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

Participating Members
Mr Greg Barber
Mr Jeff Bourman
Ms Colleen Hartland
Mr James Purcell
Mr Simon Ramsay
Ms Jaclyn Symes

Witnesses
Mr David Preiss (affirmed), CEO, and
Ms Rebecca McKenzie (affirmed), President, LGPro.
The CHAIR — We thank both of you for coming to present on behalf of LGPro. I ask both of you to begin with a short presentation. You are aware of our terms of reference. The matters move on, as we have been hearing just now, about recent reports, but there is a set of issues about the impact on councils of the rate capping regime. I thought you are both in a position to give us a useful contribution.

Ms McKENZIE — Sure. Thank you. If it is okay with you, Chair, I will present on behalf of LGPro, and David can add some other commentary as time goes by. We thought we would start by saying that we actually do appreciate the inquiry’s continued attention to this matter. From our perspective, I think this will be the third time that we have presented before the inquiry in a little over 12 months.

Ms BATH — You could have a seasons ticket, couldn’t you?

Ms McKENZIE — Just about, I reckon! I think we have answered just about all the questions. Our position has not really changed over that period of time. We have always said that LGPro and the officers that we represent have always held the position that we are not opposed to strategies that actually increase the transparency of local government and the effectiveness of our sector. In fact we actually welcome them. But what we have argued is that rate capping is a blunt tool and there may be unintended consequences of the approach, particularly when it comes to long-term council sustainability and asset renewal.

So now we are a little over one year into the operation of the scheme, and I think it would be reasonable to say that the world of local government has not come to an end. We have seen in the sector an increased focus on technology and digitisation, and I think Casey council is probably one of the shining lights in terms of that level of innovation. We have seen an increased focus across the sector on the must-dos versus the nice-to-dos. We have seen more moderate pay outcomes associated with enterprise bargaining processes, and there has certainly been an increased level of momentum behind service reviews, efficiency and effectiveness measures and fiscal responsibility.

But we would probably argue that these are the things that the sector needed to do anyway, and in many instances and in many councils the sector had already commenced and started some of these programs before rate capping. Rate capping may have brought a burning platform and perhaps a level of focus and momentum and sharpness to that than perhaps had perhaps been there before, but these are things that the sector needed to do and was doing anyway.

We have always said that the impact of rate capping will actually be a slow burn, so really 12 months or so in it is still, in our view, too early to tell. We believe it will take three to five years of operation for the real impact, particularly to capital works programs and asset renewal, to be felt. The forecasting that our members have done would indicate this, and I think that LGV themselves have done some forecasting which would indicate that capital spending in small rural shires will decline by 30 per cent from 2016 figures to what is projected in their SRPs for 2020.

We have talked previously with this inquiry that we think that rate capping is one fine element of what is a much broader jigsaw of overall council financial sustainability. We know that the financial assistance grants were frozen for some period of time, and that had a pretty significant impact. The lack of indexation has now recommenced, which will bring some relief to the sector. The cessation of the country roads and bridges program certainly hit a number of our rural councils particularly hard, and we know that also the government has recently announced the rural and regional councils sustainability fund to specifically look into the issue of particularly small council sustainability.

There is no doubt that over time we will start to see a greater divide, though, between the have-nots and the have-nots, particularly when it comes to issues with those councils that are able to generate self-sourced revenue. That has always been something that has been a significant difference, particularly for the metros versus the regionals and the rurals. Of course, as you know — and you have been discussing some of them before we came into the room this evening — there are other areas of our income that we do not control and where the cost of service provision is actually greater than the income that we are able to generate in order to cover off on some of those. You mentioned planning as one of those examples before.

The recent uplift in planning fees has brought some pretty significant relief, but it would be fair to say that I doubt that there would be a council in this state where even with that uplift the cost of providing the planning service is actually covered by the fees and the revenue that is generated. The default of that means that
ratepayers across the municipality are actually subsidising, in councils like my own, the service that is provided to developers.

There are other areas of expenditure that could be better offset by state funding, and you talked earlier about the redistribution of the waste levy into local infrastructure and to increase diversion from landfill. We would recommend that the inquiry continues to keep this broader view of local government financial sustainability and keeps that as an area of focus.

The other thing that we just wanted to comment on before closing was the current discussion that is happening on the issue of the efficiency factor.

The CHAIR — The productivity study?

Ms McKENZIE — Yes, that is right. The ESC’s productivity study and the discussion around the measurement of an efficiency factor and how that might be calculated. We acknowledge that the ESC are just consulting on that at the moment and that process is still underway, but we do find the concept of an efficiency factor highly problematic when it is applied in the local government context. Just on the surface it appears that applying an efficiency factor on top of a rate cap assumes that councils have not actually had to deliver efficiencies in order to meet the rate cap, and we know that they have — significant ones — and the philosophy behind it seems to be that if you can measure and compare water businesses then you can measure and compare local governments. I do not need to tell you that local governments are far more complex beasts than that, so it is perhaps slightly naive.

We know that local government must absolutely deliver ratepayer value, but efficiency in our context, as you know, can mean so many different things. We have a role in addressing where market failure is in our communities and where it is not cost-effective for private enterprise to provide community-related services such as child care. We know that local government has a huge burden of externally imposed regulation, that if we are choosing to be efficient perhaps we would not do, but we must. Also local government protects the most vulnerable in our communities, which is never for us a financial equation.

We think these are all parts of the complex value proposition of local government which has not necessarily been fully understood or respected with the blunt tool that is rate capping. We would just like to thank you for the opportunity to come and present again, and we would be happy to respond to any other areas that you would like to explore with us.

The CHAIR — Thank you, and I will start with the productivity study. Has your organisation as yet worked through what that would mean for an average metro council, a regional council and a country council?

Ms McKENZIE — Not yet. The documents only came out last week, so we are still early in that stage. We will be consulting with our members around making a submission, and we will be making a submission to the ESC as part of their consultation process.

The CHAIR — You might want to make that available to us too.

Ms McKENZIE — We would be happy to.

The CHAIR — We appreciate that because we are cautious about what impact this again might have.

The other area of activity that I think is important at the moment is the interface councils, and we have just heard from one of the interface councils, and the loss of the Growing Suburbs Fund — the halving of its funding. Has there been any assessment of what that means and the reduced outcome there? Has your organisation looked at that or not?

Ms McKENZIE — It is not really our area of focus. That is probably more an area of focus of the MAV. But certainly having worked in one of those councils, the smallest of those councils, to see the community benefits that some of those initiatives and that funding had brought, where a council of that type would never have been able to afford to put in place some of those community initiatives early, is quite significant.

The CHAIR — I also had some questions around the proposed changes with respect to valuations. I do not know whether your organisation has looked at this, because there are many local government professionals — I
reckon about 50 — employed in local councils who are in the valuation sections. Have you looked at what that might mean, particularly for council revenues in the context of our inquiry?

Ms McKENZIE — We have, and David might want to come in on this one, because David and a number of our board members actually met with the Treasury representatives that are doing the consultation on it yesterday — or today?

Mr PREISS — Yesterday, yes.

Ms McKENZIE — And did you want to come in on it?

Mr PREISS — In terms of the revenue, that is a bit hard to define at this stage. Our most significant concern was that for an initiative that has such an impact on the operation of local government, on the ability to plan and deliver budgets, it was very disappointing that there was no discussion with the sector beforehand. I do not believe that it would have ended up with something that was hugely different, but I think that the concerns could have been addressed in a collaborative manner to achieve the best outcome for the community. I think the other thing is it has been promoted that rate capping is about transparency. Providing a valuation every year is likely to make that transparency much more difficult for ratepayers to actually see, because their rates are going to change each year by virtue of valuation and it —

The CHAIR — Relative valuation changes?

Mr PREISS — Yes. So the actual impact of rate capping becomes a lot harder for people to determine.

Ms McKENZIE — We have been assured, Chair, that the cost of providing the service will be no greater. I guess we are yet to see the detail of that in terms of exactly what that means. We have been assured that things like the calculation of supplementary rates will be able to occur within a 30-day service agreement time frame and things like that. We are yet to be fully assured that things like that will be able to be delivered, but the devil is always in the detail.

The CHAIR — My understanding is that in effect it will be more on a cost recovery model, so a large share of the cost will be borne by councils and levied from the centre, including additional costs for supplementary valuations. Is that your understanding?

Ms McKENZIE — Not specifically, no.

Mr PREISS — No. There is the issue of those councils with their own valuers. In terms of the statement, I think it refers to — in the principles — that consideration be given to deployment and alternatives, and I think that ‘consideration’ is a pretty vague term.

Ms DUNN — It is not quite strong enough.

Ms McKENZIE — No. And when you are going to people whose jobs are at risk, it would be, I think, a far more comforting thing to be able to give them some certainty, rather than something that basically says, ‘We’re not sure, so we’ll consider it’.

Ms BATH — Chair, could I jump in at this point? A number of Gippsland council mayors have written to me very concerned about this, and their in-house valuers, saying local jobs will be lost and also local content knowledge around the terrain and topography that they might know — that some place floods and therefore it is not a carbon copy valuation. Is that Gippsland only, or have you heard it in other regional councils?

Ms McKENZIE — There is quite a strong campaign being run by the association of municipal valuers, and they have been writing to mayors across the state and they have been running quite a strong advocacy campaign. They are the types of comments and statements that they are making, and to a certain extent that is true. What we do not know, though, is who will provide the service in those communities. In councils where in previous years they have transferred their service voluntarily to the Valuer-General Victoria, the VGV has worked in partnership with those councils to then contract that service. The council has been involved in the selection process for who the contract valuer will be, and in a number of instances the valuers who have been previously used by that organisation have been recontracted, and in some instances at a lesser cost to the council. So as I said before, the devil is sometimes in the detail. Yes, there is a risk of those things; whether that
comes to fruition or not I guess depends on what the eventual model of the delivery of the valuation service might be.

Mr PREISS — That was certainly mentioned at the meeting yesterday. One of the board members from a regional council was concerned about the loss of local knowledge, not just of the properties but local knowledge of the actual home owners, the residents. There is also the issue that a number of the valuers fulfil other functions within a council.

Ms BATH — They can backfill.

Mr PREISS — Yes, and it is not a matter of saying that will be lost. The concern is it is at risk of being lost, and without any prior consultation before this was decided, those issues were not addressed at the front end of the process, so we are now looking at it after the fact.

Ms DUNN — Thank you, Rebecca and David, for coming in to see us and for the full card of attendance too; well done. Rebecca, you talked about external regulations that were imposed on local government that perhaps local government may not participate in if they did not have to. Can you give us an idea of what they might be and what sorts of areas we are talking about? I bet it is a long list.

Ms McKENZIE — There is a long list, but I guess just to give an example there are a whole range of performance reporting and different regimes that have been in place. One of the commitments that was made by the government at the time of the introduction of rate capping was actually that, ‘We’ll take the opportunity to explore and look into the level of regulation that is applied into local government, where there is duplication, where there are excessive requests, where there is information — we are guessing or we believe that there is information that is requested of local government — that never actually goes anywhere’. It does not necessarily add to the value of local government or state government. We have not actually seen much reduction, if any, of some of that red tape. In fact, a number of increased reporting requirements have actually been placed on the sector.

Ms DUNN — It has been the opposite?

Ms McKENZIE — That is right. We would really like to work to reduce red tape on the sector, reduce some of these additional burdens, because that will help us to be more efficient. We are trying to be as efficient as we can within our own organisations, but there are other things that we need to respond to. We are part of a big system.

Ms DUNN — I just want to get a sense of the sorts of representations you or local government generally might have made about that — that there is actually a disconnect between the commitment around reducing red tape, if possible, versus the actual reporting burden.

Ms McKENZIE — Certainly we have regular meetings with the Minister for Local Government and we have a rolling agenda of different items that we discuss as part of those, and that is regularly part of those conversations.

Ms DUNN — Terrific. I just wanted to pick up that you talked also about services that sometimes local government provide because the market perhaps will not do so because of the commercial imperatives. You talked about child care as an example of one of those services, and you also talked about I think even a more significant role in relation to vulnerable people. I am wondering: are you aware of any work that might have been done in terms of those particular services that are provided to the community that may appear as a cost but in fact have an enormous benefit in the longer term? Is there any work being done around that?

Ms McKENZIE — It is a really good question because I think part of what we sometimes struggle as a sector to enunciate is that broader social value proposition. It is very difficult when you get down to sort of how you measure that.

Ms DUNN — Yes, how do you quantify it?

Ms McKENZIE — How you quantify it and how you then sell that proposition to the community. There are examples, though, where as part of preparing for budgets over the last two years, where councils have been engaging in far more deliberative consultation processes with their communities, when presented with the cost
of some services comparative to others communities have turned around and said, ‘We don’t mind that effectively you subsidise these services, because we actually think it is important. Somebody needs to provide those services, and we are happy that our council does’. I know when I was at Mitchell Shire Council that that was certainly the feedback that the community provided on some of those services that were for the more vulnerable in the community, whether they be HACC services or whether they be childcare services or maternal child health services and things like that. But the whole challenge of how we measure service and value and those sorts of things, I am not sure that we have really nailed.

The CHAIR — I should just note that another document that has come into the public domain is on the impact on growth areas. I do not know whether you have views on that yet, the ESC document.

Ms McKENZIE — No, I have not actually seen that document; sorry, Chair.

Ms DUNN — Is that the 434 document?

The CHAIR — That is the 434 document.

Ms DUNN — You are forgiven, Rebecca.

The CHAIR — I thought you may have read that. Sometimes people have some advance knowledge of the general content and they may have some views. What I would suggest on that is you might want to, as you analyse it, let us know if you have any particular views on it.

Ms McKENZIE — Sure.

The CHAIR — Thank you. We very much appreciate the contribution. There are a number of bits to follow up, and we certainly will look forward to further contributions.

Ms McKENZIE — Any time. Thank you.

Committee adjourned.