TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Melbourne — 20 September 2017

Members

- Mr David Davis — Chair
- Ms Harriet Shing — Deputy Chair
- Ms Melina Bath
- Mr Richard Dalla-Riva
- Ms Samantha Dunn
- Mr Nazih Elasmar
- Mr Cesar Melhem
- Mr Daniel Young

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- Mr Greg Barber
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- Ms Colleen Hartland
- Mr James Purcell
- Mr Simon Ramsay
- Ms Jaclyn Symes

Witness

Mr Michael Bailey (sworn), Executive Committee Member, Rural Councils Victoria.
The CHAIR — I declare open the hearing of the Environment and Planning Committee on the inquiry into the impact of rate capping. I welcome to the table Michael Bailey, the CEO of Northern Grampians Shire Council, but in this instance representing Rural Councils Victoria. Michael, you are well aware of our terms of our reference, and there is obviously a very particular impact of rate capping on rural councils. I know you have done significant work, so you might want to lead off with a short presentation. Then we will follow with some questions.

Mr BAILEY — Thank you. The rate capping obviously came in in July 2016. I do not think we have felt the effects of rate capping at this stage. For our council alone we are likely to see the impacts in six or seven years, and that will be mainly infrastructure based. We as a council are probably at our capacity to pay in terms of our ratepayers and the ability for ratepayers to continue to fund the shortfall in the living liability for infrastructure. So while rate capping came in, it probably sped up the process. We have hit a critical point in the unsustainability of some local councils and particularly rural councils, and there are 19 listed by the VAGO report of the 38 councils within Victoria.

Some of the immediate impacts will be based on the community service-type things, and they are short-term, people-based issues, so the removal of some of the seniors programs, some of the kinder programs, some of the long day care that have been subsidised by councils because they have not been able to operate and be financially viable will hit home very quickly and have hit home already in some of our communities.

We have already seen some services be pushed back to the state government. Northern Grampians alone pushed school crossing supervisors, which is now being picked up by VicRoads in our region, and we have seen SES funding, which was picked up recently by the state government in this year’s budget after a number of councils started to remove that funding. That will continue to happen, and longer term we will see more and more impact from the cuts to the services. There is plenty of evidence out there about the obesity crisis that we are about to hit. Once you start cutting swimming pool funding, start making cuts to the season alone, and some of the other infrastructure-based facilities that we have that provide sport and recreation opportunities to our community, that obesity crisis is only likely to get greater. While a sugar tax is one thing, we obviously all know about physical exercise and the benefits of that.

The key critical issue for us is obviously infrastructure. We have got a looming liability that will smack home very hard. In Northern Grampians shire alone we have got 3500 kilometres of road. Of that 3500 kilometres, we should be maintaining about 10 per cent annually; currently we are maintaining 3. So you can see already in five years time 35 per cent of our roads will be unusable. And the impacts on productivity and the impacts to our community are huge and cannot be measured at this stage, but they will be significant, particularly when you look at ag as an industry sector. Within regional and rural councils, there is detrimental impact to that sector and the transport industry. That is really all I have to start off with. I am happy to take questions.

The CHAIR — We will be as succinct as we can. Let me just start where you finished, which is the country roads and bridges area. There was a program in place under the previous government: $1 million a year paid not for VicRoads roads but for council roads to every country municipality. It obviously, by being a million to each council, was weighted towards the smaller shires in a sense. You have indicated that of the 3500 kilometres of roads that you maintain as a council, you should be renewing or dealing with 10 per cent annually; currently we are maintaining 3. So you can see already in five years time 35 per cent of our roads will be unusable. And the impacts on productivity and the impacts to our community are huge and cannot be measured at this stage, but they will be significant, particularly when you look at ag as an industry sector. Within regional and rural councils, there is detrimental impact to that sector and the transport industry. That is really all I have to start off with. I am happy to take questions.

Mr BAILEY — We are developing that at the moment. Obviously over the last three years we have had a doubling of the Roads to Recovery funding as well from the federal government, so there has been —

The CHAIR — A masking?

Mr BAILEY — a positive masking, yes, of the ability to maintain that infrastructure. It is now that we see that go back to its normal ratio, and we have seen with the removal of the country roads and bridges that there will be significant impact going forward. Over the next two years we will be able to provide that detail to you.

The CHAIR — Any work that you had on the productivity aspect would be helpful for our next report, even preliminary work.
Mr BAILEY — Yes, absolutely.

The CHAIR — And that 10 per cent and 3 per cent figure that you have got, is that typical of other country municipalities?

Mr BAILEY — It would be, yes, and obviously there is a massive difference between metro and country in terms of the kilometres of roads that each of us hold, and country is generally much greater because of the VicRoads roads within metropolitan Melbourne. So while I could say categorically that we have got 3300, most are around that level. We have quite a large and sparse shire. In somewhere like Alpine it is a lot smaller because of the national park component, but generally, particularly in western Victoria, there are large road holdings.

The CHAIR — So would you have those figures for the municipalities that your organisation supports?

Mr BAILEY — Absolutely. We can gather all that data for you and send it through.

The CHAIR — That would be helpful if you could provide that to the secretariat. So what would you say is the impact of the loss of that country roads and bridges program?

Mr BAILEY — As I said, in terms of a dollar figure it is hard to measure at the moment, but it has definitely had a significant impact. A million dollars for us would start to pick it up to 6 or 7 per cent, and then all of a sudden you have got a far less looming liability. So we start to push our liability out past 2025 through to 2035 and going forward. We have done a lot of long-term planning on where we are at in terms of roads and bridges. We do a lot of engineering, design and reporting on the current state of those roads and bridges, and get external professional advice on that to make sure that we are not overservicing a road but that we are doing what we need to do to maintain safety.

The CHAIR — And on productivity, on a separate matter, the Essential Services Commission has just released a paper on productivity in the last few weeks. I wonder if you have had some opportunity to analyse that and what impact that might have.

Mr BAILEY — I have not at this stage, no.

The CHAIR — Have you read it?

Mr BAILEY — No, I have not had a chance to read it yet.

The CHAIR — We would be very interested in any views that your organisation has, in particular on its differential impact that it might have on country municipalities. Finally, I just wanted to ask about the school crossing supervisors, because your municipality took a lead, I think. You sort of stuck your head up, as it were, and said that for the range of supervisors that had been partially funded by government — and tell me if I am wrong on this — the municipality had paid for more than its share. What is the outcome now on that matter?

Mr BAILEY — Yes, so we did take the lead on that, and with the support of our industry bodies. What happened was the government initially funded them at a 50-50 ratio split. That ratio split increased. The modern award also changed the minimum hours that school crossing supervisors had to be employed for. So all of a sudden our liability went up; it was more than double. We were taking on about 80 per cent of the liability. We took the stand that it was not our responsibility whether to provide some of the infrastructure and things like that. The service, however, should be maintained by the state and the department of education or VicRoads or the like.

As you say, we took the lead after a lot of backlash and community upheaval. VicRoads took on the management of school crossing supervisors in our shire. Subsequently it has been changed back to a 50-50 funding ratio, but we have taken the stance that we will not be taking it back on. We see that common type of thing regularly, so libraries are fairly similar in that there was funding provided initially and it reduces over time.

The CHAIR — Or it does not increase.

Mr BAILEY — Or it does not increase, yes.
Ms DUNN — Thank you, Michael, for your presentation tonight. Just to go back to roads, which would be a core part of your infrastructure responsibilities, essentially what you are saying is that if there is a benchmark of 10 per cent, it should be maintained annually, so every 10 years every road should have a level of maintenance.

Mr BAILEY — Yes.

Ms DUNN — So at the current regimen that you are applying, really what that is saying is there is a 70 per cent deficit in maintenance on roads.

Mr BAILEY — Absolutely. One of the key factors is that the Victoria Grants Commission loans say that we need about $17.5 million to fix our roads. Our current funding level for roads from the Victoria Grants Commission is $2.7 million. So you can see the gap; it is immediate.

Ms DUNN — That is a fair gap.

Mr BAILEY — Yes. And we obviously do not expect the Victoria Grants Commission to pick all of it up, but the levels just are not even in the equation at this stage. There is no potential way we can make up $10 million to $15 million in surplus from our budget. Our budget is $33 million.

Ms DUNN — I am just looking at some data we have got here that talks about the rural councils that actually applied for a variation, and I see here on our list that five councils applied of the 19. Four of them got approved. I am just wondering if you have any views or comments in relation to, given the burden of infrastructure and loss of services, why perhaps more rural councils have not applied for that variation.

Mr BAILEY — I think for us, as a prime example, if you get a 1 per cent or 2 per cent rate increase, it is $150 000. We are talking $15 million liability there, so you can upset your community. And, as I said, potentially we feel that we are at the capacity to pay of our community members, so increasing that rate charge is going to be detrimental.

Ms DUNN — Yes, so it is the sensitivity between what they can actually pay.

Mr BAILEY — There is a balance around it, yes. Absolutely.

The CHAIR — And the cost of applying?

Ms DUNN — Yes. Does that factor in?

Mr BAILEY — The cost to apply is an interesting one. Initially we were told that the cost of applying was going to be around $150 000 by the time you did all the community consultation and things like that. That is starting to decrease a little bit. The other aspect is that when the rate cap is declared it is quite late. We have seen this year that the ESC only made announcements in terms of who has received the rate cap variation in August, so most of us try and have our budget done by then, so there is an administrative side of it as well.

Ms DUNN — Absolutely. That timing issue has been raised on a number of occasions as part of this inquiry, so it would appear that that is still an issue for councils in terms of getting the timing right on that.

Mr BAILEY — Absolutely. I know Hindmarsh were going to pass their budget without the official declaration of the ESC at one point because the time was too late and they did not want to be in breach of the Local Government Act.

Ms DUNN — Yes, because there are other constraints around —

Mr BAILEY — The flow-through, yes.

Ms DUNN — making the application. Thank you so much for that.

Mr ELASMAR — Michael, thank you again for coming. Is it fair to say that ratepayers cannot afford high rate increases and it is not rate capping that is the issue but structural barriers for rural councils?

Mr BAILEY — It is a little bit of both. Some ratepayers can afford to pay higher rates. Particularly in our region they cannot, and that is evident across a lot of the regions. There is an underlying issue, which is the
funding of rural councils, and rate capping or Fair Go Rates has highlighted that issue and brought it forward a lot further, because where traditionally a 5 or 6 per cent rate increase was put up to allow for that capital, it cannot be done any further. So we are now doing a lot of advocating and a lot of work with politicians, both at state and federal level, to try and make up that gap.

Mr ELASMAR — One more question: have you assisted your member councils in the application process for an exemption?

Mr BAILEY — No, we have not.

Ms BATH — Thank you, Michael. You are from Lowan territory, I see. We have a fabulous member for Lowan for The Nationals, Emma Kealy. The Grampians is just a beautiful place — a very special place, I think, both historically, for Indigenous culture and to take the family to walk up that great big Pinnacle and get nervous at the top. I have three lines of questioning. One is with respect to the Grampians as a tourist attraction and the financial increase and asset that is in terms of tourism. Going back to the roads, do you feel that in the long term that 3 per cent maintenance in and around the Grampians is going to have an impact on tourism, and could you quantify that, do you think, in terms of loss of revenue?

Mr BAILEY — Yes. Halls Gap is a prime example in terms of the tourism benefit. We see currently a $30 million investment in the Grampians Peaks Trail. Council as a whole do not have the ability to put in the infrastructure that the tourists for that facility are going to demand when it is completed in 2019, so we spent the last two days in this building trying to get some of that infrastructure funding. A lot of the roads are VicRoads roads or in the park themselves. Halls Gap itself is quite good in terms of the management of it, and obviously that puts forward another question around the funding of parks and the funding of VicRoads. But there are obviously local roads, the connecting roads, that will be falling apart by the time we get to 2019, when the Grampians Peaks Trail is completed.

Ms BATH — That is good. You mentioned you had been seeking funding and were in discussion with levels of government. From the sale of the port of Melbourne there was supposed to be 10 per cent going to regional and rural infrastructure. Have you had conversations around that or sought specific projects that would support the Grampians shire in relation to that?

Mr BAILEY — Yes, we have had conversations, particularly over the last two days around, ‘Where is it?’. We have not seen a great deal of that funding or that funding marked come back out into the region. My understanding is that some of it is going to the regional rail project, and we have had very limited. Ballarat and Ararat have got additional services, but as far as Stawell and Horsham go, we have not received much at all.

Ms BATH — You have got V/Line bus or coach services.

Mr BAILEY — We have got bus services, yes. There is a request in at the moment for passenger rail, and we would hope that that is a funding application, but we have not seen direct benefit from the sale of the port infrastructure.

Ms BATH — Have you identified any productivity — so paddock to port or paddock to plate — improvements that you could see?

Mr BAILEY — My understanding is that Local Roads to Market has been part-funded from some of the port money, and we have received some benefit from that. Two projects were funded to the tune of about a million dollars last year. But they are not saying that that is port money; it is roads to market money.

Ms BATH — Right. So there could be some clarity around that?

Mr BAILEY — Yes, absolutely.

Ms BATH — That would be helpful for you. I have an interest in aquatic centres and heated pools. I am hoping that there will be a heated pool in Traralgon, in my patch, in the forthcoming few years. I am just wondering: could you walk me through whether you have heated pools in the Grampians shire?

Mr BAILEY — We do.
Ms BATH — Do they break even? Do you lose money on them? How do you manage them? Is there any sort of recurrent funding that you are travelling well with or that you are in trouble with?

Mr BAILEY — I might declare that I am formerly the CEO of Bendigo regional YMCA, so I have quite a good understanding of the aquatics industry. We have one heated pool, a small heated pool, 10 by 15 metres in Stawell. It loses around $300 000 a year in operating costs. That facility will need significant upgrade. The documents we have put forward over the last two days state $750 000 just to keep it operating —

Ms BATH — How old is it, Michael?

Mr BAILEY — Thirty-one.

Ms BATH — Okay, so it has aged.

Mr BAILEY — It is ageing, yes. But certainly for a new facility there are some operational benefits with energy efficiency and things like that. But across Victoria there are not many operations that break even, and depending on whichever model you look at — whether it is contract services, external business or run in-house — most run at a loss.

Swimming pools have limited usage in the community. We know the benefits, particularly the educational benefits that Learn to Swim provide. Particularly when they get into the schooling system there is clear evidence to show that kids who have done Learn to Swim benefit in the education system. So if you start reducing that and shrinking it, all of a sudden those benefits that cannot be measured, and which are quite anecdotal in some senses, are gone.

Ms DUNN — Can I just pick up on that? Is it fair to say that in relation to swimming pools generally the only way they ever break even is if they have a gym attached to them that attracts membership from the community and that in fact keeps the swimming pool side of that business going?

Mr BAILEY — Yes. Even in a rural setting there is generally subsidy required, particularly with the increasing utility costs. I can state the figures of other facilities that are in major centres with a gym and a swimming pool combined, if you would like. Horsham, as an example, requires a subsidy still, and it has a gym-swim facility. It is an eight or nine-year-old building, so not old in comparison.

Ms DUNN — I will just speak from my experience. When I was a Yarra Ranges councillor there was one pool we had that we were subsidising to the tune of $21 a visit, but it was a really critical part of community infrastructure for a community that did not actually have much else in terms of infrastructure.

Mr BAILEY — The worst I have seen, in terms of subsidy per head or per visit, is a little bit greater than $50. That is not a current pool that we operate, but there is some within the —

Ms BATH — Is that a rural context, that one?

Mr BAILEY — Yes.

Ms BATH — Michael, at $300 000 per annum, what would be your per head capita at Stawell?

Mr BAILEY — It is about $30 per visit.

Ms BATH — So similar.

Mr BAILEY — Yes, it is similar. It does not sound like much when you say it fast, but $300 000 for a small shire is quite significant.

Ms DUNN — Yes, it is a lot.

Mr BAILEY — As part of that we are doing reviews of 41 services. Each of our services has been broken up into a category. Each of our services will be reviewed — strategic review — looking at the service level and looking at the cost subsidy per service. Swimming pools will come into that, aged care will come into that as well as road funding and infrastructure funding as well.
Ms BATH — There are pressures, aren’t there?

Mr BAILEY — There are pressures. My council has told me that they would like to see the opportunity to save 10 per cent of the operating budget over the next three years. Obviously the benefit with an operating budget is that there is an ongoing saving. Obviously funding it and reducing the service level by 10 per cent from what it is currently is a big decision and a big call.

The CHAIR — What is your EBA level?

Mr BAILEY — Ours is 1.9 this year, and we are due to renegotiate.

The CHAIR — And that is a nominal 1.9. Does that include bracket movements?

Mr BAILEY — No. They are additional.

The CHAIR — That is what I am saying. In fact it is actually a bit more than 1.9; it is 2.3, 2.4 or 2.5.

Mr BAILEY — Yes. So we set the 1.9 when it was a 2.5 per cent cap. We set a two-year EBA — or it was near enough to 18 months when it was signed — purely because we knew that there would be movement in this environment. So we are now going back to renegotiating for a new EBA, and it will be based on probably the cap figure less about 0.6.

The CHAIR — To deal with movements?

Mr BAILEY — To allow for that movement, yes. Otherwise we are going backwards pretty quickly in wages.

Ms DUNN — Would that be indicative across rural councils — that sort of level — in terms of your EBA?

Mr BAILEY — Absolutely. We have seen some that have put up 0 per cent wage increases, and then —

The CHAIR — And there are some historical ones too that are bigger numbers.

Mr BAILEY — Yes, there are, and they are causing all sorts of issues at the moment, as you could imagine.

The CHAIR — Thank you. We very much appreciate it. Some of those figures would be very much appreciated. We are very keen to make sure that our reports reflect the issues for rural councils.

Mr BAILEY — Fantastic. Thank you all very much.

Witness withdrew.