TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Melbourne — 6 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 Rob Spence (affirmed), Chief Executive Officer, and

Mr Owen Harvey-Beavis (affirmed), Manager, Insurance, Research and Strategy, Municipal Association of Victoria.
The CHAIR — I welcome Rob Spence and Owen Harvey-Beavis of the MAV to the inquiry into rate capping policy. What you say here is protected by parliamentary privilege; what you say outside is not. Rob, you are familiar with our terms of reference and you may wish to update us on any material matters or relevant changes that are there, then we will follow with some questions.

Mr SPENCE — There has not been a lot that has changed since the last time we presented. I suppose the key thing that we have seen is Local Government Victoria’s representation of the forward look financial plans for councils, which are showing that in rural Victoria the capital spend through to, I think, 2020 was going to drop by about 30 per cent from where it is now. That material was presented to a committee here.

The CHAIR — The rural and regional committee.

Mr SPENCE — The rural and regional committee a couple of weeks back.

The CHAIR — We might seek copies of that from either them or you.

Mr SPENCE — We can give it to you. We have got copies.

The CHAIR — That would be good.

Mr SPENCE — It is quite interesting because what it is showing is that operating surpluses, which were relatively small in the rural sector, are dropping, if the plans are accurate, to a negative position by 2020, and the debt is dropping as well, which is an interesting sort of offset to capital spend and the operating result. The Auditor-General has been saying similar things — that in rural Victoria, particularly in the medium to small councils, the issues around, I would say for starters, financial assistance grants and the freeze, the loss of the country roads and bridges program and then potentially, because it is a bit hard to tell what we are seeing with rate capping yet because we are only just coming into the second year of it, whether they are having an impact. But it looks to me as if it is the financial assistance grants issue, a bit offset by Roads to Recovery, then the country roads and bridges program.

The other areas we are seeing shift are wage rates coming off. We have just done a piece of work on analysing CEO salaries. We have done a survey and that has proved really interesting, but I might hand over to my fellow presenter here to go through the detail because he is the one with the brains.

Mr HARVEY-BEAVIS — It is an annual piece of work that we do at the MAV, and the results for this iteration were quite interesting. Firstly, from the rate of wage change — so we have seen CEO salaries in previous iterations move to below the sector average — this survey indicated that wage rates had reduced significantly and were down to in the mid-2s at the most recent salary review. So that was quite significantly below where they had previously moved. In addition, we do some mapping — we have got some copies here should you be interested — where we map out the distribution of CEO salaries by population.

The CHAIR — By population of the municipality?

Mr HARVEY-BEAVIS — That does not look right actually. We might actually send you a revised copy. The X-axis does not look quite right, because the actual relationship between population and CEO salaries is much stronger than it would appear on this graph, and I am pretty sure the council population is more than 70. But if you overlay the actual state government executive salaries against the council CEO salaries, you will see they all fall within the EO1 to 3 classifications. So effectively it would appear that the CEO salaries sit within the state government executive market, below the departmental secretary level.

Mr SPENCE — So we can give you this, because there is an absolute correlation between salary and size. We have tested it against rate revenue —

Mr HARVEY-BEAVIS — Tenure, gender, rates — rates and population are highly correlated, so there is a relationship in terms of revenue and rate size as well.

Mr SPENCE — We were surprised that tenure did not influence it, but it has not.

The CHAIR — We would certainly be interested in those breakdowns with gender and the size of municipality there as well. I think that would be very helpful for us to see.
Mr MELHEM — And a bit of explanation about what the dots are and what they represent.

Mr HARVEY-BEAVIS — Each dot represents one CEO’s salary, so it actually gives the distribution. The Y-axis is flawed. Something has fallen off there.

Mr SPENCE — What we will do is come back to you. We will get it to you tomorrow with a detailed explanation and an updated chart so that the numbers all look sensible.

Ms BATH — Just for clarity, the council population, we are going up by tens — is that thousands?

Mr HARVEY-BEAVIS — No, that is wrong. The revised copy will have the accurate population data on it.

Mr SPENCE — I have got a beautiful one in my office, but we printed the wrong one off in a hurry.

Ms BATH — Who were the printers?

The CHAIR — I had a question that related to input costs for many councils, and obviously councils are under some pressure. One of the significant costs councils incur is waste charges and the dumping of waste, so they have obviously got a collection component and then a component where it moves to landfill. The state government levies a per tonne amount on every landfill, some of which are owned by councils, some of which are separately managed and some of which are managed for several councils, so there is a mixed pattern. I wonder if you might tell me if there is any work that the MAV has on how much it costs councils and what the impact might be on rates.

Mr SPENCE — I would be able to get you the details of the total cost of waste collection effectively by council, because we would extract that from grants commission data. That should be available, so we would be able to provide that. But the component that relates to the landfill levy is hard to get to. It is our intention to survey the councils, and we have been having a discussion about it in the last few days. Because the landfill levy has become a point of concern with the councils, particularly with the way it is now being distributed —

The CHAIR — Previously it was targeted specifically at waste projects.

Mr SPENCE — The original intent of it was that it was hypothecated back to improving outcomes in the waste stream, and that was in John Thwaites’s and Steve Bracks’s time. There was a change to the legislation I think in the last maybe two or three years which broadened the scope of what you could do, if I remember correctly, so we are now getting spending on wider issues like the Parks Victoria website upgrade and stuff like that.

The CHAIR — Bureaucracy and —

Mr SPENCE — Well, some issues that our members argue are outside of the scope of the original intent of the levy, but it is up to government and the Parliament to change the legislation to do what they want to do with it. Our members are concerned particularly that there is not enough money coming out of that levy back to resolving issues with the waste stream — that is, the development of new technology and so on, but particularly for the small or medium-size rural councils that have got legacy landfills, actually how they are going to have the financial capacity to deal with outdated —

The CHAIR — Capping systems.

Mr SPENCE — capping systems and liners and so on in legacy landfills. So you get a municipality like East Gippsland, and my rough memory is that it has probably got 15 or 16 small landfills in it of various qualities. They have probably been open landfills to tip anything in them over time, and now —

The CHAIR — And little help from government to support them.

Mr SPENCE — That is right, yes. Our position is that it is clear that not all the money should flow back into the councils but that a better stream of funding would occur.

The CHAIR — Do you think the costs that councils incur actually impacts on their ability to constrain rates?
Mr SPENCE — I do not think there is any doubt about that. The tension of the issue in the City of Yarra when they attempted to put on a levy — a garbage charge — showed you the pressure around the rate gap and the charge. Sorry, I am losing my voice here.

The CHAIR — That is all right. I will let Mr Melhem have —

Mr SPENCE — Too much singing today, that has been the problem.

Mr MELHEM — I think we should give you some gin maybe.

Mr SPENCE — That is right, or whisky.

Mr MELHEM — Going back to the last comment you made about the pressure on council, we are beginning our third year of rate capping. I understand that half a dozen councils have applied for variations, and I think they all got theirs bar one, from memory. The question then I am asking: surely your members who feel they need to increase their rates beyond the CPI or whatever rate is set by government or the ESC can actually apply and justify why they need the increase, and so far the ability has been there for them. So if a council has got a real issue and cannot meet its commitment towards services, it can come forward now under the current system to seek variation. The record has proven that these applications can be approved if there is a justification for them. Is that a fair assumption?

Mr SPENCE — It is a fair assumption. The model works where a council can make an application, and we have seen those. Particularly the rural councils have been pretty successful with applications. From the council side the message we hear is that it is a very costly process, and some of them see that the amount they can pick up out of the increase is almost offset by the cost of doing the application. We have been talking to the ESC over time about simplifying the process. But I actually think for the small and medium-size rural councils there has been a sort of perverse outcome of the rate capping policy, and that is that we are hearing much clearer messages now from rural councils that the ratepayers cannot afford to pay more, and so the councils are looking to state and federal government to supplement their operation to meet the ongoing needs of the community.

Mr MELHEM — And that, I think, was the whole idea about the rate capping, because the main driver was how we can take the pressure off working families and people, particularly in rural areas, to take the pressure off paying, because the single largest bill probably you would have to pay in most cases is the rates. That is my understanding and the evidence we have heard — that as a result of that councils have become a bit more efficient about doing things productively. They looked at productivity and tried to find some efficiencies and also explored avenues to get funding from the state and federal governments for various projects they want to do. Are you seeing some of that happening as a result of that?

Mr SPENCE — There is no doubt that we are seeing it happening. There is a shift across the sector and we are seeing much more shared services. If you just look at the things the MAV is doing with shared procurement, we have just got a WorkCover licence — a self-insurer licence — for the sector. We have got 29 councils in that licence. Our projections through our actuary are that that will deliver a 15 per cent minimum saving, better OHS outcomes, return-to-work outcomes. We would expect after this three-year licence period we would see more councils come on board. We have also set up a thing called the Local Government Funding Vehicle where we aggregate debt for the sector and go to the wholesale market. That is all reducing cost. But for the small rurals the challenge with a relatively low revenue base is quite complex.

Mr MELHEM — It is always going to be really challenging for these rural councils because of their sheer geography and not many ratepayers. Has any approach been made by these rural councils, through yourselves or individually or collectively, to the state government or the minister, for example, about finding potential solutions and going forward under the new regime? Are you aware of any?

Mr SPENCE — There is a review on at the moment, funded through Treasury with $1 million, where KPMG have been appointed to do a review of the financial capacity and solutions of the small rural councils. I would expect the first report of that to be out later in the year. Rural Councils Victoria, I think, made a pitch to the state government in the last budget round for a significant amount of money. My recollection is that it was $160 million. The government agreed that they would do a review for $1 million and determine the way forward from there, so it has the possibility of delivering some outcomes if it is aligned with government’s interests.
Mr ELASMAR — Those councils that put in rate capping applications, did the MAV assist them in a different way?

Mr SPENCE — We do if they ask for it. Some of them do, some of them do not. We have capacity to help them do it, yes.

Mr MELHEM — I thought that was what Owen does all day.

Mr HARVEY-BEAVIS — It is one —

Mr SPENCE — He works on insurance as well, because we run the insurance scheme for the sector.

Mr DALLA-RIVA — Thanks again, gentlemen, for attending. I am going to take you back to the time when rate capping was coming in. I just want to sort of get an update. The previous submission by the MAV contained five issues, and I just want to get a bit of a snapshot from Owen or Rob in terms of where things are now. You had initially in the submission the uncertainty of the framework. Where is it now in terms of your assessment, given that you have also given additional evidence and it is now in its second year of operation? So the uncertainty of the framework — I do not know if you want me to go through each of those five or go through individually.

Mr SPENCE — Do you want a go?

Mr DALLA-RIVA — It does not have to be a long-winded answer.

Mr HARVEY-BEAVIS — I think the framework has matured in its second year of operation, and I think a fair degree of the ambiguity that you saw at the front end of the system has been resolved to some extent. That is not to say there are not improvements still available to be pursued, but I think we have seen, by and large, the ESC have been quite receptive to recommendations around how they can actually improve that process from a variation perspective.

Mr DALLA-RIVA — Is that because of the work of this committee? I say it tongue in cheek, but would it fair to say that with the parliamentary oversight that has given some guidance to the ESC that they are not and cannot be standalone without some oversight?

Mr SPENCE — I think potentially. There has been a lot of scrutiny of the process. The scrutiny through this committee assists, the comments coming back from the sector. There was a review conducted by the ESC using Peter Brown, a former CEO in local government, which assisted. It helped to clear up some of the anomalies. There was an issue with the interface councils — the growth councils — with their revenue streams and the perception by the ESC that they had plenty of cash up their sleeve and yet they had a massive backlog of work to undertake.

The CHAIR — And they could go into debt if they felt like it.

Mr SPENCE — That is right, yes. But I think it is much more finely tuned now, the model.

Mr DALLA-RIVA — Before I go to the next one, the debt issue was touched on before. Do you see the ESC or perhaps the suggested process of incurring debt on the balance sheet being of less importance to the ESC now since there has been movement in the initials concerns that you had?

Mr SPENCE — I think they have moderated their position. That is my view. I think they have softened their position on that. That is not to say that in the future we will not see more of a focus on the gearing of the councils, because most of them are really low geared at the moment. There is a time for a discussion about what is the optimum gearing for an organisation like a local government that can borrow effectively at the state’s borrowing rates.

Mr DALLA-RIVA — The second one was local government revenue autonomy:

As a matter of principle, the MAV does not agree with the concept of a rate cap.

I am just wondering, is that still the view of the MAV?
Mr SPENCE — It will be the view until the end.

Mr DALLA-RIVA — Hang on. He is just coming into me now, so that will be with you for about another two months. Your policy position has not changed I guess is what I am getting at.

On local government revenue raising:

Local government has very little capacity to manage their non-rate revenue sources.

I know there has been a lot of discussion. Where is your position in respect of that? You touched on it briefly, about councils looking towards state and federal revenue streams. I think one of the examples is the SES. A good example is the lollipop —

Mr SPENCE — School crossings.

Mr DALLA-RIVA — School crossings. Has that been —

Mr SPENCE — Well, it is partly dealt with. SES is partly dealt with. We have dealt with planning fees, maternal and child health funding — they have been successfully really positive —

The CHAIR — Planning fees was a big lift, wasn’t it? Between 100 and 1000 per cent.

Mr SPENCE — It was a big lift — about $40 million to $50 million annually, but mainly in the metros; the impact on the rural is not so great. SES, we are in the final stages of negotiation but the councils are no longer having to pay the annual charges on that. School crossings, the 50-50 deal with VicRoads is in place sort of — we have still got some bits to fix on that one. There has been quite a lot achieved since rate capping came in, when MAV set its strategy of trying to deal with these things where in our view the state was not meeting their side of the bargain.

Mr DALLA-RIVA — Are there any other issues that have popped up that you did not anticipate at the MAV? Like the SES and the school crossings? The country roads? Are there any things that you have not anticipated? I know that is sort of a hard question to answer, but were there things that have popped up that perhaps you did not even foresee, maybe more in the rural councils?

Mr SPENCE — The one that has popped up that I was blindsided by was the lifesaving issue around the coast, which is similar to the SES question. You have got a model where basically the councils are having to wear a significant proportion of the cost of those, and a lot of them are the poorer councils.

Mr DALLA-RIVA — Yes, because of the nature of where they are located.

Mr SPENCE — Yes, that is right, and the less safe beaches; you know, the ocean beaches.

Mr DALLA-RIVA — The history of rate capping, that was a concern. You said it was introduced in the mid-1990s and an MAV analysis saw a significant reduction in capital expenditure in the local government sector. Do you see that starting to occur? Has it occurred quick or —

Mr HARVEY-BEAVIS — With reference to the LGV projections, that is precisely what we are seeing in that small rural category. Obviously their financial —

Mr DALLA-RIVA — Have you provided documents for that? You may well have.

Mr SPENCE — We can provide it to you.

Mr HARVEY-BEAVIS — We will provide that to you.

Mr DALLA-RIVA — That would be worthwhile just for our next report. I think it would be good to see some of those variations. Finally, community:

… the effect of rate capping should be assessed against the costs and benefits of the policy …
So, to be fair, we have had evidence from people, ratepayers, who have been highly supportive of it. I think at the last public hearing we had there was representation from one of the ratepayers. Where is the MAV sitting with respect to some of the feedback from the ratepayers associations and the like?

**Mr SPENCE** — We acknowledge that the general population has a view that rates should stay around CPI, but there are proportions of the population that are receiving services, like aged care and so on, that will not be delivered. In our view over time they will not be able to be maintained if the revenue streams of the council cannot match the cost of service delivery. The issues we are grappling with at the moment are the move of aged care to the commonwealth, the NDIS rollout in Victoria and the potential impact, particularly in rural Victoria, of market failure. So if there are not other providers, if the pricing, as we generally see with the commonwealth, is really tight — there is discussion among the rural councils at the moment about moving out of the aged-care and disability space, which means we could be left with a serious problem of market failure in Victoria. So while I acknowledge that there will be people in the community who are concerned about rate increases — as they are about state taxes and land tax and so on — on the other side the service requirements for people with disability and the aged, for example, are really critical to the strength of our community going forward, so we need to maintain a level of service out there, particularly in these communities that are remote.

**Ms BATH** — Thank you, gentlemen. You mentioned at the start of the presentation that capital expenditure would be reduced by 30 per cent by 2020, which is a phenomenal amount in effect. Many of the small rural councils and shires that we have have a lot of little halls and assets that need maintenance. Where do you see that impact? What is going to happen to those places that may not be utilised every day but are still very much a focal point for our communities? Where can you project that councils will go with that, and do you see that they will have to sell off assets?

**Mr SPENCE** — My take on it is that we will see a slowing of road construction and maintenance — that will be the starting point — but then community buildings, those that are in low use, are likely to suffer, I would have thought. I worry about swimming pools in rural Victoria.

**Ms BATH** — Mirboo North?

**Mr SPENCE** — Yes, that is right. These maybe pools that were built in the 50s and 60s. They are quite dated, high cost to repair or maintain but are a critical piece of community infrastructure. The council has to have the financial horsepower to be able to maintain them. We approach this from a view that the citizens of rural Victoria should have a level of service that is as closely matched to what you can get in the metropolitan areas as possible. We know it is not completely possible, but they should not be disadvantaged by the remoteness. They make significant contributions to the Victorian economy and so on. They are citizens.

**Ms BATH** — I agree entirely, Rob. The other comment I would like to talk about is that in your previous evidence you also raised the issue of road maintenance and you spoke about how if VicRoads budgets are not being increased — in fact it is in a negative sense; they are going backward — there is deterioration of local roads. People will actually try an alternate method of transport around the back roads. What will happen there? If you are talking about reducing capital expenditure, what is the long-term outcome for those councils?

**Mr SPENCE** — I think it is quite drastic, and the potential impact on the local economy is quite significant because you are talking about moving product. I mentioned maybe three presentations back that there are potholes in South Gippsland that according to them are on the national heritage list and —

**The CHAIR** — The roads or the potholes?

**Mr SPENCE** — The potholes are on the national heritage list.

**Ms BATH** — In fact some of them are near my home.

**Mr SPENCE** — That is right. And what they were saying was that in fact the farmers have had to repackage product to get it to the markets in a quality form because the road damage impact on the product is significant. Now, if the roads continue to deteriorate, that is going to be a much more significant impact in rural Victoria, and in metropolitan Melbourne because of the product.

**Ms BATH** — And it is a false economy, Rob, because you are actually losing productivity all the way.
Mr SPENCE — All you are doing is pushing the problem out to future generations. That is all you are doing.

Ms BATH — Could I also ask, Chair, if you do not mind, in relation to maintaining capital buildings, are councils borrowing more money and then just doing the repayments? Are they looking at that as a method of sustainability?

Mr SPENCE — We are not seeing a lot of it. You see it much more in the interface councils, the real growth councils. In rural Victoria the debt levels are pretty low, aren’t they, Owen?

Mr HARVEY-BEAVIS — Yes, and going back to those projections they are projected to fall as well. Whether or not that will come to pass is another matter, but on the basis of what we are seeing, you would suggest that debt would actually fall in that component of the local government sector.

Ms BATH — Our populations are ageing as well, as you said, and the capacity to pay is reducing out there.

Mr SPENCE — Yes. One of the pieces of work we are turning our mind to at the moment is: if Melbourne grew to 7 million and there were 1 million into the regional cities and rural Victoria, what impact would that have? I am in discussions with Peter Brain from the National Institute of Economic and Industry Research, which does the state of the regions report annually, about having a look at doing the modelling of what the impact would be on Ballarat, Bendigo, Horsham, Wodonga et cetera, but also the spinoff into the small towns around. So would 1 million of population drift into those areas have a significant multiplier impact into the communities around the main regional cities? I think it is a worthwhile exercise to do because I think we would all be worried about what Melbourne would look like at 8 million.

Ms BATH — Exactly, and also you have got that connectivity, which is so important intercountry but also back into the city as well, and roads are a part of that.

Mr SPENCE — That is right, yes. So we will hopefully get that piece of work started soon.

Ms BATH — I guess that is a little way off, but I think the committee would benefit from that as well, in the future.

Mr SPENCE — Yes, okay.

Mr RAMSAY — I am just wondering what the MAV’s position is in relation to, long term, some of those smaller rural and regional councils that have sought a variation, and I have three in my region: West Wimmera, the Pyrenees and Buloke, I think, or Northern Grampians. I cannot remember which one. Perhaps I have both of them. In another committee that you provided evidence to I think it was indicated even the indexation of the financial assistance grants came at a cost to those councils of around $60 million and long term the effect was that there was a backlog of road maintenance for 10 to 12 years, simply via the two-year freeze.

Mr SPENCE — That is right.

Mr RAMSAY — The loss of the state government’s roads and bridges program again has a significant cost to the ongoing maintenance and backlog and upgrading of those local council roads. I am just wondering from your perspective at 2 per cent — the government set at 2 per cent for this next year; those three councils have requested variations of anywhere up to 3.5 — what is the long-term suitability of those councils under the current rate-capping model, given the significant impacts on other funding that goes into council other than rate revenue?

Mr SPENCE — It is a bit hard to call it at the moment, but you would estimate that in five or six years time it could be quite drastic for them, I think, unless there is a supplementary income being from another source, particularly in the ones that have got relatively low growth, like West Wimmera, Yarriambiack, Hindmarsh or Loddon. Loddon is an interesting case study because it has been one of the more successful small councils off a low revenue base, partly because of the structure of the place with relatively few towns but also because they have run a pretty lean machine and they have an agreement between the community and council about what to expect. It is quite a unique example, and over time it has worked pretty well and will survive reasonably well I think through these tough times with rate capping and other cuts.
Buloke has got more towns to deal with, diverse space and having to maintain multiple swimming pools et cetera. That loads them up with cost. You cannot afford to remove facilities out of these towns; otherwise you kill the community, basically —

Ms BATH — That is it. You are taking the heart out.

Mr SPENCE — so I think it is going to be difficult.

Mr HARVEY-BEAVIS — I think it is also worth mentioning that MAV has done a lot of financial analysis on the Victorian local government sector, particularly around sustainability, and one of the things that we have seen consistently through that data is that there is no causative relationship between a council being small and being financially stressed. But what we have seen is that where a small council becomes financially stressed it becomes a lot more difficult for it to navigate a course of action out of that. So if the rate-capping framework were to reduce capex, were to result in roads being run down, were to result in the financial sustainability of those organisations becoming stressed, we would expect based on all the work we have done over the last 20 years to show that they will have a very hard time actually negotiating a path out of that.

Mr RAMSAY — Can I just ask one small question, Chair? In relation to planning, many of the rural councils now spend a lot of their costs associated with planning, and given land use is changing all the time from traditional food production to industrial and other things, the requirement for the planning workload increases immeasurably. Have the MAV approached the state government in relation to seeing if there is additional funding that could be provided to councils, given the cap means a lack of means to raise revenue to reduce some of the costs associated with planning given the more onerous overlays and acts put upon them now to do the planning process?

Mr SPENCE — Under the previous government there was effectively a strike team that was a flying squad that would go out and assist the rural councils. It was very well received and very successful. This government said they would do it, but it has not happened yet and it is getting close to November 2018, so there is not long. What happens then is that the pressure goes back on the council to actually fund strategic planning, processing of complex planning permits and so on.

The CHAIR — It is a skill base too, isn’t it?

Mr SPENCE — It is a skill base issue. Yes, it is, and as a consequence, if that occurs slowly, then the impact on business is significant. I was reading an article in the *Australian Financial Review* — I think it was on Monday — about a company that could have set up in Victoria but went to the US because the US could deliver outcomes within a year, whereas in Australia it would have taken three years to get through the process, with more stringent environmental controls and planning controls in the US than you would have had in Australia. Those tensions on a business setting up in rural Victoria are significant if you cannot turn it around fast.

Mr RAMSAY — Just before I finish, if I may, Chair, there are some examples in my region whereby land use changes require new planning permits, and invariably there seems to be more ministerial intervention where the minister will make the call on a permit. In fact we have got new legislation coming through that gives ministers more control over planning land use. Invariably the relevant authority goes back to the councils, and they still have that significant planning workload to make sure conditions of permit et cetera are met. So again, I just find these small councils are going to be struggling in the future in relation to —

Mr SPENCE — Wind farms are a classic example.

Mr RAMSAY — I was not going to use that word, Rob, but I am glad you did.

Mr SPENCE — I am sorry. Those things with the blades that go around.

Mr RAMSAY — Is that a fair comment?

Mr SPENCE — Fair comment. With wind farms it is really a complex issue because the councils end up having to ensure that the things are delivering the way the permit, which is approved out of the state, requires.

The CHAIR — They have got to implement it.
Mr SPENCE — They have got to implement it, and have they got the skill set to do it? They have got to buy the skills in.

The CHAIR — And they have not had a say.

Mr RAMSAY — Total lack of consultation.

Mr MELHEM — I have a follow-up. You mentioned something about some rural councils having some major concerns or [inaudible] in the foreseeable future in the medium to long term, and the way it is sort of coming across, it is a direct effect of rate capping. Am I hearing you correctly, or can you expand a bit more on that? Is it rate capping causing this or other factors? For example, if a council population shrank, which is not uncommon, with or without rate capping it would be the same problem. I just want you to clear that up. Is it rate capping causing this, or is it a combination of —

Mr SPENCE — It is a fair question. I think at the moment there are probably three factors that are influencing it. The first one is the freezing of the financial assistance grants, which —

The CHAIR — Reverse now.

Mr SPENCE — But there is no makeup, so what was lost is lost forever and will be there forever. What is lost, right? That is one to your side, okay?

The second one is the country roads and bridges program, which was about $1 million per rural council per year, which is significant in terms of its potential impact. I think it was about $40 million —

Mr MELHEM — Was that ever offset by some of the investment in the rural maintenance programs and road programs and stuff at all?

Mr SPENCE — No, it has not really been offset. The targeting has been very different.

Mr MELHEM — What is the third one?

Mr SPENCE — The third one is the clamp on revenue through the rate cap. Now, because we are only a year and a bit into the rate cap, we are yet to see the consequences of it. I think that the financial assistance grants and the roads and bridges funding are the things that have had the most significant impact at the moment in rural and regional Victoria. Rate capping will, in the future, I think.

Mr MELHEM — Rate capping you are saying is a factor, but how big that factor is is yet to be realised, whether it is a big factor or a small factor.

Mr SPENCE — In revenue terms, if the rate cap is at 2, it could be 1 per cent or 2 per cent of revenue per annum because they were running at 3 or 4 per cent. So the effect will be slow over time, but it will build because it will be, say, 1 per cent one year and getting this multiplier effect each year in terms of revenue. That is what we saw in the Kennett era, because the impact when they froze rates and required a 20 per cent rate cut was that it had a massive impact. It took till 2014 really for us to recover from that. It took from 1996 to 2014.

Mr MELHEM — Some councils can actually apply for a long-term rate capping variation. I think a particular council — I am trying to remember which one it was — has already got this for a year. So you can do it under the current system if you have got capacity to do it.

Mr SPENCE — Yes, there is the capacity to do it if you put the case. That is right.

Mr MELHEM — And a last question from me is in relation to something you mentioned about the aged-care issue, which might present a major problem going forward, mainly to federal government funding. Is there a process in place trying to resolve that, because obviously it is a real issue for them? It does not matter where the money comes from. Whether it is from ratepayers or federal taxpayers or state taxpayers, it is an issue. Are you aware of any actions taking place or anything happening to resolve that between the three levels of government?

Mr SPENCE — We have entered into a tripartite agreement with the commonwealth to maintain the funding into Victoria until 2019. During that time we are trying to resolve the issue of the service delivery in the
state. Sitting beside that we have got the rollout of NDIS and the split of disability — under-65s going into the state and over-65s going into the NDIS — and the amount of funding that is available in both those streams. So we are working with the commonwealth and the state to try and resolve those issues. For me, the worry is that we will see market failure in rural Victoria in particular, because I do not think the finances or the funding available for NDIS, in particular for rural Victoria, will be enough.

The CHAIR — Is there any pullback of state funding?

Mr SPENCE — It is not obvious at the moment. There is one issue we are trying to work through, which is the under-65s. From birth effectively until 65 gets picked up in a state program for disability. There are some councils concerned that that is underfunded, because when the funding was transferred from the state to the commonwealth it is pretty hard to work out who was going to be in the state model and who was going to be in the commonwealth model. It is complex.

Mr MELHEM — So we are going to sort it out and get it right.

Mr SPENCE — Yes, that is right.

Ms BATH — Rob and Owen, a few months ago we had the State Taxation Acts Amendment Bill, and many councils and members of the public wrote to me in relation to property valuation and the potential shift in property valuation to a central location. Locally they provide local council jobs, but they also provide local knowledge around the assessment of those property valuations. It was removed from the bill, but I am still having people write to me in relation to annual valuations, and they are nervous. Am I the only one hearing that, or are you also hearing that?

Mr SPENCE — No, the state is out now consulting at the moment on the bill, so I will expect it will be brought back into the house at some stage. We have a session at the MAV next Thursday, tomorrow week, with the councils to work through the issues with Treasury and the valuer-general. There are two issues in this. One is the uplift for the state in the land tax by going to an annual cycle, which we estimate from the budget papers is worth in excess of $200 million in the first bite — I think the 2019–20 year. That is an issue for debate about whether that is appropriate or not. The other issue is how the valuation model works. Should councils be revaluing every year? Should the valuers be with the valuer-general or with the councils? It is all mixed up in quite a complex debate at the moment, and we will see how it plays out. Some councils are quite happy. There are 18 councils, I think, that currently have the VG do the valuations, and they are comfortable with the model — less comfortable with the annual valuation, moving from two years to one.

Also from a rate capping viewpoint, which is important for this committee, how in the hell is any citizen going to know whether they are within the rate cap when the valuations of the properties are moving around all the time? You will have no clue whether the rate cap is working or not. So from a transparency viewpoint, with annual valuations it is quite complex.

The CHAIR — But there is also a cost, isn’t there, in the annual valuation? If councils where to do it, that would cost them more money. In fact I think it is MAV policy for four-yearly country valuations.

Mr SPENCE — That is right; yes, it is. The proposition put by the state to the MAV and the councils is that all the costs of the additional valuation cycle will be met by the state. The councils are concerned that in typical form, no matter what government, unless that is in legislation there is no guarantee the funding of it will last more than a couple of cycles and then a government will decide that they do not want to do it anymore. There is a lot of nervousness about this one.

The CHAIR — So is your view that it will be impossible to track the impact on individual family or business rates with annual cycles changing?

Mr SPENCE — That is right, yes.

Mr HARVEY-BEAVIS — Absolutely.

Mr SPENCE — You will have no idea. I think I have mentioned here before that my rates last cycle went up by a thousand dollars. I am in a high-growth area at the moment because it was probably undervalued and
now it is realigning itself. In the non-valuation year I would expect normally a 2 per cent increase, but I could get another massive increase, and that will occur for any citizen.

Mr DALLA-RIVA — A question that I asked in the last public hearing was about Australia Day, and I asked it to the VLGA, who were out there waving banners in support of it. Where is the MAV’s position in terms of council extending outside into areas that perhaps people could be critical of or not?

Mr SPENCE — The MAV does not have a position on this, but I would expect it will be a matter for significant debate at our state council in October, and we will see what the members say.

Mr RAMSAY — Does that includes the rainbow flags being used on public property.

Mr SPENCE — Any of those matters; we do not have policy on that. Our members will determine the policy. The members will come together, and I would expect we will get motions come forward and we will get a diversity of views, which is really what we are seeing in the community.

Mr DALLA-RIVA — I put it in exactly the same tone last time. It is in the context that people are concerned about rate capping, and there are councils who are stepping in the domain of federal issues, or indeed state issues, where they have no real capacity either way, and it is therefore for people really at a state level or a federal level to vote accordingly, whether they agree. So I am curious where the MAV sits in where policies of councils can fall outside into areas that perhaps it ought not to.

Mr SPENCE — Well, I enjoyed doing an interview on ABC on this a few weeks ago, because I took them back through a bit of history. The MAV and local government in Victoria were strong advocates for the federation of Australia and were out on the front foot. The MAV and local government were strong advocates and were out on the front foot on votes for women in 1912 or something. MAV and local government were keen to get females onto councils and into the political space. These are issues that people would argue are not really local government issues, but in fact our sector, when they see issues that justify proper debate at the national level, will have a go. I think it is an indication of a robust democracy; that is what I would say.

Mr DALLA-RIVA — I look forward to your debate on coal-fired power generation.

The CHAIR — Well, just on the power charges, has there been any work by the MAV on power costs and how that is impacting on councils?

Mr SPENCE — I can check and see. We are looking at running a tender soon for power and gas for the sector to make sure that we are getting the most competitive rates.

The CHAIR — Councils are big users of electricity.

Mr SPENCE — They are, absolutely.

The CHAIR — We would certainly appreciate any work on that, because that compounding with rate capping will make it harder for councils to maintain services.

Mr SPENCE — So when we look at our procurement activities — aggregated procurement — we look at areas where there is an opportunity to make significant savings. Power is one. Legal costs is another. That is a significant opportunity to do what the state does and have a panel, pull costs down, have rack rates that are really competitive with the state rack rates for lawyers. There are a lot of areas that we are working in like that to try and pull costs down.

The CHAIR — Any material you have on some of those areas, particularly the power costs, we would certainly appreciate.

Thank you, Rob and Owen, for coming in. We will be in touch with other matters. Thank you to Hansard as well.

Committee adjourned.