7 September 2017

Environment and Planning Committee
Via email

Re: Professionals Australia response to the Environment and Planning Committee inquiry into the Fair Go Rate Capping System.

Professionals Australia welcomes the opportunity to contribute this submission to the current enquiry into the performance of the rate capping system, imposed on local government in Victoria in May 2015.

It is the view of Professionals Australia, and our members, that the rate capping system has failed to deliver any tangible benefit to the Victorian people, and instead, will likely cost taxpayers dearly in the years ahead as the state’s infrastructure falls into disrepair.

Previous reports from the Environment and Planning Committee have consistently taken issue with the time and cost burden that the system imposes on local councils, the failure to address the needs of rural and regional councils, and the consistent cost shifting as state government grants are removed without replacement.

Additionally, the system is founded upon an objective rate cap that is meant to reflect the costs faced by local councils, and yet the State Government recently ignored the recommendations of the ESC and imposed a lower rate cap, outlining clearly that the system is entirely politically motivated, rather than being directed towards a fairer and more reasonable system.

As it stands, the current rate capping system poses a very real threat to the sustainability of many councils, and many of the fears raised by local councils during the initial consultation have proven true.

We welcome any further requests for clarification or information regarding this submission.

If you require any further information, please do not hesitate to contact me via Jenny Broomhall at [redacted]

Yours sincerely

[Redacted]

Chris Walton
CEO

[Redacted]

Sharelle Herrington
Victorian Director
Infrastructure

Community infrastructure and local roads remain one of the largest responsibilities of local councils. A failure to adequately manage these community assets can have a devastating impact on the local area, and can cripple local communities.

Members have consistently raised their concerns that the current rate capping regime is forcing the neglect of local infrastructure, with councils lacking the funding to properly cater for the infrastructure needs of their community. Infrastructure typically requires major investment, with high short-term costs typically met by major long-term benefits. However, rate caps do not make allowances for short-term costs, and do not encourage forward investment.

Maintenance is also discouraged by the rate capping system, as it is the easiest responsibility to neglect. New projects are politically attractive, while simply maintaining current assets is boring from a political perspective. With councillors subject to the same election pressures as their state government counterparts, it is not surprising that maintenance is easily forgotten, even if the long-term cost is much more significant.

“Operational budgets have been frozen or increased only by part CPI, leading to increase in renewal gap and deteriorated infrastructure.”

– Local Government member submission

Budget cuts to maintenance and investment are causing infrastructure to deteriorate significantly. Cost-effective repairs in the short run are occurring less, in favour of more-costly replacements as the useful life of assets declines.

“I have noticed budget cuts in several different departments, cuts to capital works budgets, cuts to services for the public. The cuts have been as a reaction to rate capping with a plan to not go broke in 5 years. The long term (10 years and more) will see a drop in quality and level of service because that’s when council will start to see the budgets tightening and income dropping.”

– Local Government member submission

Strengthening the efficiency of Local Government is not about price signals. In reality, price is a dull weapon against inefficiency, and often results in cuts occurring in the wrong areas. Professionals Australia is particularly concerned that rate cuts would encourage Local Councils to cut spending where it is easiest to do so, not where it is most beneficial to the community. Infrastructure is a prime target for cost cutting, as cuts to services are more immediately noticeable to the community, and therefore less politically viable.
“I agree that local Councils should be held responsible for their rate increase amounts but I think they are too low. The cost of services that Council provides via sub-contractors will certainly go up by more than the rate capping amount. This will mean a reduction in the amount of services or the quality of services.”

– Local Government member submission

Rate capping poses a major threat to the proper management and investment in infrastructure. With this in mind, it is important to consider the impact on the community if infrastructure is managed poorly, through underinvestment or neglect.

- Threat to public health safety if key infrastructure is not maintained.
- Growing congestion if roads do not adapt to meet growing needs of the community.
- Greater future cost of replacement if poor maintenance reduces the useful life of infrastructure.
- Growing backlog of infrastructure needs if Council cannot even afford to maintain existing infrastructure.
- Increasing burden on future generations to foot the bill for infrastructure repair and replacement if current rates are not allowed to rise.
- Unfair punishment on Councils that have already significantly improved efficiency through “Principles of Better Value”. These proactive, well-managed Councils have fewer savings available through improving efficiency and will be more affected by rate capping.

Workforce

Rate capping in local government has a very real impact on the working lives of many Victorians. Local Governments are major employers of the State’s engineers, who carry out vital work in managing a large portion of the nation’s infrastructure.

At present, the local workforce is one of the major losers in this experiment, as no effort has been made to ensure that cost savings aren’t found through workforce exploitation. The Victorian State Government typically ensures that its own workforce is paid appropriately, and that fair wage increases occur on a yearly basis to account for the rising cost of living. However, the rate caps imposed do not allow local councils to provide anywhere near fair wage growth, and as a result, wages are declining in real terms.

Effectively, these councils are finding cost savings by taking money out of the pockets of their workforce. This result should not be surprising to anyone, as if rate caps are set below CI and below WPI, then it is not reasonably possible to ask councils to keep up with market wages.
“Council staff pay increases are being pegged to a percentage of the cap, which ultimately leads to a real wage decrease for staff given the cap is largely CPI based.”

“Councils already underpay engineering staff compared to the private sector and ultimately ‘work life balance’ factors will not offset this.”

“Council management are already talking about ‘success’ as not needing to reduce staffing levels. This impacts job security and one of the main attractors of staff for Councils.”

“Workloads on existing staff are increasing beyond reasonable levels, because of funding shortfalls to hire additional staff.”

– Local Government member submission

As a result, councils are finding savings elsewhere, be it through forcing staff to work harder for less, or through outsourcing staff, which ends up costing more in the long run. However, council management is not equipped to determine whether short-term, savings will result in longer-term costs, as they are outsourcing the very staff capable of making such a determination. The current rate capping system is also exacerbating issues that most councils already face in retaining highly skilled and experienced engineers.

It is most concerning that the current rate capping system does not encourage efficient and effective government, but rather it encourages local governments to pursue short term cost savings. Furthermore, it specifically discourages long-term thinking and investment, as higher-costs in the short term are specifically negated by the cap.

Professionals Australia strongly believes that the best route to cost efficiency is to invest in a skilled workforce, capable of reducing waste and spending wisely. It is disappointing that the rate capping system in Victoria encourages the exact opposite, cutting skilled staff or pushing them out of local government through stagnant wages, while pursuing cost savings through outsourcing.

“I met with the Director of Infrastructure and explained some of the waste to the ratepayers by Council engaging non-engineers to run Engineering projects. Nothing was done about it. The bad practice did not stop and is still going on to date.”

– Local Government member submission

Victoria should be working towards higher quality local government, not simply cheap local government. However, at present the system favours cost savings over efficiency through quality. As a result, the workforce is suffering, with wage freezes and job cuts.
Services

It is also important that Councils are in the best position to provide essential services to their community. Professionals Australia defines essential services as those, which if not properly managed, would pose a significant risk to the community in terms of safety and amenity. As a result, Professionals Australia regards the management of infrastructure, maintenance and capital expenditure as essential services for local communities. Therefore, rate capping seriously threatens the provision of essential services in local communities as it is integral the rates are allowed to rise adequately to cater for the upkeep and ongoing provision of services.

The current rate cap is preventing councils from providing these vital services, and the wider public are beginning to voice their disapproval. The public do not understand that councils are being forced to reduce service delivery, as rates are failing to keep up with the rising cost of delivering services.

“There is an increasing disconnect between service delivery able to be provided and expectation from the community, leading to an increase in aggressive customers and abuse via social / traditional media.”

– Local Government member submission

While most Victorians would like higher-quality services from their local government, rate capping has made service cuts the new normal. Cutting services is the only way that local councils can ensure their long-term viability, as costs tend to rise exponentially. Small yearly shortfalls in funding can add up to massive funding gaps over the longer term.

“I have noticed budget cuts in several different departments, cuts to capital works budgets, cuts to services for the public. The cuts have been as a reaction to rate capping with a plan to not go broke in 5 years. The long term (10 years and more) will see a drop in quality and level of service because that’s when council will start to see the budgets tightening and income dropping.”

– Local Government member submission

Rate capping has also become an excuse for poorer service delivery at a local government level, be it reasonable or unreasonable. Professionals Australia members would like to see a system that encourages local councils to provide better services, rather than a system that encourages blind cost cutting and punishes councils that seek to provide better service.
“Rate Capping is also used as an excuse by many as a way of not providing a service. ‘Oh we can’t do that anymore because of rate capping.’ Council’s should be providing the same or better service to the community rather than being forced to reduce services because of rate capping.”

– Local Government member submission

Sustainability

Professionals Australia is concerned that the current system is unsustainable, and makes no provision to ensure the long-term sustainability of councils. This issue is particularly pronounced in regional and rural areas, where funding gaps are the largest.

Previously, the Victorian Government has recognised the burden faced by these councils, and has provided additional funding to ensure that the local citizens do not suffer. However, these programs are increasingly being cut, and no effort is being made to replace the lost funding. This is effectively cost shifting, as governments force more responsibilities onto local councils, while simultaneously limiting their capacity to fund these responsibilities.

“State Government charges are rising well above the cap applied to councils”

“State and Federal Government grants have been reduced and the State continues to try and push its responsibilities onto Councils, through either direct means or neglect of public assets.”

– Local Government member submission

Crucially, the Victorian State Government has been entirely unable to keep spending within similar limits, because the limits imposed by the rate cap are unsustainable. Professionals Australia is concerned that the first two years of rate capping have highlighted the flaws in the system, and yet nothing is being done to resolve them. On the contrary, recently the State Government overruled the ESC by imposing a lower rate cap than recommended, in a move that they admit was motivated entirely by an election promise. It is disappointing that key issues such as local government funding are being decided by election promises, rather than being determined in an evidence-based manner.
“Council rates are only a fraction of the value of people’s income taxes. Why has there been such an emphasis on rate capping when reducing taxes would have made a much larger impact on families?”

– Local Government member submission

While the current rate caps are clearly unsustainable, so too are the efforts to find savings to meet the funding gap. Members have reported ongoing efforts to find savings for years, and little room is now left to reduce costs. The rate cap makes no allowances for already efficient councils, and simply forces all councils to find efficiency, sustainably or otherwise.

“There haven’t really been too many improvements to save on costs because we have been doing that for years. I know my department has been trying to improve efficiencies for the past 5 or more years (even before we knew about rate capping). When you have already made the improvements and there are no more major improvements, where do you go once rate capping comes in?”

– Local Government member submission

Conclusion

The concerns and recommendations that we have addressed in this response are based on the significant breadth of knowledge and skill of our vast network of members, and the impact that rate capping is having on our local communities. We urge that serious consideration be given to the information provided in this submission, and that efforts be made to improve the system, or remove rate capping entirely.

Ultimately, it is the position of Professionals Australia that rate capping provides no significant benefit to local communities and has not contributed to better or more efficient government. On the contrary, there are numerous negative consequences from the arbitrary capping of council rates, and infrastructure service quality, sustainability and the workforce are all suffering as a result.

The challenges being faced by local government in Victoria need to be addressed to ensure effective project delivery and asset management is achieved, and to ensure that long-term benefits are not foregone in the name of short-term savings.