TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry Into Rate Capping Policy

Euroa — 21 July 2016

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Ms Margaret Abbey (sworn), CEO, Murrindindi Shire Council;
Mr Tony McIlroy (sworn), CEO, Benalla Rural Council; and
Mr Peter Harriott (sworn), CEO, Greater Shepparton City Council.
The CHAIR — Welcome, councils — Benalla, Shepparton, Murrindindi and Mansfield. I indicate that we have got two parts to the hearing — one relating to the impact of rate capping and the other relating to the bushfire preparedness terms of reference of the committee. We will start with rate capping.

In the first instance I acknowledge Steph Ryan, the local member of Parliament. We are incredibly pleased you are here today for both parts of our inquiry. That is a very welcome addition.

Would you like to start, Peter, perhaps with a short description of your view of where things are with the impact of rate capping? We will then move across the different municipalities and follow with some questions.

Mr HARRIOTT — I have a prepared paper that has been circulated. Firstly, we welcome the opportunity to comment here today. We have read the second report in relation to rate capping. I need to note from the outset that it is Greater Shepparton City Council’s position that they do oppose the concept of rate capping and generally believe that it should be the responsibility of local government to have that ability. We do, however, accept that it is a reality, and we are working within the framework that is in front of us. It is fair to say that this year we have examined every service and infrastructure project in great detail. It is not unusual, but we have certainly given it a really good go over this year to look for every efficiency that is available to ensure that we can meet the 2.5 per cent rate cap.

We have got some issues here, and they generally follow the issues that are in the second report. CPI not being an appropriate index. That one has been done to death, but we have got some comments there about how local government is very much different to a basket of goods that you get at Aldi, Coles or Safeway.

We go on to say that prior to the introduction of rate capping our strategic resource plan predicted that we would have 4.9 per cent rate rises for the next several years. This is based on 10-year long-term financial planning, considering all the impacts, all the external environmental pressures that we are under, and with a 2.5 per cent rate cap, that is significant. Our finance department have done the calculations, and it is around about $1.2 million for the first year, but it compounds and very quickly gets up into the many millions of dollars over time.

There is the comment that local government may reduce funding in certain areas, and the State Emergency Service was one area. We would like to note that emergency services in the Greater Shepparton area are essential to us, and although we get some funding, we have the Tatura and Murchison SES and the Shepparton Search and Rescue service, which is a unique service — it was one of the first established in Victoria. It does not receive the 50 per cent government funding, so council funds that. We provide 50 per cent funding to the Tatura and Murchison services, and we would continue to do that. That is an essential service that we just could not contemplate removing funding from.

There are other examples of that. I will come to those under this next heading of ‘Local government tasks operational capacity and budget certainty/flexibility’. Again that is a heading in here. Maternal and child health services were at one stage fully funded by government. They are now 60 per cent council and 40 per cent state government. It is another essential service to local government, and we could not contemplate reducing that level of service.

We are doing a whole range of service reviews and this particular service in our area was outsourced through the local hospital. It has now come back to local government because the clients were asking for a better level of service and council were willing to pick it up. We have got a regional aquatics centre which was outsourced to private enterprise — YMCA and other groups — and we have brought that back in-house because it is more efficient to run it in-house. So we are looking at every service but it does not automatically say that we outsource it for more efficiency so that we can limit our expenditure and come under the cap.

Council maintains $1 billion worth of assets, and there is a whole range of backlog of work that needs to be done there. We have managed to fully fund our depreciation and our renewal expenditure this year at 100 per cent, which is the first time we have done that. So that is a significant achievement. It just indicates not only how Shepparton but I am sure other councils are really trying to make this process work. I said at the outset that council have an opinion in relation to rate capping, but we are working within it. This is an example of where we are really pushing the boundaries to make this work by fully funding our renewal expenditure.
Declining grants and revenue — that is a comment about the grants commission and the non-indexation of our grants commission funding. That is having a significant impact in a financial sense.

Our 10-year financial plan and 4-year strategic resource plan, as I said before, are all there to plan for the future and we were planning for the future with a 4.9 per cent rate increase, now dealing with 2.5.

The variation process — there has been some comment that that is onerous and costs too much money. We would support simplification of that, not that we utilised that variation process this year. We may have to into the future because the future years are going to be more difficult than the first year.

Item 7 there, the cap should apply to the fire services property levy. I think that went up 32 per cent in our area in 2015–16. It just seems unfair that, whilst council have to cap their rates at 2.5 per cent, there are other levies that are just going up incredibly high. That one is significant at 32 per cent.

One single rate capping process does not fit all is the comment there in item 8. There is a whole range of reasons why individual areas are different, and we put the case for that there.

In conclusion, I would just like to say that we have got evidence that we are looking at every service we provide, over 150 services. As I said, with $1 billion worth of assets that we have got to maintain we are looking at every means possible. It is not the first time we have done this. In 1996 when we had the major amalgamations, the rate capping and the compulsory competitive tendering we learnt lessons from that. Since that was done in 1996 we have continued those lessons all the way through and are further applying them with the rate capping that is upon as at the moment. That is about all I will say I think, and any questions are welcome.

The CHAIR — We will come back to questions at the end, I think.

Mr McILROY — Thank you, Mr Chairman, for the opportunity to be here today. I have a briefing paper, ladies and gentlemen, which I might circulate. I think there are sufficient copies to go around. Mr Chairman, this was a briefing paper provided to the council back in March of this year in anticipation of the rate cap which was announced in December last year. I will not go into the background; you can read that in your own time. But suffice to say that the Auditor-General had drawn some conclusions in respect of the difficulty facing councils to deliver high-quality community services, maintain existing assets and fund future capital projects.

I will go straight to the section on rate capping. As with the previous commentary from Greater Shepparton, our strategic resource plan projected a 4 per cent increase for the next three financial years in our forward financial plan. In anticipation of the rate cap coming upon us, we set about in 2014–15 to have a service review and to reduce operational overheads, and we achieved savings of $268 000 in that particular financial year. In the following financial year, 15–16, we achieved budget savings of $282 000, so in total that was a $550 000 reduction in overheads and on-costs and was equivalent to a 1.8 per cent decrease in rate revenue, so we pulled the 4 per cent down to 2.2 per cent. In anticipation of the rate cap — the 2.5 per cent — we allocated 1.5 per cent to our operating budget and 1 per cent for capital projects, which has been a policy we have adopted for the last 8 to 10 years.

I suppose my first observation is that the rate cap is not what has put the ultimate pressure on my council. It has been a combination of factors — the mention of the federal government financial assistance grants, the indexation factor. There has also been the reduction, the elimination and the cessation of state government programs, and I refer to the country roads and bridges program in particular and the local government infrastructure program, which were introduced by the former coalition government. They were of great assistance to rural councils such as ourselves.

However, in respect of the cap on expenditure, we acknowledge that we needed to put a cap on income, and in the lead-up to the financial year commencing 1 July this year we set a target reduction of $500 000 in operating expenditure and primarily that got down to undertaking an organisational review and eliminating some staff resources. We in fact identified nine positions that we established could be made redundant — five full-time positions and four part-time positions. However, you will notice on the accompanying page that due to vacancy management we managed to hold our workforce for six months and we had a number of vacant positions we were able to offer to people who were displaced through that redundancy program. Out of those nine positions
that were made redundant, we have been able to get it down to three and a half positions made redundant due to people taking up the offer of redeployment.

I will just make the other comment that the council in its service review that was undertaken — a comprehensive service review prior to the commencement of this financial year — it had no appetite to reduce services, including not making any reductions in respect of SES contributions or in fact school crossing supervision. They did not think that was a wise move, so it has been a completely internally driven reduction in overheads and staff and on-costs. I think I will leave it there, Mr Chairman. The paper did go into the organisational review, but it is not of any consequence or real interest to this parliamentary committee I would have thought, so I will leave it there.

The CHAIR — Thank you.

Ms ABBEY — Thank you, Mr Chairman. I do not have a separate paper because council did make a submission to this committee in May, so I will speak to that paper but also to council’s submission to the ESC in August of last year. I am sure that many councils will come to this committee and suggest that they are unique —

The CHAIR — They are all unique I think.

Ms ABBEY — and amongst the four of us that are here today we are unique in that, firstly, we did make an application for a variation from the rate cap, and secondly, the grounds on which we made that application — council has spoken to a number of committee members in their differing roles as members of Parliament to explain our unique circumstance. The challenges that we faced when we spoke with members of Parliament still continue today. In terms of reduced income, we continue to track the number of dwellings that have received building approval post having been destroyed in the February 2009 bushfires, and now, seven and a half years on, that figure still sits at around about 58 per cent — that is, 42 per cent of properties which pre-February 2009 council received capital improved value for because there was a dwelling on those properties, it now receives primarily the site value.

The CHAIR — How many premises is that?

Ms ABBEY — Total destroyed was 1397, so it is 58 per cent of that number.

Also, as the committee will know from our submissions, some 85 properties were bought back through the program, and those properties either are part of state park/national park, are still held for potential purchase by neighbouring property owners or have been purchased. So council has experienced a loss in income and at the same time an increase in expenditure due to the new and gifted assets and the increase generally of its asset components.

It was on that basis that council did make an application for variation to the rate cap. In terms of the rate cap generally, council’s submission to the ESC in August 2015 was that it did not support the recommendation that there should be one cap that applies equally to all councils in Victoria. Our submission suggested that there is a question of equality and there is a question of equity. And on the basis of equity, council strongly believed that there ought to be differing rate caps depending upon the nature of those councils. Particularly for those in rural areas, our capacity to generate income other than from rates and grants is very limited and our expenditure per capita is significantly greater because of the distance, the size of our municipalities and the dispersal of our population. And particularly in relation to a number of rural councils, we in Murrindindi have 5 different major community settlements and over 40 different smaller communities across the shire, and so our service delivery needs to be related towards that population distribution and the needs of those communities.

Moving then in terms of our application for a variation, in our submission we talked about the fact that councils have undertaken a large number of reviews and service reviews, as has been indicated by Tony and Peter in their comments today. In acknowledgement of Murrindindi’s situation and our view that the Murrindindi community needed to take part of its responsibility for its future, not bear the full responsibility of decisions made by other levels of government, we initiated a service review in 2011. We went through a significant review which saw a reduction in the number of staff levels, identification of efficiencies, and a significant amount of work in terms of looking at our assets and identifying those that had a strategic long-term future and
those which council could identify could be disposed of. So council has had a program over the last five years of initiating those reviews and continuing those reviews.

We went to the Essential Services Commission, and I must say that in terms of our meeting prior to making our submission and the debrief post the decision of the ESC, council found officers of the ESC very helpful and informative. They have assisted us in understanding the priorities for our submission and then the further elaboration on the decision of the ESC. Notwithstanding that, as we said in our submission to the committee, the guidelines initially were very broad and council needed to understand how it should pitch its application and to understand where it needed to put its priority. It has been rewarding that we have had feedback that our story and our situation were well and truly understood by the ESC.

Also in our submission we indicated in terms of the assistance in preparing an application that council took the view that it needed to prepare that submission in-house — we did not have the financial resources to bring in further assistance — and it certainly took a considerable amount of the time of officers, particularly senior officers, within the organisation to prepare.

**The CHAIR** — Did you cost that?

**Ms ABBEY** — In our response to the committee, yes, we did cost it, and we indicated that it was in the order of $80 000 to $100 000 in officer time. As well as that cost, it is that we are still picking up matters that we should have been dealing with because of the inability to bring in additional resources, additional staff members, to deal with that. During 2014 and 2015 there was a discussion as to whether there should be support for councils that were preparing an application, and we certainly, as I said, had valuable discussions with ESC staff but there was no other practical assistance and support for councils in making that application.

Finally, in terms of the decision that was made, and in looking back at the recommendations from the ESC, a recommendation that came from the ESC was whether it should be a yes or no. Recommendation 9 was to accept or reject an application and not to vary.

Certainly in our discussion with officers of the ESC prior to making our application, the indication was suggested that, being the first year, that would be the case. Council made an application for a 5.4 per cent rate variation; it received a 4.3 per cent variation. So in the intervening period council officers had been preparing a budget based on either 5.4 per cent or a 2.5 per cent, so having received the decision, we needed to prepare a third budget.

**The CHAIR** — Complete chaos.

**Ms ABBEY** — So as a result I said to officers and councillors up-front, ‘We will not meet the 30 June time line for preparing a 2016–17 budget’. We expect that our budget will be adopted by council on 3 August. That was the earliest that we were able to prepare.

The other key thing is that as we move forward we have certainly indicated to council that our expectation is that from 2017–18, when there is an opportunity for councils to apply for a four-year variation, we expect the bar will be higher. And again the challenge of council elections in October, a council deciding its four-year plan and then being able to make a submission in the early part of 2017 will be very difficult.

That is a brief overview of our experience. In terms of now having received the 4.3 per cent variation, the ESC in their comments looked at our situation and it was rewarding for us to receive the comment that:

> We note that it would be unrealistic for council to raise $7.75 million in a single financial year to meet its renewal needs. Therefore we consider that Murrindindi’s approach to allocate funds to an infrastructure renewal reserve progressively over time would allow Murrindindi to responsibly address future renewal expenditure without rate shocks.

As a result, that 1.8 per cent above 2.5 per cent has been quarantined in council’s budget for its renewal fund, so therefore our operational costs are being kept at 2.5 per cent. Our budget, which had been predicated on a 5.4 per cent increase, included an allocation of funds to reserve to build up our long service leave reserve because that had been used when the Vision Super call-in was made. We have had to reduce that from $300 000 to $150 000, and the remaining $20,000 has come from funding that we have allocated each year if we needed seed funding for grant applications via the state or federal government.
That is how we have managed this year, but we know that coming into the future those opportunities will not be here and we will need to make further savings within the organisation. But council has been committed to its growing of its reserves, particularly its infrastructure reserves and its waste reserves, because they are the key elements that we know in the next 10 years will be a significant impost upon the community, and council has held its view in terms of supporting its reserves and planning for the future, which again fits in with the review of the Local Government Act, which has a strong emphasis on community plans, asset plans, 10-year financial plans, and we have found that that has been essential for our longer term planning as well as our short-term needs.

The CHAIR — But not assisted by chaotic processes with the ESC.

Ms ABBEY — No.

The CHAIR — Thank you for that detailed description of the variation process because I think you are one of the nine that were successful — or in part successful — and it is interesting to hear that view. Alex?

Mr GREEN — I thought what I would do, because I have not prepared a paper, is share with you a shortened version of the discussion that has been occurring in the Mansfield community. What I had done with council is work out a way to try to explain rate capping and the options available to council and indeed the broader community in the face of it. What I have said to the community is that I have a way to do that without too many numbers.

Prior to the budget the direction from council was that the council was extremely uneasy and really did not accept the decision, I guess, of the government of rate capping and were not facing up to the issues around service reduction and arguably cost reduction. They gave me an instruction to not cut any services and not reduce staff numbers in this financial year, but what they did want to do is start to go out to the community and have a broader discussion about it.

We talked about how councils are unique. I would argue that Mansfield shire is not unique; we are just like a whole range of other small rural councils across Victoria, and probably all small rural councils, indeed all rural councils, are facing these five options. We have five options as a sector. I will go to each in detail once I spell them out. We can apply for variation, we can increase our income, we can reduce our costs, we can look at our asset renewal costs and reduce those, or we can increase our debt levels. They are the only five options we have. I will skip over the first one, variation, because I will come back to that, and go to increasing our income.

In terms of increasing our income, we have three areas. We can increase fees and charges, so fees and charges like swimming pool entries and arguably the fees we charge the ladies bridge club to hire a hall. We are sort of mucking around the edges. We can do that, and we have. I have instructed the team to increase all fees and charges that are not legislated by 5 per cent in Mansfield shire this budget, and that has caused quite a degree of conversation and indeed angst among some in the community. I have literally had the ladies bridge club in arguing from $4 to $5 for the monthly hire of the hall. Those conversations happening in the community are generating a lot of energy and time.

Some of the comments when rate capping was introduced is that councils should be more entrepreneurial. Flippantly what I said to councils is: ‘more entrepreneurial’ to solve the issue looks like council is giving the authority to me to take $2 million that we do not have and go to the south-eastern suburbs of Melbourne and buy a shopping centre. One, as CEO I am not going do that; two, I am not able to do that; and three, we do not have $2 million to do that as a small rural council. The reason I use the term $2 million is for us rate capping is around $130 000, so it is a golden bullet. To be entrepreneurial I am going to need $1 million and I am going to need a 20 per cent return on that million bucks or 10 per cent on 2 million bucks. As the CEO I am a bureaucrat —

Mr BARBER — You could go to Crown Casino on your way to the south-eastern suburbs.

Mr GREEN — There are whole lot of political issues around this, and I am a bureaucrat. I am not an entrepreneur. The third option is to sell stuff. We are looking at that. We are looking at rationalising some of our assets, but it is a one-hit wonder. We have some land that we could probably sell; we all know the controversy around selling public assets. So there is some room to move, but it is difficult.
We can go to costs. We can decrease costs, and there are caveats in saying all of these are bad. When it comes to reducing costs, there are two areas: efficiency and service reduction. If we go to efficiency, we are — and I am sure all councils are — committed to increasing our efficiency. By efficiency I mean doing the same services for less cost. I have had, and continue to have, this detailed conversation with the organisation: ‘This year give me 1.5 per cent efficiency dividend. Do the same service for less cost’. We can do that, and we are doing that. For those who have worked in large organisations you would know that in year 1 you can get the likes of 1 or 1.5 per cent off operating. In year 2 you can get about 0.5 per cent, and then in year 3 you might get another 0.5 per cent. In a sense you then sit as a large organisation and then you have another go at efficiency gains in another five years.

The contrast with the state government, where there are consistent efficiency dividends — and arguably state government is a much, much larger organisation — often the statements that are made is that those efficiency dividends do not come at the expense of service reduction. I think we would know, and I am sure you would know, of examples where that efficiency dividend does come at the expense of services.

If we go to service levels, and there has been some discussion around that, despite councils telling me not to reduce services, the way I have handled in Mansfield the budget is that we pulled $90 000 out of home and community care and we have reduced service levels in tourism and economic development by $40 000, so we have dealt with it this year. That has caused some concern, particularly in home and community care. Arguably we will have to go there in future years. We will have to reduce services. Why? Because we are ultimately going to have to reduce our wage bill, and we often get the comment from community, ‘Just sack some staff. Just get rid of staff’. We are an incredibly small, lean council. If we get rid of staff, and we can do that, it is going to reduce services. So you actually have to have the discussion and we have been trying to do that with the community around what services can we do without now.

The other lever we have in terms of services and indeed wages and costs is enterprise bargaining agreements, and at Mansfield and Benalla we have just successfully got through a 2 per cent EB. The real cost of that is about 2.4 per cent for us. That has been a very difficult conversation with our staff, but it has gotten through Fair Work. It has been ratified, and I would compare that to some of the numbers coming out of state government enterprise bargaining agreements of 5 per cent and 6 per cent — —

The CHAIR — Twenty.

Mr GREEN — Sorry?

The CHAIR — Twenty per cent.

Mr GREEN — Which leaves the final two categories: asset renewal and debt. With asset renewal, I think Peter said that for the first time there has been 100 per cent asset renewal. A large proportion of our budgets are spent on asset renewal. We are going to see across the state a reduction in asset renewal expenditure, and the evidence we have for that is New South Wales. New South Wales has had rate capping for 20 years, and in some ways it is the easy space to go in the first instance. So as the CEO I could make a decision to cut our pavement resealing by 10 per cent and no-one would notice. Myself, I would notice, the engineer would notice, the councillor would notice. In year 3 there will be a slight uptick in complaints, and in year 5 it will be an absolute disaster. We have been here after the Kennett era changes and the pressures. I know that Delatite shire, of which Mansfield was a part, had no pavement resealing for three years, and we saw a dramatic decrease in asset condition. New South Wales has the worst pavement condition of any local roads in the state, and as I understand it the worst condition of public buildings of any local government in the nation.

The final lever is debt. We can increase our debt levels. We have got the lowest debt levels of any local government sector in the country in Victoria. We can borrow more money for capital works. Again in some ways it is a one trick pony, and it is obviously politically very unappealing. So we are going to need assistance. We accept that rate capping is part of the landscape in Victoria, in Mansfield. It is highly unlikely to be changed, but we are going to need some assistance from state government to have these hard conversations with our communities around service reductions.

The other point I would make is that we are going to see a reduction in staff numbers in local government in rural areas in Victoria. We are going to see lower wages, and we are going to see less people employed in
councils. That is what is going to happen. We are starting that conversation with our community, and it is going to be difficult.

The CHAIR — I thank all four of you for those contributions. They are very comprehensive in terms of where your councils are. In asking just a couple of questions I want to zero in on two key areas, some of which have been mentioned. The first is country roads and bridges, and I would be interested to know exactly the impact that you think this will have in terms of the disappearance of the country roads and bridges program and what that will mean over the next four or five years. The second one, and it has been alluded to, is the SES and whether councils will continue to fund the SES in the way they have in the past. I am particularly interested in in-kind contributions also for SES. Some councils I know have made contributions by land and maintenance. So maybe we want to just — —

Mr HARRIOTT — Certainly, Chair. If I might start, country roads and bridges are our bread and butter in rural and regional Victoria. In our area we call ourselves the food bowl of Victoria, if not Australia. We have the largest exporter through the largest port of Australia sending large volumes of product down to Melbourne — going all over the country, really. So the roads are just critical.

We are working on rail, and rail seems to be difficult, but right at the moment the roads are the means of getting billions of dollars of economic development to the ports and right across the country. They are 50 per cent or more of our asset base. We have got $1 billion in assets, so you can see the significance of the road and bridge network in our area. They must be funded. They must be one of the foundation issues of a rural and regional council. That is why we are aiming, through all the pressures that are on us, to have three basic financial targets to meet. We have got to generate a surplus, we have got to fully fund our renewals at 100 per cent or more and maintain low debt. We have talked about those issues. That is difficult. That is the task, but we are setting those targets.

To do that, basically there will be less ribbon-cutting. There will be less new assets to be developed. In a growth centre, that is difficult because you have got developers out there that are wanting to develop and put subdivisions in and put supermarkets in, and there is always a contribution that is required from council to ensure that that growth and that development is provided. That is going to be difficult to continue. Yes, we are putting up fees and charges — higher than what they have ever been — to do cost recovery. They are some of the things we are doing to sort out the roads and bridges.

The SES, as I said, is an essential service. Our council will not cut in that area. We 50 per cent fund two and are the major contributor to another.

If I could add one other issue that has a real impact on our area, it is the impact of the Victorian Floodplain Management Strategy. That has said that local government will take on responsibility for levees. I am unclear about the detail. I have only just started to read it in detail. I have only been back in the area for six months. But if that is the case, we are going to take on tens and hundreds of kilometres of levee in our district. We are the fourth most flood-prone city in Australia. It goes Brisbane, Sydney, Melbourne, Shepparton, and that is a number in relation to the number of properties that are impacted by serious flooding. Goulburn, Broken, Seven Creeks, Honeysuckle Creek — it is just a flood plain; it all comes through.

So the levees are going to be put onto us — not only the cost of levee maintenance but the liability associated with levee failure — and if you see some of these levees, you will see the rabbit holes and the wombat holes all through them. They are not in a good state. How did that ever happen that they were just transferred back to local government? I do not know. As I said, I do not know the full detail about it, but that is a cost impact that I do not know how we are going to deal with. I just throw that one on the table for what it is worth.

Just briefly, on the HACC funding: the unit rates have been increased for the HACC funding, but the bucket has not been increased. So all that meant was that hours are reduced and service reduced — 1500 hours in our area. We have had submissions from the people that are impacted by that — the families, the parents, the mothers that are looking after disabled children. Those support services have been taken away. Now that is another area we regard as an essential service, and our council is even considering picking up the gap in that regard.

That is just a little bit more about the pressures in rural and regional areas that we face.
Mr McILROY — In respect of the country roads and bridges program, which I have made comment on in my paper, I have spent in my career 25 years in metropolitan Melbourne and the last 13 in the Rural City of Benalla, and the country roads and bridges program is the most well-received funding that I have experienced in my time in the north-east region. At last count we had a rolling program that looked at 48 bridges for replacement or refurbishment. We had one last year that was not budgeted for and was not programmed and it failed, and the initial costing was $780 000. We managed to get that down to just below half a million dollars. You can just see how far $1 million stretches on an annual basis, but it was very well received. It enabled us to expedite the program.

In respect of the SES, we believe it is a well-regarded service that is available, and there has never been any intention to not make a contribution to it. We have always matched the state government contribution, and we will continue to do so.

In respect of other pressures, I have made the point in respect of landfills. Landfills in this environment we are working in with respect to the new EPA guidelines, it is extraordinary the cost that councils in a rural environment are expected to confront in construction of cells et cetera. You will see here that we are looking at Benalla being a regional resource because of its longevity in life, and we have received a state government funding grant of $75 000 to look at the feasibility of having a shared service facility for the whole of north-east Victoria.

Ms ABBEY — I endorse Tony’s comments in relation to the country roads and bridges program, and I would also add the LGI program as well because there were two benefits of that. Firstly, it was non-competitive, and so for small rural councils when you are in a competitive round of grant funding it is very difficult to compete with larger regional or metropolitan councils. So the advantage of the program was that there was an allocation to council. The second benefit was that it was a known allocation over the four years, and so council could plan. We have a 10-year capital improvement program, and in that we could plan how we would spend the CRABI and the LGIP funding over those four years. It enabled council to tackle some of the difficult bridges and roads that we have not been able to tackle in the past. I would endorse Tony’s comments that it was one of the most well-received programs for rural councils.

In relation to the SES, yes, council makes the contribution — not quite to a dollar-for-dollar basis because of the significant increase that occurred in 2009–10. It also provides in-kind support in terms of landfill where buildings are provided and also in terms of insurance for non-red vehicles. It has not discussed any reduction in that support but has certainly discussed the approach of the MAV, which has said that the SES needs to be treated in a similar manner to other emergency services, such as the CFA and other organisations like that.

Mr GREEN — I can only reiterate on country roads and bridges. For a small council like Mansfield, at the smaller end of the small rural category, at times it was as much as a quarter of our capital budget. So that has been taken out, and we have had to either find replacements or not do that work. I agree with Margaret’s comments around it being non-competitive as well as the local government infrastructure fund and also not requiring matching funding. It was a great funding stream in that we did not have to come up with, for a small council, even a 1 to 4 or any sort of matching funding. It allowed us to just engage and get going on projects, so it was really well received.

In Mansfield we have one SES unit. We contribute $8000 a year operationally, so a relatively small amount compared to some councils. However, the unique circumstance in Mansfield is that we do provide the building and the land. It is sitting right in the middle of an old saleyard site, but the entire site has been valued at upwards of between $1.5 million and $2 million. So while there is not an appetite from council at the moment, as an asset that we could potentially sell that is no longer of value to council, we cannot access it because the SES’s building is currently in the middle of it.

The CHAIR — Do you bring those contributions onto your books as an entry?

Mr GREEN — No, not at the moment.

The CHAIR — I think some councils are focused on that.

Mr GREEN — Yes, I understand that. I would advocate that the modernisation — this is the term I have been using — of the SES needs to be seriously considered in line with the way that the CFA has, that it become...
a fully funded emergency service funded by the state. This sort of shandy approach of both local government and state funding gives the whole organisation a degree of uncertainty.

I have met with the local brigade and reassured them that at this point we are going to continue the operational support. I cannot commit beyond the short term.

Mr YOUNG — Thank you to everyone for your contributions today. I just wanted to touch on a couple of comments that were made about efficiency programs and trying to squeeze every penny. You talked about the situation since rate capping came in and endeavouring to improve efficiency in certain ways. What was happening before the notion of rate capping in terms of improving efficiency in councils? Was there any activity happening, or was it something that was not even thought about until everyone got the big fright that rate capping was coming in?

Mr McILROY — I think, as Alex has pointed out, it goes in cycles, and as I pointed out, over the last three years, knowing what the financial and economic environment we would be confronting was looking like, we took stock of our overheads. But again, in this rural setting we are very lean, and there is not a lot of room to move. Through two years of looking at the program budgets and eliminating where we could, it got down to staff in the third year.

Ms ABBEY — If I could just add that given our particular circumstances, in 2010–11 as we began to get a full handle on the longer term costs to council, we initiated a service review across the whole organisation. So whilst the organisation had been looking at efficiencies, it made them front and centre. It was not only staffing numbers but it was also how we did business. Particularly for small rural councils we cannot operate in isolation, so shared services, opportunities for bulk procurement, those sorts of programs have been particularly significant for this council.

Mr GREEN — I want to reiterate that efficiency programs have been bread and butter for councils, as they are in a whole range of other organisations, even before the rate capping debate. Prior to working at Mansfield I worked in the south-western councils, and in 2010 we looked at the 1.5 per cent, 0.5 per cent, 0.5 per cent, over three years in 2010.

Mr HARRIOTT — Yes, so I guess, as I said before, going back to the amalgamations in 1996 that established business units, compulsory competitive tendering basically drove business units throughout local government, which said, ‘Let’s have a look at our individual service-providing units. How do we make them as efficient as possible and develop a business plan for each of those?’ So that has continued on. That process has been there, but every year I am sure most councils would do a bottom-up budget exercise where you just start from the bottom and work it up and review everything.

But of recent years, service planning has been a term that has come along. That is basically taking your business plans and converting them to a thing called a service plan. I think most councils would be operating along those lines at the moment.

Mr YOUNG — And specifically in terms of Murrindindi, do you have an idea of how long it will take before you can recover from the situations that have forced you to put in an application for modification?

Ms ABBEY — Council’s discussion with government has been in terms of financial support for 10 years. We believe that that would be a time frame that would enable council to get, I suppose, a stronger financial position. Our modelling tells us that 2026–27 will be a critical year for the council. But experience has shown that it is probably going to take longer than 10 years. Our experience in terms of regrowth and rebuilding, as I mentioned, is much slower than was anticipated. I think it is going to be much longer, but the initial planning was a 10-year time frame.

Mr SOMYUREK — To Greater Shepparton: your mayor, Cr Adem — I like the way he spells his surname, A-D-E-M, which is unusual — —

Mr HARRIOTT — He pronounces it ‘Adam’.

Mr SOMYUREK — And that is how I pronounce mine. He essentially said that he thought the whole rate capping thing will change the way councillors vote on items, on issues. To paraphrase — I have his quote here,
but it is pretty long-winded — he essentially says that there will be greater efficiencies, less waste and therefore that is a good thing. Do you agree with that?

**Mr HARRIOTT** — Greater efficiency and less waste — yes, I always agree with that.

**Mr SOMYUREK** — But due to rate capping? Do you attach that to rate capping?

**Mr HARRIOTT** — I attach that to good management and just ongoing service review. Yes, rate capping is making us all focus — there is no doubt about that — but is it the no. 1 driver of efficiency? I do not know that it is.

**Mr SOMYUREK** — Just one more: on the federal assistance grants cut — or I am sure my colleague would say ‘freeze’ —

**The CHAIR** — I think it has gone up $8 million this year in Victoria.

**Mr SOMYUREK** — Right, okay. How has that affected your councils?

**Mr HARRIOTT** — That is in my paper. It is in the millions of dollars, so it is significant.

**Mr McILROY** — And likewise, over the three years it was in the order of a $360 000 reduction.

**Ms ABBEY** — For us it has been in the order of about $400 000.

**Mr GREEN** — I do not have the direct numbers to hand, but it is on the revenue side of the account and it has a significant impact.

**Mr SOMYUREK** — Are we talking hundreds of thousands or millions?

**Mr GREEN** — It is hundreds of thousands for us.

**Mr BARBER** — I appreciate your feedback on the dialogue that you had with the ESC. You said they were helpful in terms of helping you understand their process. I am interested in how in future rounds they will come to understand more about what you do, because generally they regulate utilities — water boards, railways, ports and stuff — where you purchase income-earning assets, you have some costs and then you go out and get revenue against those assets. That is not local government. That is completely removed from what local government is.

Short of them sitting over your shoulder while you are doing all your service reviews, how do you think in future rounds they can incorporate an understanding of what it is that local government does, and then assuming they had all that information at their fingerprints times 79 councils, times dozens or perhaps hundreds of services, what could they then usefully do when it comes to setting a rate cap for the state as a whole or for individual councils as a result of variations? How do you think that relationship might evolve?

**Ms ABBEY** — It is actually a question that I asked the officers of the ESC as to how local government can support the ESC to better understand what local government does. You are correct that they have in the past monitored service organisations and service authorities, and local government does not provide just one service; it provides 100-plus different services. I see that this council has accepted that rate capping is in, the ESC is the body that will manage it and that we as a local government sector. I know that there is a separation of government between the ESC and Local Government Victoria, but I do believe that Local Government Victoria also has a role in informing and assisting the ESC to understand the diversity of services that local government provides.

**Mr McILROY** — Greg, from my point of view, I have not had direct contact with the ESC, but I believe there is a lack of understanding of the plight of rural councils. I think, if anything, they should be more aware of that. I was a great advocate for the rural councils being given some sort of concession for road infrastructure refurbishment. I also believe the growth councils in those growth corridors, in respect of their infrastructure needs, should also be given a concession. And I found it quite surprising that the City of Casey for instance, which is the fastest growing municipality in Victoria, was rejected.
Mr HARRIOTT — Perhaps they just need to come out and live with us for a while and have a look at exactly what is going on and walk the levee banks, meet the parents of the disabled people not getting the HACC service, go to an SES rescue and just live what we live and actually see what the pressures are that are on us. It is difficult to do from Melbourne.

Mr BARBER — That is why we have democratically elected local councillors.

Mr GREEN — From our perspective, in discussions we had that led up to the budget when we were talking about the five options we had we swung it back to variations with the community. The community started to twig and said — I actually had this question asked of me one night in Merrijig — ‘Are you telling us that the state government is going to dictate to us what we decide is an appropriate rate base for us?’ I said, ‘Not that they are going to — that is what is happening. That is what has been mandated’.

The point I made is to be proactive and work with the system we as a unified community have to go to the Essential Services Commission and speak with a unified voice around what it is that we wish the rate setting to be at or the increase to be at. Theoretically that makes sense. In all practice we are never going to achieve that with our communities, and that is going to be the challenge of the Essential Services Commission — to make the final decision and recommendations.

Mr RAMSAY — I have taken some copious notes also on the responses. Just as a general comment, if I may, and use Shepparton as an example, where I think you indicated that with the imposition of the rate cap you are looking at a loss or a difference in your 10-year plan of 4.9 to 2.5 — somewhere around 1.2 million a year. I think all of you in response to the Chair’s question said that the options you were considering to meet the cap were not to cut any services out; you might increase fees.

The question I would like to ask is: have you actually worked out the cost of a loss of state government funding with the removal of the country roads and bridges program, and not only that program but the Local Government Infrastructure Fund, which funded specific infrastructure projects for council. Also the Regional Growth Fund and within the Regional Growth Fund the Putting Locals First moneys. That was a shared investment as well. The new programs do not provide that sort of support for local government. In fact, in relation to bridges, you cannot even access bridge funding under the new state government programs like you could with the country roads and bridges. So just from a loss or a reduction in state government funding to local government to be able to do all that asset renewal, do you have any idea in dollar terms what that loss of revenue will be?

Mr HARRIOTT — I do not have that at hand. No, I do not. I guess another term is cost shifting. Over the years we have tried to calculate the loss of whether it is federal or state government funding for various services that were either fully funded or partly funded and then the funding diminishes and eventually it is either wholly or partly left with council. Those exercises have been done over time, so we could probably pull some figures together for you if you are after that.

Mr McILROY — Likewise, I have not done that estimate. It is more a case of balancing a budget from year to year. I suppose from our point of view we have been very fortunate in the nature of capital grants we have received. We have received probably on a proportional basis better than any other council in Victoria, I would suggest, in terms of two substantial federal government grants in the last 10 years and some state government assistance as well for major projects. That is what we have been able survive on. That is the icing on the cake, I suppose.

Ms ABBEY — I do not have exact figures but I would add two elements to the discussion. The first one is the value of the Putting Locals First program was that it was not just councils that were recipients of those funds but community organisations as well. So there are a number of community organisations who manage public halls in Murrindindi who were successful in receiving grants and it would be unlikely that those sorts of proposals would be eligible for funding under the jobs and infrastructure program.

So it is not just council that is losing some potential for grants but community organisations as well, that need to look for different resources. Also Alex mentioned in terms of the benefit of country roads and bridges and the Local Government Infrastructure Fund that it did not require matching grants. Whilst we have seen an increase in our Roads to Recovery grants, it does require a matching effort. So for our council roads and bridges are a
significant part of our capital works program and to meet a rate cap into the future the opportunity to reduce the capital works program is severely limited because of that.

Our situation is that given the services review and the work that we have been doing over the last five years we are at the point of yes, there will be further efficiencies but we do now need to have a discussion with the community about reductions in services, because that is the point that we are at.

Mr GREEN — It has all been said. I do not have anything further to add.

The CHAIR — Thank you to the four of you for presenting on the rate capping inquiry. We have got to move now to the inquiry on fire season preparedness — —

Mr SOMYUREK — Chair, just at this point can I — —

The CHAIR — Yes, you wanted to make one correction.

Mr SOMYUREK — Just one correction. During the course of my question I inadvertently and perhaps impertinently referred to a quote from the mayor as long-winded — —

The CHAIR — The Shepparton mayor.

Mr SOMYUREK — I misspoke. What I meant was that if I had read his whole quote, my question would have been long-winded. If I could just correct the record there.

The CHAIR — We will adjourn for 5 minutes. I think there is some changeover in personnel; some are the same and some are different.

Witnesses withdrew.