corporate Services, Wangaratta Rural City Council.
The CHAIR — I want to open the hearing, first on rate capping, and then we will repeat the process with the bushfire preparedness inquiry as well. I will begin by firstly thanking the City of Wodonga for access to this facility and putting that on record. If you would pass that on to your councillors, we would much appreciate that. I ask Richard Willis, the secretary, to formally swear in the witnesses. I will then ask for a short presentation from each council, and then we will follow with some questions.

We might start with Ruth and have one from each council with a short presentation pursuant to the committee’s reference on rate capping.

Ms KNEEBONE — Thank you for the opportunity to present, and I would like to apologise for our CEO, Brendan McGrath.

What are the impacts for us? The 10-year cumulative impact of rate capping is $29 million, and when added to the freezing of financial assistance grants it amounts to $40 million. We have taken a progressive approach towards remaining financially sustainable in this income-constrained environment.

What have we done? We have implemented a program titled ‘Our Future’ that aims to make us more efficient and responsive, reflecting the needs of our community while ensuring our financial sustainability in the long term. We have identified eight key priority areas, the first one being workforce planning and efficiencies; the second, service planning; the third, revenue; the fourth, reporting; the fifth, project selection, planning and delivery; the sixth, operational efficiencies; and the seventh, procurement; and eighth, communication.

The Our Future program has yielded many changes in the way we deliver our services. For instance, in workforce planning and efficiencies we have undertaken a voluntary redundancy program, achieving 14 approved nominees in a workforce of 400 — that is 3.5 per cent. We are currently undertaking a restructure that will see our third level management team reduced from 15 to 9. Our current EB annual increment is 4 per cent; we are about to commence our negotiations, and the increment number will more likely start with a 1. On top of this, bracket creep is anticipated to be 2.5 per cent.

In relation to service planning, the method of delivery will change in some areas and may not be undertaken by us. For instance, with packaged care services we will reduce the geographic spread of our packaged care provision from nine municipalities to Wangaratta only. This has seen the reduction of our workforce in this unit from 21 to 14, eventually reducing to 11. Case loads for our remaining care advisors will be increased. This change will occur over time, and it is anticipated that the balance of the service will be provided by the private sector.

With library services we have dissolved the High Country Library Corporation, previously serving four municipalities, and brought our library service in-house. We have adopted a hub-and-spoke model — which Alpine may speak about; I am not sure — in order to remove overheads and improve synergies with our other council services.

Transfer stations: we have reviewed the usage and costs of our transfer stations and closed four of our seven locations and adjusted the opening hours of the remaining three.

In relating to operating efficiencies, we have reduced non-salary operating expenditure across all business areas by at least 5 per cent as a 2016–17 budget directive. In order to do so we have implemented efficient and contemporary solutions in the areas of printing, document management, payroll processes and mobile technology for asset maintenance.

I would like to talk about borrowings. We commissioned an independent review of our borrowings in April 2016. This revealed that far greater use could be made of council’s capacity to borrow and recommended a different attitude to debt. Using Moody’s metrics for debt burden and interest burden, council could increase borrowings from its current $9 million to $25 million and still maintain a Aa2 Moody’s credit rating, which is two notches below the commonwealth of Australia and the state of Victoria.

Provision of local infrastructure: we have curtailed the renewal expenditure in our 2016–17 budget below that required by our modelling. By 2020 our renewal gap will be $1.8 million.

I would just like to make some recommendations, firstly regarding borrowings. Local government is traditionally conservative in its use of debt funding. The revenue streams from rates and operating grant funding
are to a large extent guaranteed and would support a more aggressive, corporate approach to borrowing. A review of the permissible ranges for borrowing metrics as indicated in the Local Government Performance Reporting Framework and VAGO financial sustainability indicators would assist councils to pursue this avenue of funding.

The second recommendation is regarding the cap. If there must be a cap, it should take into consideration the unique characteristics of each council in the same way as the Victorian Grants Commission allocates funds on a relative needs basis. Wangaratta council recommends that a standard benchmark cap should be determined followed by the application of a premium or a discount for each council according to their relevant cost adjustors. These adjustors include such things as remoteness, regional significance, scale, population density and so on. This would result in a fairer application of a rate cap across all Victorian councils.

In conclusion, Wangaratta council aims to remain financially viable by implementing efficient and innovative solutions, maximising alternative revenue sources and reviewing the services we provide. We do not intend to apply for a variation from the cap at this stage; however, this is dependent upon the success of the efficiencies we have implemented and could not be ruled out in the future.

The CHAIR — Can I thank you and indicate that is an amazing set of achievements, really, that list, I might say. Gerry, could you talk for Indigo?

Mr SMITH — Firstly, I would like to thank the committee for the opportunity to provide evidence and also pass on the apologies of my mayor, Cr James Trener, who is away today.

Firstly, I would just like to point out that Indigo Shire Council approved a rate capped increase this year of 2.5 per cent and the council deliberately decided not to pursue a rate cap variation. That was a quite deliberate decision by the council for a number of reasons. Firstly, the variation was only valid for one year and the council wanted to see what was involved in the process and the outcomes of a rate cap variation in order to ensure that any future proposal for a rate cap variation would have the greatest likelihood of success. So that was a conscious decision.

Indigo Shire Council was also one of the lower rating of the rural shires, and our council has also over the past couple of years aimed for relatively modest rate increases, so the decision was made to again go for the 2.5 per cent with no variation and to essentially live within our means in the financial year 2016–17. Essentially as a result of that we have been keeping the budget very tight, and in fact we have achieved the outcomes this year by essentially placing targets for budget allocation increases of 2 per cent across all service areas. So essentially we have forced savings across all service areas and have not needed in 2016–17 to undertake some of the more drastic service reduction that other councils in our region have required.

Having said that of course we have looked at internal efficiencies across a range of services in order to achieve that increase, and so we have looked at things such as restructuring in some areas, which has resulted in lower levels of staffing in key positions, and effectively we have frozen headcount as a result of the rate cap. We are also looking at different models for providing staffing in some services, such as engaging in the outsourcing of pool staff that Alpine and Towong have established through Momentum1. So we are looking at reductions in those areas.

We have been able to do this for one year in 2016–17, but we do not see that as a sustainable situation for our council. On the capital side, we have been able to maintain a capital works program in 2016–17 of just over $8 million. That has essentially been as a consequence of receiving additional Roads to Recovery funding in this financial year. So that has essentially enabled us to maintain a program that was at risk with the removal of the country roads and bridges program. As a result of that process Indigo Shire Council has managed to achieve in 2016–17 a one-off result of an underlying surplus of $679 000, but that turns negative over subsequent years. In 2016–17 we have also managed to achieve that without any additional borrowings. The result of that, however, is that there is a modest cash deficit, which for us is substantial, of $170 000, which is just slightly over a 1 per cent rate increase on our revenue. As I mentioned we have managed to maintain a capital works program of $8 million.

What has been the impact? As I mentioned it has been a matter of reducing the allocations across all service areas, and of course using a historical cost budgeting approach. Essentially we have kept a lid on budget allocations for 2016–17, which means that there is absolutely no discretionary expenditure available for a range
of projects, and there is also very little opportunity for additional funding in the event of contingencies. For example, there has been recent bad weather which requires tree crews to be out and about. If that was a continuous process over the year, we would end up with a negative budget variation.

Of course we have also needed to fund the Victorian Electoral Commission — the election costs within that as well.

The CHAIR — How much has yours gone up?

Mr SMITH — It has virtually doubled this year to around about $113,000 from just over $60,000 last time.

The other thing we have been required to do is look at the funding of non-council-owned assets. From a community perspective there is a demand for facilities to be upgraded and maintained, and the community’s view is that those facilities are something that council should make a contribution to, even though they may not formally own them. So we had to pull back on expenditure that would otherwise have potentially seen a greater contribution from council on particular facilities, such as a sporting oval that badly needs resurfacing but it is not a council-owned asset. In the absence of funding from the state we have had to deny funding or deny the ability to upgrade those particular facilities.

Mr BARBER — So it is a Crown land committee of management.

Mr SMITH — It is Crown land committees of management, and we have some pretty significant facilities across our municipality where there is strong demand for improvements to those assets, and of course in this environment we have had to say, ‘No, we can’t’. Of course the community do not care that these are not owned by council; they just want their facilities upgraded and maintained, and that has been quite difficult.

There has been very little discretionary expenditure, so operating projects around planning and design of particular activities has also been curtailed, and we are obviously very reliant on the grant programs such as the Regional Jobs and Infrastructure Fund et cetera, which are highly competitive. So again there has been very little scope to be able to do that.

So in summary we have been able to accommodate the rate cap in the financial year 2016–17, but we certainly see it as a one-off activity that certainly puts us in a situation where we are currently low risk to medium risk under the VAGO indicators, but certainly a continuation of rate capping at the amounts that are foreshadowed could cause sustainability issues and require those actions that others are taking that are more direct.

The CHAIR — Thank you. Alpine.

Cr JANAS — Thank you, Mr Chair. I will briefly address you and then hand to my CEO, who has got all the facts and figures at hand.

Some two years ago council foreshadowed that rate capping would come into being, and we had a good look at our costings for our business and instructed our CEO to look at reducing our costs from the $1 million to $1.5 million range, because we could clearly see that our costs, particularly in wages, were increasing at a substantial rate and were not going to be sustainable. The overriding factor with that was not to reduce services to our community, which we hold dear and so do our community. We believe that that was achieved, and I will let Mr Barry go into that now. We are not in a position where we had to make an application for the capping to be varied for us. We have a position which Mr Barry will address in relation to our figures, and I can say that we continue to maintain our services at a high level to the community.

Mr BARRY — So with that brief intro, I guess our response is not all that dissimilar to Wangaratta. We ran what was called a ‘good to great’ program. That resulted in an equivalent full-time staffing reduction from 143.5 equivalent full-time staff to now just under 100 — so about a one-third reduction in our workforce. It is always very difficult to predict what sort of saving that has made, because it is always ‘What would your costs have been in the absence of making those changes?’, but we conservatively estimate that our wage budget this year would have been $14 million had we not made those changes, and it is $8.6 million — in the order of $5.5 million in recurrent savings — so it is a very significant restructure on any level without having any impact on service delivery. That is three years of real-world decline in our employee costs, which of course are where our biggest costs are.
We have also looked at some of our materials and services spend, and we have done things like reduce our motor vehicle fleet from 22 motor vehicles down to 6, and by the end of this year we will be down to 2 — again about a $200 000 recurring saving there. It is something that is always the bane of ratepayers to see staff sometimes driving motor vehicles that have a low business need for them. We have looked at a whole heap of other materials and services areas to further reduce costs — about $110 000 — through just even reviewing our subscriptions and memberships.

The instruction from council to me, having made that saving, was ‘How can we put that money back in ratepayers’ pockets?’ so we had our lowest rate increase in a non-rate capped environment, so in other words in 16 years, last year at 2.9 per cent, which was the third-lowest rate in the dollar increase in the state, and this year I think we are one of three councils that has come in under the rate cap, because that was the maximum level at which we felt we could burden our ratepayers. That was 2.3 per cent, and I believe we have the lowest rate in the dollar increase in the state this year.

We have also paid off all of our debt to be entirely debt free. We are not averse to carrying debt, but we have no necessity to carry debt at this point in time. We would support Wangaratta’s comments that there is need for our sector to better carry debt. That said, by virtue of our circumstance we are able to self-fund everything we need to do. We have also done some fundamental things like look at every fee and charge that we have in place and see if that is actually restricting patronage on our services. For example, we looked at our family seasonal pool passes, which were up almost at $300, and reduced them down to $99 last year and $89 this year. We have had a 42 per cent spike in attendance at our pools as a result. I think we were selling 17 passes at one point in time. Now we are selling well over 200. I use that probably more as a symbol of our culture around how we can give back to our ratepayers and for a very modest cost really increase our patronage. There are several other examples of that that I will not take up the inquiry’s time with today.

I guess the final component of what we have done is, as I said, the savings have either been left in ratepayers’ pockets or have been put into greater capital works, so we have this year our largest capital works program in our history. That has really built on our capacity to deliver. So last year we delivered 99.6 per cent of our capital works program. That gave council confidence to further invest in capital works going forward. All of this was really council’s belief that rate capping — not necessarily rate capping, but some form of external compression — was likely to be placed on councils having had many years of 7 to 8 per cent average increases in rate take.

Something our mayor mentioned was employee costs. In the case of Alpine shire, and broadly from a sectoral viewpoint, one of the things that we have noticed is that we have struggled to constrain those costs. Our annual average increase in wages over the last 10 years was 9.1 per cent, and a way to characterise that is even if we compare ourselves to like-minded organisations — so if we compare ourselves to North East Water locally, which are governed under the Local Government Act and have the same wage structure — our wages are in the order of 10 per cent higher than theirs, and that is because they have been subject to the state government wage cap. If we compare ourselves against the private sector, we would mount an argument that on average we pay 36 per cent above private sector award wages of $24 000 per employee.

In terms of coming to some recommendations we believe that while our materials costs are well constrained by virtue of the fact that we are consistently tendering and consistently testing the market through a high focus on procurement, there is some evidence that our wage costs are not well constrained and that they are not well constrained from a cost viewpoint but also that a lot of our wage costs make their way into areas that do not deliver a direct output to our ratepayers. I am happy to expand on that if the inquiry needs more information. We feel that there is a role for the state to play in assisting us to constrain those wage costs. We also feel that there is a role for the state to play in rewarding good-performing councils so that, rather than arguing for additional revenue or variations to the rate cap based on a lack of capability, to show where councils demonstrate a capability to reform their business, that is rewarded.

Of course no doubt everyone will bring up cost shifting from the state to local government. Also I guess the final recommendation that we would have is greater support for shared services, and we have a shared service with Towong Shire Council here. We last year established, which Indigo alluded to, a proprietary company, which is 50 per cent owned by Alpine and 50 per cent owned by Towong, and that company is providing services to a range of other councils in a shared service environment. Hopefully that gives you some insight into what we have been doing.
The CHAIR — Thank you. That was incredibly comprehensive, and also that is a remarkable achievement in constraining rates and costs. Wodonga.

Mr IERINO — Thank you also, Chair, for the opportunity. Apologies from our mayor, Cr Anna Speedie, and our CEO, Patience Harrington. They are at a regional development event over at Bendigo today, so they could not be here. They send their apologies.

Obviously a few things I will say have already been said, I think, so I will try not to repeat some of those. The inquiry can note that this is actually a report to the council meeting of January this year, which is a public document. In that it summarises our views on rate capping this year and why we did not seek a cap in this particular year, but it also summarises some of the issues we have with rate capping. You may have that. I will try not to repeat much of what is in there, but it is a good summary, I think, of where Wodonga sits on a lot of those issues. We also put in a written submission to this inquiry at the same time last year which had a number of our concerns as well, so if I can refer you to that submission that we put to the inquiry last year around about this time, 2 July. If you need another copy of that, we can provide that as well.

The CHAIR — No, we have got that.

Mr IERINO — I think in some of the discussion here you have already seen a lot of similar but also very different approaches in what the various councils have done. One of the issues that I have personally with the whole rate capping scenario is that it assumes that at a point in time everyone’s budget was perfect and that structurally they were right. There is an assumption that there is your budget, there are your services, all you need is a CPI increase and you should be able to continue delivering what you have in the past. But that does not recognise that every council is on its own journey and is in its own same position. They have their own background of service reviews and service level cuts and so on. They are in their own place and on their own journey with where they are with cutting costs and things like that, as well as with their growth and as well as their backlog of renewals and their infrastructure development. Some have backlogs and some have not, whereas the rate cap process is very blunt. It says from 2015–16 that base was just perfect. All you need is 2.5 per cent from now on in and you should be right and nothing should change. There are a lot of problems with that, and having an Essential Services Commission with a mandate or a set of criteria which are fairly narrow does not really address all of the things that are different about each council and all the different reasons why they may need to vary from the cap are not really reflected in the terms of reference that the ESC has to work with.

Similar to Wangaratta council, Wodonga will be impacted by the cap alone by about $37 million compared to what we were forecasting as rate rises over the next 10-year period with about another 5 million or so, I think, on top of that for the freezing of the FAG grants. We will never get that money back, so there will probably be an over $40 million impact that we will need to find over the next 10 years. Wodonga chose not to seek a rate cap variation in 2016–17 for a couple of reasons, similar to Indigo, in that it was just a one-year submission. We thought we would let it run its course and see what the requirements were of the ESC. We also had some operational savings that we had identified in 2015–16 out of 2014–15, which we were able to carry over and use that to fund the shortfall in 2016–17. We also had Roads to Recovery moneys coming in which were higher than we expected, so that was able to offset some rate funding as well. With those reasons combined we were able to hold onto the suggested rate cap in 2016–17, up 2.5 per cent, without seeking a rate cap variation.

We do anticipate seeking a rate cap variation for 2017–18 onwards and for the four-year submissions we propose to put in, because we see that the reasons for not going above the rate cap issue were not sustainable into the future.

We have had our own history of service reviews, our own history of savings and outsourcing and a whole range of those which I will not go into right now. We see that it is not possible to continue on with the rate cap without affecting services. We feel like we have done the reviews that we can do up to this point and we do not see a lot of scope for a lot more savings on the face of it at the moment without affecting services in the short term. Notwithstanding, though, we have implemented a full program of service reviews over the next five-year period, so we will do an in-depth service review of every single service — something like about 80 services over the next five-year period — on a rolling five-year basis.

That will be frontloaded, though. We have identified those services that have more potential for, perhaps, discussion with the community about service levels, about where we might be able to save costs, where there
might be opportunities to outsource, where there might be opportunities for the private sector to provide and where there might be opportunities for revenue increases. So we have identified those and frontloaded those for the next couple of years. But our initial intention is to seek the rate cap variation, but in parallel with that we will still be doing these detailed service reviews over that period of time.

I raise a couple of issues. Ruth mentioned the issue of debt and debt funding. There are those around us in the economic world and in the regulatory world that think we have a greater capacity to borrow. In the financial world we do have that capacity to borrow, but that is not always seen as good financial management by the community. I am a finance person, so I know there are prudent reasons why you would finance works through debt borrowings, through debt planning and things like that. There are good reasons for it. We all know the good reasons for borrowings. However, unfortunately we have a community and a media that feed off debt as being a fear factor, as debt being an indication of poor financial management rather than a prudent financing tool, and it is not always easy for councillors to stand behind increased debt funding when no matter how hard you try to sell or communicate with your community about why you are borrowing and whether you have the backing of the ESC or the government — even if the government gives some direction on what they think is a fair borrowing level, which they will not — it is hard for councils to put their hands up and say, ‘We will borrow more rather than put in a rate cap variation’ because politically it is just dynamite around here. Around here it is particularly hot. Wodonga seems particularly to be in the firing line with our media compared to over the border, I must say, who have much more debt than us but they do not seem to be in the same firing line.

I was the chief financial officer at Goulburn-Murray Water, which came under the ESC some 10 years ago. When I was there we had a surplus of about $40 million in cash. I looked at their balance sheet a couple of years ago; they have something like $110 million in borrowings. They have gone from a 40-surplus to $110 million in borrowings, so a turnaround of $150 million in borrowings, because the ESC demands that you borrow first; the whole process forces you into borrowing. So I am greatly concerned about the ESC. We will not see that yet. We will not see that in one or two years, but in five and 10 years we will see figures like that.

Wodonga council is very much in a growth phase. In most years of the last five years we have been the fastest growing regional city in Victoria, and with growth comes a whole bunch of pressures for infrastructure, with planning and things like that and having available land and doing the studies and the precinct structure plans and the frameworks and so on that you need to do for a growing city as well as having the infrastructure in place to link those growth districts together with the main city. I know the ESC provides for extra revenue through growth. However, there is a lag period there, and councils like Wodonga need to spend a whole lot of money up-front on things that will not get you a return on extra growth in rate revenue for many years to come. So I do not think the ESC probably handles those situations well, and again there is a lot of difference between councils.

It has probably been well documented that CPI is not really a good measure of the price pressures that confront council, which are different to CPI. That has been pretty well documented, and I think there were pretty good examples there from Dave about how their wage costs do not reflect anything like CPI.

Also we are concerned that all the good works done by the ESC perhaps to try to find a good measure of inflation in the local government sector they are then overridden with the stroke of a pen by a minister who says, ‘Well, thanks for that figure, but you will use this figure’. Where we do come up with recommendations about better CPI figures I am not sure that they will not get overridden for political reasons rather than for economic reasons, so that is a concern for us.


Mr IERINO — Okay. There are just a couple of points I want to raise. The ESC talks about, when you are putting in a rate cap variation request, that you talk to your community about the need for that. One of the challenges with local government is that there is always a balancing of many, many competing pressures and competing requests from the community. Sometimes we may need to seek a rate cap variation for a certain aspect of the business, and if we go to the community and say, ‘Listen, we need this rate cap variation because we need to spend money in this area’ — most things in council do not affect the whole of the community all of the time, and often there are different areas and different pockets that need to be dealt with. The concern you have, though, is when you go to the community to say, ‘We need a rate cap variation for this reason. Do you support it or don’t you?’; in most cases not everyone in the community uses those facilities, and they will say, ‘Well, I don’t need one of those, so I’m not voting for that’.
I am giving you a simplistic explanation, but really it is the role of councillors I believe to make those harder decisions about, ‘Look, I know you don’t agree with why we need this over here, but there is a whole section of the community that does need that certain facility and does need us to spent money in that area, and for the overall good of the city these are the things we need’.

Now, if you are going to have the popular vote and feedback from the community on why you need a rate cap variation and you ask them, ‘Do you want one?’, of course they will say no and most in the community may well not support the things you are asking to spend money on in that particular year. But in other years it will be their turn, and they will be saying ‘Yes’ over here and ‘No’ over there. It is just one of the difficulties of trying to get a global yes to a certain rate cap variation from the community. It can be difficult, and it is the role of councillors to show that leadership and they will sit and make those decisions and make those recommendations.

The CHAIR — We might come back to more, Trevor, in a minute with questions. I am just conscious that we have got to let Towong have a — have you got one more?

Mr IERINO — I will just make one last point; is that okay?

The CHAIR — Yes.

Mr IERINO — The other issue I want to raise is grants. As you know with government, in securing grants we usually have to put a fifty-fifty contribution, or 2 to 1, or things like that. In the future it is going to be far more difficult for councils with any certainty to put money aside in a budget to say — we need to have things shovel ready, and the government asks for us to have money in the bank set aside for capital grants, or grants for whatever they might be. It is far more difficult for us for now to set aside money for grants without knowing whether that is going to get past the ESC test in advance. It is just something that structurally needs to change within government. If they are always relying on councils to contribute 50-50 towards some of the grants that come out, we cannot with certainty put aside our 50-50 contribution for those sorts of things. I think it is a real issue for the future for government. I will just pause it there.

The CHAIR — Thank you. I will come back and ask you about the ESC in a minute. Towong.

Cr WORTMANN — Thank you. I would just like to thank the committee for the chance to give evidence today. From the outset, Towong is a very small rural shire. Just to put it into perspective, a 1 per cent rate rise in our shire of general rates brings in approximately $50 000, which is not a great deal of money. Our council fully supports the underlying principle of the Fair Go rates system to keep rate increases to a minimum. We do not believe our ratepayers should be subject to ongoing high rate increases, and Towong ratepayers simply cannot afford to pay high rate increases. This is clearly demonstrated on the Know Your Council website when it relates to relative social economic disadvantage of municipalities. Towong rated 7, compared to similar councils; they rated 4, so you can see where we are at with our ratepayers.

Towong has been held up as one of the shining lights in the local government sector. This is because of the many innovative practices that we have adopted in order to be as lean and efficient as possible whilst providing an appropriate level of services and infrastructure to the communities we serve. We have adopted many shared services with our neighbouring councils, and there has already been mention of Momentum1, which is a company that provides labour hire. Towong’s financial position is primarily due to the environmental factors that bear upon us which are outside of council’s control — factors such as the large geographic area — we cover 6500 square kilometres; the significant amount of infrastructure that we are required to maintain — we have approximately 1200 kilometres of roads and 168 major bridges and culverts; we have dispersed populations — we have 21 towns and villages and a total population of 5896; and a low rate base of $7.5 million in rates and charges.

The unfortunate reality for our municipality is that if council is unable to provide appropriate levels of service and infrastructure for our communities, people will prefer to live in other municipalities where the services and infrastructure will be provided to meet their needs. If people migrate out of our shire, it just exacerbates our position.

We have put a lot of work into our long-term financial plan, and what our modelling has effectively told us is that small councils like Towong, with many of these factors that bear upon us, cannot be sustainable purely
relying on rates and charges and own-source revenue. As everyone is probably aware, we applied for a variation at the Essential Services Commission this year, and we were granted the highest rate increase in the state: 6.34 per cent. Our council was pleased with the Essential Services Commission. Can I just quote from what they said about Towong:

The Commission is satisfied that the higher cap is consistent with Towong’s well-developed long-term financial plan to deliver sustainable outcomes in services and critical infrastructure in the long-term interests of its community. We find Towong’s application and long-term financial plan to be consistent with the requirements of the Fair Go rates system.

Our council decided not to implement the 6.34 per cent rate increase. We managed to come in at 3.5 per cent, but in doing so we had to introduce some very aggressive cuts, and I will just read them out, if you do not mind.

To meet the 3.5 per cent proposed increase we are going to: cease contribution to the SES units — which is $32,340; we reduce our youth budget by $9,000; we reduce the seniors budget by $9,000; we are going to review maternal and child health services this year; we reduce funding to the Eskdale pool, which is a private swimming pool — it was only $1,000, but to that community that is a hell of a lot of money; we reduce the Tallangatta and Corryong pool budget by $10,000; we cease membership to the Murray Darling Association of $1,500; we cease the community satisfaction survey of $9,000; we are going to discontinue the local government scholarship in our shire of $21,000; we are reducing the contribution to Murray Arts by $2,000; the annual salary and wage increase will only be allowed to be 1 per cent or CPI, whichever is the lesser — and that is a very big ask of our CEO; we are reducing staff training by $9,000; and we are ceasing membership of Timber Towns, which is $2,500.

In ceasing all these memberships — I mean Towong would love to have a seat at the table, but we just cannot afford to be there, to renew these memberships. Just in finishing, we realise that these severe cuts are really hurting our communities. You only have to read the paper; it is affecting our communities, and we need financial assistance from the two tiers of government above us. Thank you.

The CHAIR — Can I thank all of the councils for their comprehensive contributions. It is very clear that all of the councils have thought through their budgets in great detail. We appreciate the presentation, including the additional information the committee secretariat sought over the recent period, and thank you for the provision of that. I am going to strip down the questions quite distinctly. In theory we are on time, but we would need at least one question each.

I want to come to Trevor, in the first instance, and ask about the ESC and its approach to debt. I know there are legitimate arguments in the community about debt, and there is probably a fair distinction made between taking on debt for intergenerational capital approaches, as opposed to recurrent spending. Is it your experience with the ESC that they encouraged you to take on more debt as opposed to any increase or application for variation?

Mr IERINO — In the water industry the model is different. I would have to bore you with some of the detail about how it worked, but it was a model that was set up that guaranteed — that virtually forced you to borrow first to fund your capital and then get your money back over time by repaying the borrowings. It was a system that was set up that — initially in renewals, for example, we were in a situation where we were putting money aside for renewals in advance before that needed to be spent. If you did your forecasting and said, ‘I’ve got a big hump of expenditure coming in five years time or 10 years time. Let’s put the money aside now for that and let’s spend it; the money will be there when the time comes’, the ESC took a view that, if you were putting money aside during the regulatory period — so if you had a four-year period and if you took money from the water ratepayers, the irrigators at the time, if you took money off them and you did not spend it in the same four-year block that you took the money off them, you should give it back to them. That was their basic theory.

So they did not want you to put money aside first to fund capital in advance. They said, ‘You spend the money first’ — even if you did not have it — ‘you then borrow for that’. Then in your rate bills from then on — —

The CHAIR — My point here is: have they adopted a very similar model with local government?

Mr IERINO — Not to that degree yet, but my experience so far is that the ESC looks like they are trying to figure out how to regulate the councils. They do not quite know how to do it yet. What we will see is that over the years to come they will make up their rules as they go along. This is what happened in the water industry; as they get to know us better they will make up the rules as they go along and they will come up with these more and more detailed models, and that will require us to borrow to fund capital first and then pay it back later — borrow and then pay it back through repayments, three-year rates and things like that.
The CHAIR — I have one further question for each council, and I would appreciate a very succinct answer. It seems to me that there have been significant cuts since this process came into place, both in services in some councils, and in some councils services have to date been protected, but also in employment. Is that a fair description?

Ms KNEEBONE — Yes.

Cr JANAS — Mr Chair, in relation to our council I would say the cuts to personnel have been a result of us looking at our business model and saying, ‘What level of personnel do we need to actually deliver the products and services to our community? What are we doing now that we did differently 10 years ago?’, and doing a comparison of how many personnel were needed to do that same job.

Mr BARRY — We have this notion of an efficiency dividend, which is commonplace in the state government, where if you look at our track record, we might have someone delivering, say, a rates service at one full-time equivalent level, who started 30 years ago, and 30 years later we have 1.2 people delivering that service, even though we have gone through all sorts of automation. So there is no evidence of efficiency gains, and I guess what we really did is said, ‘Let’s realise those efficiency gains now’. We had one compulsory redundancy to reduce that level — —

The CHAIR — In your case no service reductions but less staff now employed?

Mr BARRY — Definitely.

The CHAIR — In other councils, service reductions and less staff.

Mr BARRY — Correct. Yes.

Mr YOUNG — Thank you to everyone for coming in today. We have laboured previously over the differences between regional councils and city-centric councils, and we sort of have an understanding of that now, so I will not go into that given that you are all regional councils in most senses. What I really do want to know, though, is what are the differences there compared to here and whether they are doing anything right and we are not or vice versa?

Mr IERINO — Anecdotally we are aware that they have been under a regulatory regime for some 40 years and that their asset conditions are far poorer than on the Victorian side. That is just anecdotal. I cannot give you any evidence to support that. I am sure there is plenty around. Being on the board of specifically Wodonga, which competes with Albury directly — there is a major difference between regional and Melbourne, and one of them is the parking fees.

Mr YOUNG — Yes. We have heard quite extensively about that.

Mr IERINO — We do not have parking fees here and they do not have them in Albury — neither side can do it first, because everyone will be shopping on the other side of the river, so we do not do it. But also compared to Melbourne, I am not sure of Melbourne’s figures — it is $40 million or something.

Ms KLEIN — It is $90 million.

Mr IERINO — It is $90 million in parking revenue for the City of Melbourne. Well, we have zero from that, and in most regional cities it is not really acceptable. The community does not feel that it should pay to come and park in the middle of town. It just does not work.

Ms KNEEBONE — I think Wangaratta is the only one.

Mr IERINO — It is the only one. And it would probably be a low figure, really, overall, so we do not have the same opportunities. Those are just two examples I can share with you.

Mr BARRY — I can share a bit, having worked in both states. Like everything, there is good and bad. Clearly the financial constraints that they have been under for, I think, 37 years now of rate capping mean that smaller councils there are absolutely at the point of having to drastically cut services. However, like any
organisation that is under pressure, necessity causes you to think in an innovative way, and I can certainly recognise that when I worked at Albury city across the border, their capacity to innovate was much greater than that I have observed in some Victorian councils just by virtue of the pressure that they were under. That is not to say that it was all good, but it certainly drove a mentality of improvise, adapt and overcome.

Mr YOUNG — Thank you.

Mr BARBER — Does anybody want to say how VEC justified doubling their charge — the Victorian Electoral Commission? You said they doubled their cost of running the election. How did they justify that?

Mr SMITH — Well, as I understand it, previously there was a sort of market testing arrangement for the conduct of the elections, and of course the VEC is subsequently the sole provider, and the amount is as it is.

Mr BARBER — They just emailed you and told you?

Mr SMITH — More or less.

Mr BARBER — Thank you. Just maybe for Wangaratta, this question of debt that we started to explore — your interest bill, though, is one thing you do not control in any way. It is not like offering a few redundancies or changing the scope of the service or whatever. You just pay it, and when you come to roll it over you take the interest rates. As a strategy, that is really the hardest pill to swallow now, is it not, because if you borrow against your rate base, you no longer control that thing?

Ms KNEEBONE — Well, yes, but the interest is quite a small component of our current expenditure, and often councils have a very large amount of investment as well, so their net interest is often quite small. So the impact of an increase in interest rates can sometimes mean some more revenue for councils if their net investments outweigh their debt. So, yes, we do not control interest rates. You can borrow on a fixed interest rate, if you so desire, but you do — —

Mr BARBER — Over 10 years or something?

Ms KNEEBONE — Yes. And often councils will borrow for that certainty. I would perhaps, now that I am a bit more experienced, not recommend that, because if you let your interest rate vary, your net interest — so your interest income less your expenditure — will retain the same differential, so it is not quite as risky.

Mr BARBER — But it is about half a million bucks for you guys?

Ms KNEEBONE — Yes, it is, around that.

Mr BARBER — And you are suggesting that the capacity under old measures, which I think probably did not take into account rate capping, would be three times that?

Ms KNEEBONE — Yes.

Mr BARBER — But if you have got rate capping, what can you really say about it?

Ms KNEEBONE — Well, I think the impact of the interest expense is not as great. It is a small proportion of our expenditure.

Mr BARBER — But uncontrollable in that sense that — —

Ms KNEEBONE — Unless you have fixed-term borrowings, which all of ours are.

The CHAIR — Can I thank all of the presenters on the rate capping inquiry. We are going to go through the same process with the fire preparedness inquiry now.

Witnesses withdrew.