TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Melbourne — 8 August 2018

Members

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Witness

Mr Rob Spence (affirmed), Chief Executive Officer, Municipal Association of Victoria.
The CHAIR — I declare open the hearing of the Environment and Planning Committee with respect to its reference on rate capping and local government, and I welcome Rob Spence. We have got a subcommittee here today and one more to attend, but we will start. Rob, I thought what we should do is get you sworn in first and then get you to give a brief statement about the impact of rate capping.

The obvious question is: given that we are near the end of this particular cycle — we have had rate capping now in fact for three years of the four years; I think that is actually the truthful period as the first year was a run before the rate capping — what impact has it had? What impact has it had in the different council areas? What impact has it had on programs like Country Roads and Bridges and other services?

Mr SPENCE — I think we are seeing the impact more in rural Victoria still than we are seeing in metro. There is an interesting observation. We run the local government funding vehicle, which issues bonds into the wholesale market. We had a bond issuance lined up for just over $100 million to go out before 30 June. What we saw was we had $100 million committed from a range of councils. That came back across the year to $20 million. What that looked like to us is that the councils are being much more conservative about capital investment. They want to ensure that they have got enough financial horsepower to cover it. We have had to not proceed with this bond issuance because we need more volume than that. So I think that is an example of where we are seeing the impacts.

The loss of the Country Roads and Bridges program, obviously there is that. The indexing of rate capping, the indexing of the Financial Assistance Grants — all of those things have had a particular effect on the rural councils and the way they approach the business. I think one of the things we will see too is local government becoming less competitive in the public sector market in terms of its labour costs. We have seen the state government’s wage rates move very quickly upwards. In local government we are seeing increases at 1 per cent and 2 per cent but some at zero. Historically what we have seen in periods like this is that you get a disparity between state and local, and then local finds it hard sometimes to recruit, so I would see that as a potential outcome. On the positive side low wage rate movements have assisted with the defined benefit scheme in the super fund, so because the wage rate movements influence the DB fund requirements on earnings, the DB fund is still looking quite strong with a VBI of about 105 per cent. Under 100 per cent and you need to take action, at 97 per cent you have got to seriously take action with the DB fund, so —

The CHAIR — But 105 per cent is not so bad.

Mr SPENCE — At the moment, but a piece of work we have just done at the super fund shows there is somewhere around a 65 per cent probability there will be another call on the fund into the future, or multiple, indicating that if we end up with a call, you can see the pressure on councils with rate capping. If the markets go off, the fact that the fund is so mature — not many employees are paying into the fund now, so it is all about earning rate and trying to meet the pension requirements. It had a pension component in it when it was set up by the Cain government, and that pension component is quite a drag on the fund. It is the same as the state fund — you know, the DB fund in the state has got a pretty horrible liability line — at least ours is in the positive.

The CHAIR — Well, they tried with the beneficial choice to manage that out and give people the option of moving out.

Mr SPENCE — That is right, but we have not got that choice. So my take on it is we are starting to see it bite. I think in the next term of government we will see it bite more than at the moment. With rate increases at 2 per cent instead of 3.5 per cent or 4 per cent, it takes a little while to have a big impact, but we are seeing indications that capital spending is slowing.

The CHAIR — The essential promise was to cap rates at the CPI. That was the promise, but actually people get a bill and there is more on it than just the council rate. There is the FSL and there is an environment levy.

Mr SPENCE — Can be, yes.

The CHAIR — Yes. Now, what has happened with those? Have they been held at the CPI or have they gone up?
Mr SPENCE — The fire services levy has moved faster. There are the waste charges which come in — they have been variable across the state but in a lot of cases they are above CPI. The significance of the waste charge being separate from rate is that the volatility in the waste charge is quite high.

The CHAIR — But the government is collecting a lot of it, and it is not necessarily being expended.

Mr SPENCE — Yes, that is the money that is going in through the landfill levy.

The CHAIR — The landfill levy — that is the other component? There is the waste charge —

Mr SPENCE — That is a component that is in the waste charge.

The CHAIR — Yes.

Mr SPENCE — That actually flows through to the state, and that has got something like $500 million, I think — somewhere in the vicinity of $500 million sitting in the state in that pool.

The CHAIR — That has been building up?

Mr SPENCE — Yes, over time. So when you look at the waste charges, recycling is the classic example of the impact. So where councils were getting paid for their recycled material at about 70 bucks a tonne, they are now having to pay a gate fee of $60 a tonne. So the turnaround is about $130 a tonne or $250. Some of the rurals — like Mildura is up to $300 a tonne to keep the recycling system alive. Now, that is now reflecting back in the waste charge that is on the rate bill, so we are seeing, I think, 50 to 60 bucks a year additional charge on that.

The CHAIR — Do you have a breakdown of those additional charges that we could look at, over the four years, so that we could actually get an understanding of the impact on rate bills of the various charges, including particularly these state charges?

Mr SPENCE — Yes, I could have a look at that. I am sure we could put that together if you are interested.

The CHAIR — That would be helpful, I think, because people get a bill and they look at that and they think, ‘Oh, right. That seems bigger than what it was before’.

Mr SPENCE — Yes, that is right, and I do not think there is any recognition by the owner of the property that this is a state charge relative to being a local council charge.

The CHAIR — No, but we probably should make that a bit clearer.

Mr SPENCE — Yes.

The CHAIR — A bit of transparency on that would be a good thing, I think, because it is my sense that the FSL has certainly gone up and the overall environment levy has gone up, the waste levy has gone up and the state government has not — how can I say it? — applied to itself the same discipline it wants to apply to others.

Mr SPENCE — No, and one of the other issues that has popped up in this cycle is the impact, particularly on farmers, of the rapidly moving prices or values of farms because of — and this is my take on it — the corporatisation of the farming sector and competition to buy properties. So we have had a number of issues occurring across the state where the farmers are expressing real anger about the fact that the impact on them is not being captured through the rate cap. They are getting significant — like really significant — increases.

The CHAIR — There is another group that are being clobbered too, isn’t there? Within certain municipalities there have been big disparate movements. So some have stayed a bit lower, but others have had massive increases.

Mr SPENCE — I think there was something in the paper yesterday or the day before — I think it was about Point Cook. I think it was Point Cook, where there has been a significant jump in the property prices, and the material in the media was about 50 per cent rate increases for some. So that is as you redistribute the rate because of a change in valuations across a municipality.
The CHAIR — Even if the rate over a municipality stayed at the CPI, the internal movements might not be even.

Mr SPENCE — That is right, because of the valuation shifts. So you have got someone whose property has hardly moved and you have got someone whose property has moved by 50 per cent, so the impact is enormous. And rarely across a municipality do you see a consistent movement in the valuation of properties. Now, we are moving to annual valuations. Will that help? It might, but you will see much more bounce around.

The CHAIR — More sharp movements.

Mr SPENCE — That is right, and in the old days when we had four-year valuations and six-year valuations for rural — four for metro — you would have stability for four and then you would see a jump. And there is an argument that says that that inequality that occurs in one year will be smoothed out maybe over a four-year period, so those slow price movements at the start actually get picked up over a four-year cycle.

The CHAIR — Even two years might be a bit fairer.

Mr SPENCE — Yes, that is right.

The CHAIR — Has the MAV worked out how much more they think the state government will collect on the annual valuations through land taxes?

Mr SPENCE — When you delve into the budget papers you can actually find it. We think it is on the upside of $200 million in the last lot of budget papers.

The CHAIR — This is again not consistent with a CPI increase in charges.

Mr SPENCE — You would not think so, no. That is the catch, because with land tax you are basically paying the tax on the value of the property. You do not have this redistribution bit that you have in local government where you determine how much you want to collect and then you use the valuations of the properties to distribute it. With land tax, you have a tax rate and you pay the tax rate on the value.

The CHAIR — But you could adjust the rate —

Mr SPENCE — Downwards.

The CHAIR — to deal with the changes in land valuation so that you might take a little bit more, even a CPI increase.

Mr SPENCE — Yes, it is the same as differential rates. You can move the rate to protect particular components or raise more revenue out of particular components.

The CHAIR — And the difficulties that were faced earlier on with the ESC in its approach, where is that going now? Where is the ESC? Is it still —

Mr SPENCE — It has quietened down a lot, but there has not been a lot of interest in putting in for variations because I think the councils find it too hard.

The CHAIR — Too hard, and they are unsuccessful anyway.

Mr SPENCE — That is right. And you burn a lot of money to actually do it because you have got to put a massive amount of effort into it.

The CHAIR — Are there any in this year, do you know?

Mr SPENCE — Monash were because they did not have a waste levy, and with the recycling impact they put in a proposal and got a part increase. And they are a really lean rater too, Monash. They are probably the lowest rater in metropolitan Melbourne. They are going to have to wear a fair bit of the impact of the recycling issue. I think with recycling we are stuck in that space with high prices for maybe three to five years. The world prices look terrible.
Mr DALLA-RIVA — When we first started this process, there was an enormous amount of angst about the impact that the rates cap would have. I guess what I am hearing from the evidence thus far is that it is still too early. There are some indications that there are issues starting to take effect and perhaps there are accelerated fee increases in other components which are state driven. You are saying, ‘Well, the rate cap’s being kept low’, and correct me if I am wrong. While the rate cap has kept the rates low, there has been a corresponding disconnect with other fees which are added onto the rates, which are state government fees which are not capped. Correct?

Mr SPENCE — That is correct.

Mr DALLA-RIVA — That is the first thing you are noticing come out. Would it be fair to say that ordinarily those fees would not have been noticed so much when there was no rate cap, because they perhaps would have gone at the same rate as the rate?

Mr SPENCE — Potentially, yes. There is no real connection between the two.

Mr DALLA-RIVA — I am not saying there is. But because the council rates are now being capped and the other fees are not, therefore there is a discrepancy in the number that appears more obvious.

Mr SPENCE — That is right.

Mr DALLA-RIVA — That is probably the first observation. The second observation is in the early stages, and I remember when we were taking evidence from one of the councils down Mornington way where councils were spending an enormous amount of money and time on their submissions. They were getting — I cannot remember their name — ESC specialist bureaucrats to deal with putting their submissions in, very complex, overly detailed submissions that for the amount of increase in the cap were not justified, because they were spending well in excess of $100 000 to $150 000 to try and justify a $200 000 increase.

Mr SPENCE — Correct.

Mr DALLA-RIVA — Can I just flesh out that a little bit more to get the background? Where is that now? What is the feedback from councils on that process? Has the ESC modified and been a bit more lenient in its processes? They gave evidence that they were going to start to look at ensuring there was a more systemised approach. I know there are a lot of questions, but I just want to flesh that component out, because that was a real issue at the start of this inquiry. I just want to see where it now sits, three and a half years into it.

Mr SPENCE — I do not think there has been a significant shift. The evidence that you have to put to the ESC in the short time line you have is quite comprehensive, and you have got to justify to them that there has been community consultation on the issue as well. It is not an insignificant exercise for a council to undertake. It is not like a water authority, for example, that have to go through massive —

Mr DALLA-RIVA — Like a Regulatory Impact Statement type process.

Mr SPENCE — That is right, the works. It is simpler than that. But for the councils in need, and again I would argue this is rural rather than metro, $60 000 to get a consultant to come in or $80 000 to get a consultant to come in to prepare it for you, because generally the skills are not held in-house to write this stuff, and to have the economic nous to put it together — it is not criticising the people in councils; it is just rarely do you have that sort of skill in-house — the costs are significant. You are talking about $60 000 to $80 000, and for some of these councils that can be a 1 per cent rate increase.

Mr DALLA-RIVA — You might have a job post your retirement then.

Mr SPENCE — There is always a job.

Mr DALLA-RIVA — You might have something at $40 000, as he says with tongue in cheek. I guess the issue is that in your consideration is the ESC — and I do not want to put words in your mouth — still a very complex process or have they streamlined it from when we first started?

Mr SPENCE — They have made some streamlining impacts, but I do not think the streamlining is to a point where it is easy for a council to undertake it. There is a view that you have got to jump a pretty high hurdle to get anything from them.
The CHAIR — It is still very cumbersome and rigid.

Mr SPENCE — Yes.

Mr DALLA-RIVA — Just a question without notice, but why would it not be something that you would say that okay, the CEO could perhaps submit? We have spoken about this. There have been suggestions. We have had the ESC in a couple of times. Is it just because it is? It does not make sense to have ratepayers money being spent on a consultant’s report to get more money. It is Yes, Minister type stuff.

Mr SPENCE — It is a fair comment. I think we have probably got to build the skill inside the councils that enables them to do it. What we know is with the rurals they struggle to even put in grant applications, because they have not got the capacity. It is more capacity than skill with grant applications, but even a grant application can be quite a sophisticated document to put together.

Mr DALLA-RIVA — You said in your earlier evidence that this seems to be or could be a drift away from human resource knowledge — that because of the competitive nature of bureaucracy it may be better to go to a state or federal government position that pays more because there are not the downward pressures of a rate cap and therefore by default it means that the skills base that you just indicated you need to do those types of reports leaves. It becomes self-fulfilling basically.

Mr SPENCE — That is right. You drive down wage rates, so it is hard to recruit people particularly into the rurals. We have got massive turnover too in CEOs at the moment. I think there have been 10 or something turn over just recently. What is causing that? I think the industry is very complex and quite challenging at the moment. The financial management is tough. The politics sometimes are difficult. So when you have only got 79 in the cohort, that sort of turnover is really pretty high.

Mr DALLA-RIVA — Okay. Before I finish, do you want to do your valedictory speech now? Is this the last committee you are on?

Mr SPENCE — I think so. I have not had any call-ups for any others.

Mr DALLA-RIVA — You have not received a summons, or you have not had the fraud and extortion squad knocking on your door yet?

Mr SPENCE — Well, not yet, but it can always happen. You never know your luck in a big city.

Mr DALLA-RIVA — It can always happen; you never know in this world. I wish you all the best, Mr Spence. I know David might finish up with a few words. You said before, off the record, 21 years.

Mr SPENCE — Just on 21, yes.

Mr DALLA-RIVA — Twenty-one years, and one and a half weeks left. I wish you all the best. I will not see you at any further committees because I know this will probably be one of my last public hearings as well, but I wish you all the best whatever life brings you. Thank you for your service to your association and to the people that you have worked with and fought against, I guess, over those years.

Mr SPENCE — Thank you.

The CHAIR — Rob, I certainly endorse the point put on the record — your contribution to public life and councils statewide and communities — and I think all of my colleagues on the committee would want to mark that.

Mr SPENCE — Thanks very much.

The CHAIR — I did have a couple more final questions. The first one is: should Country Roads and Bridges be restored?

Mr SPENCE — Definitely. With rate capping and the loss of that — a massive hit in rural Victoria which is affecting the whole transport infrastructure. You get product damaged when it is moved to the markets and so on because the roads are not good enough. And, you know, the councils have not got a lot of money to deal with
what is, I keep saying to people, twice the circumference of the Earth in roads under councils’ control, so it is not a short distance and the cost of maintaining it is enormous.

The CHAIR — That is probably my main final question. I guess my other point was that in terms of some of these state government contributions, we would welcome any of that information about FSL and so forth that has added to the cost burden.

Mr SPENCE — I will get something put together.

The CHAIR — Do you think also that state government funding has kept pace with population growth and the needs of councils?

Mr SPENCE — I think both federal and state have struggled to keep pace with it. In a way I am speaking mainly for rurals here, but we know that to run a council in rural Victoria, if you have got 6000 in population, the costs are the same as if you have got 20 000 in population. So there is a point where the costs are embedded and you cannot run it for any less. Actually managing that is a really complex exercise and to provide the quality of services that you would expect in rural/regional Victoria or that is equivalent to what you would get in metropolitan Melbourne, and for metro, you know, outer Melbourne, dealing with the level of growth they have got — it is enormous. I keep using the ‘85 babies born a week in Wyndham’. Casey is in the same ballpark. That is a kindergarten a week, and a lot of this is new population. It is not as if you are replacing an embedded —

The CHAIR — It is the same with peri-urbans.

Mr SPENCE — That is right. If you are in Boroondara or somewhere, you will get the cycle of people moving through, but this is primarily new population, and the growth areas really need funding. The more the infrastructure lags behind the population, the more dislocated, disenfranchised communities you get. Then you get increasing crime and all sorts of family violence and all the stuff we are trying to decrease, so it is quite a challenge but it requires a lot of money to solve the problems and with our population booming, which it is.

The CHAIR — Thank you. I am appreciative of your help over the last four years, and certainly we will look forward to our final report and we will take on board some of these points.

Mr SPENCE — Can I just say too that it has been a pleasure to work with you in various roles — with you, David, as shadow and as minister we worked very closely together, and you, Richard, it was the same. It has been a pleasure, and we have done some good things together. This is all about the good of the public.

The CHAIR — Certainly in the health days there were a lot of things.

Mr SPENCE — Yes. We fixed a few things, didn’t we?

The CHAIR — We did. We had a lot of conundrums — smoking, God knows what, all sorts of things.

Mr DALLA-RIVA — You were smoking together?

The CHAIR — No, stopping smoking.

Mr SPENCE — And on David’s good advice we got together and we crept up on it. We did it in small bites and it worked, so thank you.

The CHAIR — We did it in bites. It worked, yes. Thank you.

Witness withdrew.