TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Melbourne — 21 June 2016

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Witnesses
Ms Marilyn Kearney (affirmed), Director, Corporate Services, and
Cr Jim Parke (affirmed), Mayor, Boroondara City Council;
Ms Rebecca McKenzie (affirmed), Chief Executive Officer, and
Cr Neil Pilling (affirmed), Mayor, Glen Eira City Council.
The CHAIR — Can I thank the four witnesses today, noting, I think, Rebecca is the only one we have had in two different capacities before the committee. What I would perhaps ask Boroondara and Glen Eira to do is a very short, succinct presentation, and then we will come back with some questions.

Ms McKENZIE — Thank you for the opportunity to present to you this afternoon. We thought that we would just cover off on three quick points in relation to the City of Glen Eira, the first being around the variation process and our community consultation, the second around the impact on our long-term financial plan; and thirdly, just some general observations that might be of interest to the committee.

Just to start with the variation process and community consultation. You will probably be aware that Glen Eira was one of a number of councils who indicated early in the piece that we reserved the right to apply for a variation to the Essential Services Commission, subject to community consultation. Glen Eira has the lowest rate of open space in municipal Melbourne, and the intention of any rate cap variation was to fund open space and the delivery of our open space strategy, which has been widely consulted with the community. We undertook a process of consultation, both via telephone interviews and focus groups during January and February, and the feedback through that was while the open space strategy was widely supported, there was not general enthusiasm within the community to spend more money or to pay more rates in order to fund it. The feedback that we got was that they were largely satisfied with council’s existing open space in terms of the quality and the maintenance standards. So while 51 per cent of the community survey did indicate a preparedness to support a rate cap variation, our council felt that that was not sufficient to proceed with an application.

In terms of the impact on our long-term financial plan, Glen Eira is proudly metropolitan Melbourne’s second lowest rating municipality, and we do pride ourselves on being a low-rating and high-investment municipality. We rank as spending $176 less per assessment than the average for the inner-Melbourne councils. So the impact of a rate cap at 2.5 per cent to our long-term capital works program was $10 million across the next 10 years, and that is subject to a number of assumptions that underpin our strategic resourcing plans. But in Glen Eira terms this was really what we assessed as being of limited material impact.

Just to clarify that: it is manageable in terms of our day-to-day operations. We are in the process of a minor organisational restructure and the introduction of new ways of working — digitisation and broader efficiencies — and we are in the process at the moment of renegotiating our enterprise bargaining agreement. We are commencing community consultation to help inform the development of council’s next community plan, and of course as part of that process we will be having conversations with our community about areas that they feel that councils should be either investing more in or disinvesting in. But the long-term financial plan, while it is manageable for Glen Eira, I think the other important thing is to say that it does not include capacity for substantial new assets, so we will be reliant on partnerships both with state and federal governments in order to achieve major infrastructure upgrades for facilities such as our Carnegie Swim Centre.

Finally, just a couple of general observations. We do welcome this committee’s recommendations regarding the timing, and certainly the earlier that councils can be aware of what the rate cap may be for any future year will certainly assist in our planning processes and in managing the expectations of our community. We would welcome the committee considering issues associated with the burden of the administrative processes around satisfying a rate cap variation. The process was significant, both in terms of time and effort for councils involved. Finally, we are concerned that there is not a good and strong wide understanding across all areas of government about some of the issues that are associated with rate capping and the impact on local government. One example of that would be Infrastructure Victoria’s current consultation process around their All Things Considered document. They are making comments in that that some of these significant infrastructure priorities can be delivered in partnership with local government because local government has the capacity to leverage additional income through a rate cap variation, and we all know that it is not quite as simple as that. So those are just some observations. We would be more than happy to respond to questions or areas of exploration that you would like to follow through with.

Mr PILLING — I will just say a few points in addition to the financial. I suppose, as mayor of council, the general view across council is that there is an undemocratic element in this. We are elected by the residents and ratepayers to make decisions: we raise the rates. I think this subverts some of the democratic process. We feel it is a short-term, ill-thought-out view that came out of an election campaign. It is blunt, it penalises councils like Boroondara and Glen Eira who have managed their finances well, and it is unsustainable in the long-term, as
Rebecca said. We can manage for the first couple of years, but we do a 10-year strategic resource plan — most councils only do 5 — and what we find when we look at that and we have the compelling impacts, we are short 10 million towards the end. That really means that if this keeps going, we will be unable to provide extra community facilities and services, which we so definitely need, like we said, with the lowest amount of public open space in Victoria. So we think it is an ill-thought-out policy, and we welcome the opportunity to present the evidence today. Thank you.

Cr PARKE — Thank you, Chair, and good afternoon, committee members. Thank you for the opportunity to be heard today. The City of Boroondara is disappointed that the government has imposed the rate cap. It creates a lack of certainty and inhibits our capacity to develop and implement long-term financial plans. I will highlight several points that the City of Boroondara wishes to make. The first is that the uncertainty of future rates impacts planning. Councils are required to develop a long-term strategic plan for four years under the act. However, the rate cap is set annually based on the Melbourne CPI forecast as produced by the Department of Treasury and Finance at midyear, then updated in December each year.

The lack of certainty on future revenues inhibits the council’s ability to plan for four years. The lack of certainty could also undermine our confidence in and response to improving productivity and efficiency. Boroondara has chosen in the short term to invest in improving services for our ratepayers and customers by implementation of our Boroondara Customer First Program, which is underpinned by the customer experience improvement strategy. This program is aimed at improving and ensuring the seamless use of council services via technology. Council investment in that program amounts to — —

The CHAIR — Jim, I think you are coming pretty much straight off that document, are you not?

Cr PARKE — I am, yes.

The CHAIR — Given our time constraints — —

Ms SHING — That has been provided to the committee.

Cr PARKE — I have circulated that.

The CHAIR — The Deputy Chair’s suggestion: do you have any objection to us just incorporating that?

Cr PARKE — No, that is fine.

The CHAIR — It has actually got a lot of material in it.

Cr PARKE — It has, and really they are fairly critical points to us, but I am happy for them to be taken as read.

The CHAIR — Incorporated.

Cr PARKE — Yes.

Ms SHING — Did you have anything in addition to that that you wanted to add there, Councillor?

Cr PARKE — No, I think that covers it fairly comprehensively. From our perspective though it was interesting listening to the VEC. The committee has heard the very, very significant increases there over the past four years, and that is just a good example of the sort of cost pressures faced by local government, which simply bear no relevance to the CPI.

The CHAIR — Can I begin by just making a general comment. Obviously I know both councils very well, having represented Boroondara since 1996 and Glen Eira since 2006, and both are very well run councils with efficient cost bases. I have one question that I will come to if have time, but I will leave it to others first.

Ms SHING — Thank you very much for the submissions that you have made in relation to the planning elements and impacts of the rate capping legislation now, which was voted for by all members of this committee save for Ms Dunn, I believe, and in addition to that the uncertainty point that you have made around future planning. I note that there was the initial conversation with residents and ratepayers around potential application for an exemption and that you decided not to proceed after hearing from them and that the desire
expressed from the community was that they did not want further cost incurred either in the process of preparing an application or as a consequence of any decision to raise rates beyond the set cap. Yet on the other hand we have heard from you, Cr Pilling, in relation to the right vested in you to make decisions in relation to rates and how they are set for ratepayers. How do you reconcile that in relation to continuing to provide the level of services and programs that ratepayers expect within what has been a very sound financial and economic management and planning process with the tension around this legislation, which is now effectively in place to bring arguably a level of certainty, albeit in a different way to the way in which people manage their day-to-day costs?

Cr PILLING — I think it is a challenge. I think there were quite a lot of time constraints. We had the Christmas break and we had to actually put in an application in March to the ESC — big time constraints. I think we did the best we could through our consultant. I suppose it is a challenge in some ways — maybe ‘education’ is not the right word — to inform the community. We have really good facilities in Glen Eira, and that has been well planned for. I suppose people have got used to having good facilities at the present. I suppose it is a challenge to communicate what the future could be when it has not happened yet, so that is a challenge for all local government. I think we took the view that probably now was not the right time to go further. But if this keeps going, in several years time when the community does see the possible lack of community services that this could bring I think it may be a better time to alert the community. But I suppose we decided not to proceed on that basis.

Ms SHING — Thank you. Rebecca, did you have something to add?

Ms McKENZIE — Yes, really just to reinforce the issue that it is difficult for the community to understand the opportunity lost when they are quite satisfied with the quality of what they are achieving. It may be a different conversation if they are not actually receiving the services at the standard that they want, and that is likely to occur at some point in time in the future.

Ms SHING — Anything from the Boroondara side of things?

Cr PARKE — I suppose I think that rate capping is just so simplistic. There are so many other financial indicators that should be considered when you are examining how a council is performing, and for some councils it is quite easy to adhere to the rate cap whilst neglecting infrastructure and important maintenance of infrastructure. So indicators that would demonstrate how councils are actually travelling in respect of those sorts of functions are equally important as what the rate increase is, and across the municipalities in the state of Victoria the level of maintenance of infrastructure varies enormously.

Ms SHING — Thank you.

Ms DUNN — Thank you for your submissions today. I am interested in a comment made that in the future there is maybe not the capacity to substantially invest in new assets, and I am wondering whether either council has done future projections about what new assets may be required and what that gap looks like and how that also interplays with your current assets and maintenance and renewal regime as well.

Cr PILLING — I am happy to answer. Certainly in our exploring the variation process we really consulted on open space. We have a new open space strategy, which was adopted about a year ago, and that is really where the deficit will be. We wanted to actually go to the community and just have one specific item. We do have the lowest amount of open space in Melbourne, so that was I thought the right way to go. On our projected SRP, which goes out for 10 years, as Rebecca said, we will be short $10 million on that projected loss of income if the rate cap stays at CPI. So that $10 million could be a new park, it could be pavilions, it could be sporting infrastructure. Open space or acquisitions for open space — that is a shortfall we have identified in that specific area.

Just touching on what Jim said, we also think it is in one sense a blunt instrument. CPI is basically a grocery list of indicators; local government has a lot more different costs than that infrastructure, so I would certainly agree with Jim there. Rebecca, did you want to add anything?

Ms McKENZIE — No, I was just going to indicate that at this point in time we are planning on spending about $3 million on the acquisition of new open space in the next couple of years. We do have acquisition overlays in place, and we are just waiting for those to be realised. We also know that we have some other pieces
of major infrastructure like an aquatics facility which needs some pretty substantial investment to keep it operative.

Unlike some of the growth municipalities, Glen Eira has existing facilities, so our issue is more about open space, maintenance of existing facilities and upgrade of those. But in terms of our current asset renewal gap, Glen Eira has worked very hard over quite a long period of time to ensure that our maintenance and our renewal are at a good, balanced level.

**Cr PARKE** — Our community has very high expectations of council in terms of facilities and services, and we have always been proud to live up to those expectations. That is reflected in the satisfaction surveys where we are constantly at or near the top. The projections that we have done show that over the next 10 years the effect of rate capping will be a loss of about $130 million in revenue. That is our best estimate. That will clearly have an effect.

Like Glen Eira, we have got a good standard of infrastructure and it has been well maintained. Some tough calls were made 10 or 15 years ago in respect of rate levels to address some pre-amalgamation problems. There are still needs, and the north east community hub construction will commence in the next 12 months. That is a project of about $20 million to address a very significant need in the Balwyn North area. Clearly the effect over the next decade is going to be significant. Our intention is to consult very closely with the community to see what our community considers is appropriate for reduction and change.

**Ms KEARNEY** — I think it is also important to realise that with particularly the inner metropolitan councils, because of the growth in population through medium-density development that continues, the demand on our services will only get greater over time, particularly with an ageing community — also the impact on infrastructure as the impact of providing services actually plays out in terms of the provision of meeting community hubs and multipurpose facilities over time. Our practice over the last 5 to 10 years has been in the redevelopment of infrastructure to very much invest in multipurpose facilities with community meeting places and provision for service providers, but that demand will only become greater and particularly, I think, as medium density develops further in the city, people will be looking for spaces, whether it be open space or community infrastructure for gathering and for the provision of services.

**Ms DUNN** — Is there a time frame around when crunch time will come, or is that too hard to predict because you have got so many variables in that?

**Ms KEARNEY** — It is very difficult to predict, but we continue to work with what we have got in terms of making those projections. Development certainly has escalated at a rate far greater than expected in Boroondara. We are seeing the benefits of that, but on the other side of that is the continuing demand for services. Our renewal of our asset management plans will also mean that we will need to give consideration to what that means in the future in terms of our investment in infrastructure.

**Mr DALLA-RIVA** — You said ‘the cost’. Could you calculate how much it would cost you to do a variation?

**Ms McKENZIE** — We only did the consultation process that it might lead to, and that consultation process was $70 000.

**Cr PARKE** — We did not do it. It was never a consideration for us.

**Cr PILLING** — We took it to our council chamber, and the council has agreed to go forward.

**Mr DALLA-RIVA** — Can you just provide some detail? What was the 70 000 for?

**Ms McKENZIE** — Sure. Happy to provide that separately, yes.

**Ms BATH** — Thank you, and thank you to both councils. In relation to services, which we have been talking a little bit about — and I appreciate Ms Dunn’s questions around infrastructure. In relation to services a quick, easy question would be — and then I will ask just a little bit more — does either council have a volunteer SES? That is the first one. The second one: in terms of pressures on services, have you identified through initial consultations or planning any reduction, removal or tightening of services, and could you tell us what they would be?
Cr PILLING — Not at this stage. This year, the first year, we will maintain our services. It gives us less to play with, I suppose, but our role this year has been to maintain our services and maintain our capital works program. I think the main concern is into the longer term. In the short term we are well financially managed, so we are confident that this year and into next year our service will be maintained. I suppose it is into the longer term around our capital works program, community facilities and also services that are the main concern.

Ms McKENZIE — In response to your question regarding the SES, yes, council provides both a financial contribution and an in-kind contribution in terms of rooms and space and access to facilities as well, so we provide office space for them as well.

The CHAIR — It might be helpful to get a breakdown from both on that.

Ms BATH — That would be good if we could get a breakdown.

Ms McKENZIE — Yes; happy to.

Cr PARKE — We do not have a local SES, but we contribute to the City of Yarra SES. The second question was in respect of — —

Ms BATH — If there is some movement around services or potential removal of services, have you identified any areas — this is not a scare tactic or anything. When you have been putting everything on the table, are there any areas that you can tighten at this point?

Cr PARKE — Not at this juncture, but certainly going forward it is something. I mean, like Glen Eira, we are in a situation where we have been responsible in terms of financial management, and might I say that in this current council term, before rate capping was being mooted, the City of Boroondara had successively each year brought down the lowest rates increase in a decade within the City of Boroondara. We had taken very significant steps in terms of debt reduction and in establishing funds for furtherance of the open space strategy, but, again like Glen Eira, it is a situation where medium to longer term there will need to be some changes if this approach continues. I certainly do not want to join the chorus from some of the councils where there has been talk about withdrawing this service, that service and some other service.

That may ultimately occur, but it will be in very close consultation with our community because we need to understand what the community’s views on those matters are, but of course if there is a limited pot of money, then there is only so much that you can do, so it will be about very close examining the priorities. But the point that we have made in my letter is that the cost shifting and the continued cost shifting is a very, very severe concern for us, and I think that provides a very good starting point for council in considering where it should go in the future, but again in very close consultation with our community.

Ms BATH — Thank you.

Cr PILLING — Can I just give an example of some of the things we are talking about. In 2012 we opened our GESAC, our Glen Eira Sports and Aquatic Centre. It is a $40 million sports and aquatic centre which has surpassed MSAC in memberships now. It is a regional facility that caters for all ages, all abilities — a fantastic facility.

The CHAIR — It is.

Cr PILLING — As David will attest. Schools, everyone uses it. It is fantastic. That was $40 million. We did it as $25 million from ratepayers. We borrowed. The contributions were 10 million from federal and 5 million from the state government — a fantastic partnership initiative. That would be quite hard to do now in this environment. We were quite responsible with rates. I think they were in the order of 4.5. It would be very hard to actually plan and do that now in this current environment. That is probably the best example I can say of how the community could possibly miss out on great facilities like this in the future.

Ms KEARNEY — Could I just add to that in terms of what the mayor has said for Boroondara. We have also invested in our Boroondara customer first program, which is $17.3 million over five years in investment in technology to make our services more available online, to remove red tape and minimise the number of forms et cetera that our residents and ratepayers need to use in accessing services, permits et cetera. So we have taken an
approach in relation to technology in order to minimise our costs, increase efficiency and also to limit the impact in terms of a reduction in service provision.

Ms BATH — Thank you.

Mr RAMSAY — Just a quick one if I may, Chair.

The CHAIR — Very quickly.

Mr RAMSAY — Yes, very quick. Thank you all very much for your testimony this afternoon. I think from what I can gather that all of you have said that rate capping is not sustainable, and in fact Cr Pilling I think you said it was a ‘blunt instrument’ — using your words in trying to — —

Cr PILLING — Yes. The council group would say that, I think.

Mr RAMSAY — So my question I pose to you is: there are a number of options you have, and variation was one that was given to you this year, but I think you said it was extremely expensive and probably quite convoluted.

Cr PILLING — The timing was quite constrained, as well.

Mr RAMSAY — And the timing was not right. So you look at services, whether to reduce services, reduce administration costs, use a user-pays option or increase debt, I would be interested to know going forward in your four-year plan, given that there would be a rate cap of around about CPI, what options you might look at. Would you move to a user-pays system in relation to certain services or not?

Cr PILLING — Not at this stage. Rebecca is going through a reasonable fee structure at the moment and I suppose there are some savings in that, but I will hand over to Rebecca.

Ms McKENZIE — I think the solution is actually a combination of all of those things, but in Glen Eira’s context none of them will be absolutely radical because of the sound financial base that Glen Eira has built. We have forecast at 2.5 per cent now across the next 10 years, and as I indicated at the beginning, we believe that we can manage that without huge impact providing that nothing critical fails or we do not need to invest in significant new infrastructure and things like that.

The CHAIR — Superannuation.

Ms McKENZIE — A superannuation call, as you rightly say, could be quite devastating to us. However, that being said, we have a continual program of continuous improvement. We are, like Boroondara, investing in technology, digitisation, new ways of doing work. We will have conversations with our community about services — what they value, what they do not value, all of those sorts of things — but it will be a continuous process, just like any good business actually intends to do.

Cr PARKE — User pays, if only we could. Perhaps we could start with planning fees so that our ratepayers are not subsidising developers. Certainly that is the approach that we have taken where it is within our control. Pleased to hear the reference to the super fund situation. An example of our approach has been that we have been putting a million dollars aside each year to cater for that, so we truly have taken a responsible position across the board.

So often local government gets accused of spending irresponsibly, and that criticism not only comes from the media but from time to time from ministers and parliamentarians. It is particularly galling in a situation where you have got a council that has been incredibly prudent in terms of making provision for those sort of eventualities but also taking a responsible approach to rate increases and a demonstrably responsible approach and a consistently responsible approach. But one of the factors that really does need to be looked at in a rate capping environment is that the fees that are set for various things and mandated by state government need to be reviewed and to be made realistic, because in many instances they have not moved for many, many, many years and are far short of the cost to council.

The CHAIR — Thank you. I am just conscious of the time, but I am thankful for Boroondara’s and Glen Eira’s evidence. There may be a number of — —
Ms SHING — Can I just ask a question on super?

The CHAIR — Yes. I was just going to say that there was one question from the Deputy Chair to follow up.

Ms SHING — Just in relation to DB and the call on super, and you may want to take this on notice, how many defined benefit employees have you actually got on your books respectively?

Cr PILLING — It is quite small. You might have the exact number.

Ms McKENZIE — I do not have the exact number.

Ms SHING — Okay. If that can be provided on notice to the committee — —

Ms McKENZIE — I am happy to take it on notice.

Ms SHING — Thank you. That would be great.

Cr PILLING — There are not many. They have been there a long time of course, so there are not many.

The CHAIR — There may be a number of other questions that committee members want to follow up, and the secretariat will come back with those. But thank you for your evidence today, both councils.

Committee adjourned.