TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Melbourne — 22 August 2018

Members

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Mr Cesar Melhem — Deputy Chair
Ms Melina Bath
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Mr Jeff Bourman
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Dr Samantha Ratnam
Ms Jaclyn Symes

Witnesses

Cr David Edwards, Chair, and
Mr Geoff Potts, Executive Officer, Peri Urban Group of Rural Councils; and
Mr Malcolm Lewis, Chief Financial Officer, Baw Baw Shire Council.
The DEPUTY CHAIR — Welcome to the inquiry into rate capping, this public hearing of the Environment and Planning Committee. All evidence taken at this hearing is protected by parliamentary privilege, therefore you are protected against any action for what you have to say here today, but if you go outside and repeat the same things, those comments may not be protected by this privilege.

Cr EDWARDS — Thank you, Mr Chair. I will just introduce the representatives from the Peri Urban Group of Rural Councils tonight. We have got Malcolm Lewis, who is the CFO of Baw Baw Shire Council; we have got Mr Geoff Potts, who is the Executive Officer for the Peri Urban Group; and you have got myself, Mr David Edwards, Moorabool shire councillor and the Chair of the Peri Urban Group of Rural Councils.

I would like to thank the committee for the opportunity to address you tonight. The peri urban group represents the seven councils that ring the metropolitan area in Bass Coast, Baw Baw, Golden Plains, Macedon, Moorabool, Murrindindi and Surf Coast. The councils of the peri-urban region are deeply concerned about the long-term impact of rate capping on our communities and our ability to deliver services and infrastructure into the future. We welcome the opportunity to provide comment and to work towards a sustainable approach to rating in Victoria. We want to talk through some of the issues, but not only talk through the issues but also try and identify what we believe some of the solutions to those problems could be.

The Peri Urban Group of Rural Councils takes great pride in working with all levels of government to identify what we see as future problems. We look forward to working with governments so that we can better the region of the peri-urban. We currently see the peri-urban slightly as that little bit of a ring of disadvantage. We are not quite a rural council, but we are also not an interface council. We quite often face some of the challenges that are those of the rural councils, but there are also some challenges we face that are those of the urban councils.

The peri-urban region is growing rapidly relative to our existing resident base and higher than the regional cities. By 2031 the population across the peri-urban region is predicted to grow by an average of 32 per cent, as compared to the regional cities of Ballarat, Bendigo, Latrobe, Mildura, Shepparton, Wangaratta and Wodonga with a predicted growth of 19 per cent. So we are actually predicted to grow by third more than those regional cities.

Some of our major growth towns within the peri-urban region are Maddingly, which is within Moorabool shire. It is a suburb of Bacchus Marsh now. It expects a 253 per cent growth between now and 2031. We have got Gisborne and Macedon with an 87 per cent growth. We have got North Wonthaggi and Bass Coast at 131 per cent growth, and we have got Warragul within Baw Baw at 115 per cent growth. Whilst we may not have the pure numbers of some of the interface councils, we certainly have significant numbers in population growth.

The key challenge for us is in road funding. Maintenance and renewal accounts for half of the capital works budget of a peri-urban council. Our road networks are enormous; our sealed and rural roads stretch 22 000 kilometres, which is sufficient to navigate mainland Australia. On average we are spending $1302 per kilometre in road funding. This converts to $65.91 per person in the VGC road funding — Victoria Grants Commission figures. Whilst the VGC funding disparities due to a higher rate of funding for high-volume roads — 5000-plus daily traffic volume roads versus lower volume roads — the direct burden on the seven peri-urban council budgets per person is 3.8 times that of the interface councils. That is 1.6 times that of regional city councils and 13 times that of the 13 richest councils across Victoria.

So one of our main problems is that we have a significant road burden. We are the playground for metropolitan Melbourne, so the roads do not just service our local communities. In fact the peri-urban region has a significant impost of non-rateable land, so we have a lot of national parks, state parks and we have water catchment areas. We have all these things that are not rateable and that we cannot collect any income from yet, and we need to deliver the road systems that enable people, not just from our region but from outside our region, to travel to these areas. They support a lot of tourism, they support a lot of wellbeing within our communities, so it is a huge impost when you compare that to either the regional cities or the interface councils. Per square kilometre the interface councils and regional cities can invest at least seven times the funds of a peri-urban council. So on average for the peri-urban region their budgets are a quarter of that of the interface councils.

The Peri Urban Group of Rural Councils have a combined revenue of $176 million. Our councils directly administer 6437 kilometres of road and expend an average of — I covered that; my apologies. The councils of our region are already under enormous pressure to deliver the more than 100 services the community expects.
For example, in the peri-urban region 27 to 28 per cent of our population subsists under the poverty line of $22,000. In other words, we actually have a lot of low-income earners across our region.

How is the rate capping involved with that? With rate capping we have got huge amounts of growth, as I have just spoken about, and we have got a huge amount of road. It actually stifles our growth. So what you quite often see is that we have all the reporting requirements that we have for the state government, we have the loan borrowings and we have enormous growth happening, on the one hand, but we cannot borrow money, on the other hand, above the 60 per cent. I think it is, of revenue. So then some of these other projects that are put forward by governments, the low-level funding, are just not accessible. We do not have the access to the grants that you have, for example, with the interface councils, where they do have significant growth as well. We have no access to that. There is this glass ceiling. It is almost like, ‘Well, you’re on that side of that road, therefore you can’t access the funding’, but unfortunately the growth does not stop at that glass ceiling.

Ms BATH — Yes, I have heard that.

Cr EDWARDS — It continues to go across the peri-urban region. Geoff is going to talk about some of the solutions, we believe, to these problems.

Mr POTTS — Essentially in our submission of about three years ago we did an analysis of how much rate capping actually impacted across the board on the seven councils, and we came up with a figure of about $12 million. How that impacts on our councils is quite profound. As David alluded to, we have got a number of areas where, if we cannot fund them, the people that are within our councils are going to be impacted quite severely.

I will give you a few figures before we go on. I will give you an example in the area of the funding of community services. For example, in the peri-urban region 27.89 per cent of our population subsists under the ACOS poverty line of $22,000 per year. This level of poverty in our regions is not dissimilar to that of other comparable regions — in interface councils it is 28.8 per cent; in regional cities it is 28.25 per cent — except for the 13 richest LGAs, which have a poverty level of 24.14. In addition, 6.1 per cent of the people in the peri-urban region miss out on a meal at least once a week because they cannot afford it, compared to 4.6 across the rest of the state.

The peri-urban region average expenditure on family and community services per person is $275 per person. This compares with interface councils, which spend $1,146 per person on family and community services. The regional cities spend on average $781.80 per person on family and community services, and the 13 richest councils spend an average of $993.83 per person on family and community services. So we are clearly disadvantaged by the amount of money that we can actually push into that part of the community. Our solutions are built around the fact that we recognise that rate capping is popular — it is popular with the populace; it is popular with the state government — and it is not going anywhere anytime soon. This is our new reality. However, this does not address our core problem of an expanding population base that requires ever-increasing levels of social and hard infrastructure to cope with the levels of growth we are experiencing.

The peri-urban region proposes the following solutions, particularly for our region: firstly, the establishment of a peri-urban growth fund that mirrors the Growing Suburbs Fund available to the interface councils. The Growing Suburbs Fund is a $200 million investment over four years in critical local infrastructure for communities in Melbourne’s diverse and fast-growing outer suburbs. It brings forward critical community infrastructure priorities, delivering projects that improve the amenity, liveability and resilience of interface communities, support connections, enhance services and provide local jobs. It funds local infrastructure such as family and community centres, town centres, civic revitalisation projects, open space and amenity improvements. The PUGRC needs a similar fund, and I will go back to the comment before: we are down $12 million a year, and that was as of 2013. What we are suggesting is that we have a fund, similar to the Growing Suburbs Fund, of $80 million over four years to cover the loss of revenue from rate capping.

A second solution is to basically provide a subsidised loan mechanism built into this particular fund so we can gain access not only to grants but also to low-interest loans — basically get in front of the infrastructure wave that we need to put in place and provide that into the future. Currently the state government has a $100 million Community Sports Infrastructure Loans Scheme, which was announced as part of the 2018–19 Victorian budget. It is a funding mechanism underwritten by the Treasury Corporation of Victoria. It provides subsidies that will further reduce the interest rate paid by borrowers by at least 50 per cent. The scheme could be widened...
to accommodate broad infrastructure spending for small local government authorities, like the members of the peri-urban group. An amendment to — I think it is — section 195 of the Local Government Act, which deals with loans to local government, allowing for the increase of loans above the 5 per cent cut-off level, which is tied to current revenue, when the loan mechanism is the Treasury Corporation of Victoria, would allow local government authorities to invest in much-needed infrastructure with a state government guaranteed loan.

The third thing we are looking at is the establishment of clear policies for developer contributions. An Infrastructure Contributions Plan system should be applied to the regional greenfield growth area development setting. Once the ICP — or Infrastructure Contribution Plan — system applies to regional greenfield growth areas, a basic DCP could be applied to growth areas which meet the criteria for this development setting.

Cr EDWARDS — I will just add to that in relation to the standard DCP. At the moment there is one in there that they have for the interface councils, but we do not really have one for the peri-urban regions. There has never been any standard set policy, so therefore we are quite often left to fend for ourselves to develop a Developer Contribution Plan. Some of those can be successful; some of those are not so successful. The reality is that the peri-urban region’s councils, with such small budgets, have smaller planning departments and do not necessarily have all the specialist people to do that. If government can develop clear policies that really define what contributions will be paid, then that enables a number of things. It enables the councils to already have that in place, and that saves us a lot of money, a lot of time and a lot of resources, but it also gives some guarantees to developers so they know where they sit within that plan. That is a win-win for everybody. It is a win for councils and it is a win for developers.

Mr POTTS — If the regional ICP system had the same fundamentals as the metropolitan greenfield system, councils in our region would be able to collect a standard levy from developers in greenfield areas in order to deliver community and recreational infrastructure.

Fourthly, it would be to have the Victoria Grants Commission calculate grants on future populations, not current populations. Councils do not build infrastructure based on today’s requirements; they build infrastructure based on where they are going to be in three to five years’ time. Therefore any state government grants going to local government authorities should front load funding and fund to where each LGA should be in five years’ time so that we can get in front of the infrastructure demand curve that we are currently experiencing.

This is an issue for the federal government, but I thought we would raise it as well. It relates to the grant funding mechanism under the Local Government (Financial Assistance) Act 1995, which is a Commonwealth act. A central part of this act is the minimum grant national distribution principle, which requires that no council may receive a general purpose grant less than 30 per cent of the per capita average of entitled funds available. The Victoria Grants Commission has identified 13 of the richest councils — which receive collectively $43.9 million — which the VGA does not consider to have a need for this funding. That is on page 23 of the Victoria Grants Commission annual report 2016–17. If the state government could lobby the federal government to make this change, the $43.9 million could go to more in-need councils around the state and could help fund the peri-urban growth fund outlined above.

They are essentially our solutions to the problem.

The DEPUTY CHAIR — Thank you very much for the submissions and for the evidence. I appreciate that you actually came to us with some sort of proposed solutions. I think that is very important.

Mr POTTS — We did not want to whinge.

The DEPUTY CHAIR — In the last three years have any of your member councils explored applying for various funding from the state government, for example, about various projects? I think you have acknowledged that with rate capping obviously it is very important that the taxpayers and the citizens of your councils are happy with it. I think it is important that you balance it, but in the meantime you want to meet your obligation towards providing all the services. So how active are the councils in trying to access other services, whether they are federal or state government, to actually meet your obligation to replace that $12 million potential which you have lost every year, as you were saying?

Cr EDWARDS — I can give you an example from Moorabool. They applied in the first year for their grants for a total of 1.5 per cent, which by memory would have given us $200 000 additional. We found that the
process to go through — by the time you include staff wages we spent $60 000. We were successful, and in fact we got a really good report back from the Essential Services Commission saying that they fully supported us. There were no issues there. However, we found that a third of that grant money that we applied for went in costs to apply and go through the process. If you put that in perspective, if you are a shire with a $250 million budget, it costs you about the same to go through the process. If you are a shire in the peri-urban region, which is far less as an average — I think the average budget now is about $60 million — that $60 000 is a significant contribution. So we actually found the process quite arduous to go through. It is another level of bureaucracy over the top.

The other thing we also found is that there was negative feedback from the community because there is a thought out there that councils should not go above CPI. They should not go above because that is what the policy basically dictates. The policy currently dictates that you will not increase rates above the CPI. That is what it says, so the community now has this expectation. So when you do, the feedback we got from the community was all negative — ‘Oh Moorabool, you’re just trying to do this, this and this’. So then there was really a reluctance. Even though there were recommendations in the following years from officers through their investigations to go forward, there was a real reluctance from council to adopt that and go through that process again — one, because of the time it took to go through it, two, the effort it took, and three, the amount of money that it actually costs to go through the process in comparison to what we were trying to achieve.

The DEPUTY CHAIR — Just going back, let us say this year the evaluation is out for the four-year cycle of this. As the value of properties have gone up, what is the feedback across the seven councils? I have received a number of complaints of people saying, ‘My rates have gone up beyond CPI’, and I have said, ‘No, that is not the case’, but then you have got this other factor where the property would have gone up by 10, 20, 30 per cent, depending on where you are. So therefore your rate goes up even though the CPI might be 2 per cent. What has been the trend in your council?

Mr LEWIS — There are two issues at play. In terms of answering the second part, if I may, about the increase, the total rates that the council collects do not go up with the CPI or as a result of valuation, because all that valuations do is redistribute that rate burden. For the Baw Baw case I think the properties on average have gone up — because we are on the fringe of a growth area as well — about an average of 20 per cent, whether it is west or east. Now that may be different — I think it is probably fair to say it is a little less across some of the other peri-urban councils — but that has not impacted. All that has done of course is change the distribution, and essentially half the community will say, ‘We have got a rate increase of more than CPI’, and the other half will say, ‘We’ve got less than CPI so we had better not tell the council because it has made a mistake’ — and all of a sudden there is a redistribution.

The DEPUTY CHAIR — I will finish up before I go to the other committee members. So you are saying to us with your proposed solution that maybe there is another way of looking at the way government should be treating rural councils versus metro. You made reference to the interface councils Growing Suburbs Fund, which is $200 million, and you are looking at something similar because you have got a large estate to service versus what an urban council would have, or metro. Let us use the word ‘metro’ because you have got urban in your thing as well. It is made up of smaller real estate with a larger pool of people paying rates. So are you suggesting maybe we need to review the model? Or what services would you deliver, what services would they deliver, what services would the feds deliver? Because if you keep the status quo, by capping the rate then you might have to be delivering the full services expected of you. Is that a fair analysis?

Cr EDWARDS — The answer to that is twofold, and this is why the peri-urban region is very unique and quite different to rural councils and also the interface councils. Whilst some interface councils do have a significant amount of bushland and a significant amount of farming, the problem with peri-urban is you generally have one or two significant towns that are attracting equivalent growth rates or higher growth rates than the interface councils. So you are trying to manage all this infrastructure and you are trying to put all this in place. In the meantime you have still got significant farming and recreational areas that are hurting because of the burden of rates. So no matter which, if you look at the distribution rates, we can manage that through the different rate schedules for different organisations — that is okay. But what you actually find is that you have got shires that are trying to provide this infrastructure. They are borrowing money which the whole community has to pay for because there are huge gaps between what the developers pay and what the council’s requirements or what people’s requirements are.
In addition to that, you also have people moving out from metropolitan Melbourne that come with completely different expectations to those people that live in some of our very small and rural shires. Our rural areas have relied on volunteerism for decades, and they really have a lot of spirit. They get together and they form these things because there are not huge pools of money for a population. You are not going to provide all these services; however, in some of your larger towns now there is an expectation that these services that were provided in the urban areas will be provided in the peri-urban because they are becoming very urbanised towns. But we do not have the budget.

So what we are talking about in our solutions is the four key things. One is looking at an infrastructure fund for the peri-urban region, because the growth is not limited to the interface councils. I have heard many times people say, ‘Yes, but you have access to the regional grants’. I ask anybody who thinks that the peri-urban region gets a fair share of those grants to have a look at the figures and have a look at the spending that occurs. I will give you some examples. Ballarat received $185 million in grants as a regional city. I do not have any issue with that because they get a big pool. If you have a look at Moorabool, it was a tenth of that. Our population is about 60 per cent of that of Ballarat, so that is an example.

So we have this massive problem. We can pretend that we have access to all this rural funding, which we do not. Yes, we can apply for it. That does not mean you are in the same boat as some of the regional cities.

Ms BATH — Just on that, if you apply for it — and on average a $200 000 grant has cost you $60 000 to go for it — and do not get it, what has it cost you?

Cr EDWARDS — The question that the Chair asked was about the application to go for the variation in rate capping, and once again you could not. The principle is exactly the same. We applied for rate capping, and I can only use Moorabool as an example because I know — I was on council when we went through it. It cost us approximately $60 000 to go after that. I cannot remember the exact figure. It was either $150 000 or $200 000.

In real terms you only get the $90 000. It costs a lot of time and a lot of effort, so the reality is, if the process is not simplified, councils are not going to apply for that. Geoff talked about how that then leads to long-term degradation of your financial position, so that means you start pushing projects out.

We do a lot of strategic work. We do not get grants if we have not done that strategic work. The peri-urban group of councils have all got massive strategic work documents over the last five to seven years in particular because of the growth boom. We do all this work, and we say we need A, B, C and D. Malcolm pointed out earlier that if we went through all our master plans that have been approved by councils and actually said, ‘Here is what you really need to do’ — because the reality is when you accept the master plan it has gone through strategic work and you have said this is what you need and you justify it because you say, ‘Well, this is what the population will be’ — you will find that for the peri-urban group of councils the delivery of the infrastructure required is only a portion of what is actually needed.

So that is why we say the infrastructure fund. We also say access to loans at a cheaper rate so that we can put that infrastructure up-front. What that enables us to do: we may not get developer contributions for 10 years, but if we can borrow that and put that up-front, then we can build that infrastructure to support, rather than the communities — if you have a look at many of the new developments, there are all these new communities coming, they are all in place, but there is no infrastructure to support them. That then creates this — you are behind the eight ball.

Ms BATH — From the vacuum?

Cr EDWARDS — From the vacuum, yes.

Ms BATH — Goodness. I have got lots of things, and I am not quite sure where to go with it. I live in south Gippsland, Malcolm, so you are in my electorate of Eastern Victoria Region, and I know when I spoke to CEO Alison Leighton probably six months ago she raised this as a big issue around that interface versus growth funding and that really you are growing, and if you look at how much — I just wrote down a couple of examples: Warragul at 115 population rate, and they were in Wonthaggi at 131, and that was lower than some of the other ones. It is huge, that growth, and how do you keep up with that? Could you outline — and again I am not an expert, so we are teasing this out — what sorts of things can be done with that growth infrastructure fund? Are there limitations? Give me an example of where, for example, Malcolm, in Warragul you would spend it? What would it go on?
Mr LEWIS — There is a lot of work that has been done around master planning that Council has managed. For Baw Baw in the most recent — for budget submissions we had 65 to 70 submissions for the budget, and a lot of those were from sporting groups — for example, soccer facilities were looking for upgrades and youth facilities based on demand. So that is one of the key areas: funding new facilities. The region has had two very major capital infrastructure — for the last two or three years but does not have the capacity for the future. So they are currently completing the West Gippsland Arts Centre redevelopment, and before that of course it was the Warragul Leisure Centre, because there has been nothing available and they do not have sufficient funding, or seed funding, to do major projects. There are a lot of things that are on the table as far as master planning, although a lot of those are very much sport related, around soccer and particularly around the growth areas. That would be probably the first area that comes to mind.

Mr LEWIS — I was just saying that I could give you some real examples. Keep in mind the size of our budgets; we are talking $60 million. So all of a sudden if you have to build a bridge — some of the things that Moorabool has done: we spent $13.5 million on a bridge. We front-ended that, and we will get $6 million of that back from developer contributions, but that will come over a 10-year period. So that means we are playing from behind the eight ball for 10 years. We have also done a needs analysis on things such as soccer, football and tennis. There are figures out there that we use; they are government-provided figures that say for a population of 4000 people you should have two soccer fields, you should have this and you should have that et cetera. At Moorabool we are currently sitting six soccer fields behind what we need and four football ovals. Mixed-use change rooms are a massive problem. Most of our facilities that we currently have were built in the 60s and 70s and they were gender-biased, if I can say that. They were gender-biased facilities. So we certainly need to do a lot of work in that space. But primarily this infrastructure fund is to build that infrastructure shortfall for the population that has come already over the last decade and is coming over the next decade.

Ms BATH — I am certainly familiar with the aged facilities that are not appropriate now for the 21st century and women playing sport et cetera. I am interested around your road funding. When there is a time when it gets quite critical, when the deterioration of our local council roads are to the point where they are a health hazard — they are a safety hazard? How can you mitigate that, and what do you do? And we get rain et cetera. I know Warragul has high rainfall and South Gippsland can — East Gippsland unfortunately is not at the moment. How do you mitigate that?

Ms BATH — I know at Moorabool we looked at IT provided figures that say for a population of 2000 people you should have two house activities, and is that worth your while? I do not think Baw Baw and Bass are doing it; it is probably more that — it might be Baw Baw. You are doing some back-of-house resource sharing. I guess as a collective — you are a circle, so you are not all next door to each other — but have you investigated resource sharing for back-of-house activities, and is that worth your while?

Ms BATH — There is another thing that I know of in the Gippsland region. I do not think Baw Baw and Bass are doing it; it is probably more that — it might be Baw Baw. You are doing some back-of-house resource sharing. I guess as a collective — you are a circle, so you are not all next door to each other — but have you investigated resource sharing for back-of-house activities, and is that worth your while?

Mr LEWIS — Yes, you are right. Yes, there is some work being done by some of the councils, by Wellington council and East Gippsland. It has also agreed to look at the appropriateness of what those services might be and then who you might align with. For example, from a Baw Baw case, because we are on the fringe and we are peri-urban, the work that is currently underway, in its very early stages in shared services, is more to the east around Wellington, Sale and East Gippsland. So the investigation for Baw Baw might be: ought we be a bit better aligned with Casey and Cardinia and what services might we share? So, yes, it is certainly not off the table, but it is a matter for consideration. And it is also about what the effectiveness of investment is in that and what is the effectiveness of that, but it is certainly on the table for exploration.

Cr EDWARDS — One of the obvious ones in relation to that is IT. I know at Moorabool we looked at IT. With Hepburn we looked at Ballarat for some things. The issue that we found was that there actually was not a huge saving to be had, because what you found was when you went to contractors and you said, ‘Okay, we
want to do this’, they actually charge per provider. So if we stood alone, as I say, it cost us $5 million for support for every user that you had — so every shire. They are pretty switched on, these organisations. They do not treat the three shires as one, so when you get three shires it is going to cost you $5 million each to access that. So we have actually looked at a lot of those services and found that there actually was not a lot of benefit.

We have also looked at some of the other things, like sharing financial management systems, for example, where you might have one call centre and people who call in do not really know that the people are sitting at point A but they are actually dealing with three different shires. We have looked at those sorts of things in relation to that and we do see some savings there and we see that there are many more opportunities to be explored.

The problem is that when you start looking at things such as, say, road building and road repairs then what you are actually doing is starting to compete against your contractors. We find these days that most shires that we are trying to deal with are actually contracting out these works rather than doing them in-house. Therefore the only real benefit we could find there was looking at things such as, ‘Okay, maybe there’s a shared contracting service having contract expertise’. For example, legal services might be another one that we ask: ‘Is it worthwhile?’ So rather than getting independent legal advice all the time, a group of councils could employ a lawyer.

Ms BATH — It is the intellect rather than the hardware that you are sharing.

Cr EDWARDS — That is right, yes.

Ms BATH — Thank you very much indeed. Can I just go on?

The DEPUTY CHAIR — Yes.

Mr DALLA-RIVA — You have the floor.

Ms BATH — Good; I just appreciate the fact that everyone is here at the end of the day. We have not got ‘rural rural’ councils here, as in Mildura and East Gippsland, but I would like to pose this question to you just for your response. A colleague of mine, Peter Crisp, is up in Mildura. I want to see if there are similarities or conversations around this. We know that their overall rate cap is 2.25 per cent, but we also know that there are categories, and I think you mentioned that before. So you can have your residential, your business industry and then farming, so the overall balance, the average, is 2.25, but there can be a difference. When we have a residential rate cap it can be lower than our 2.25 and our farming can be quite considerably higher, so you are taking from one and delivering on to another. I guess I would just like your opinion, as experts in your own field: is there opportunity? How would it work for category capping so that a few people are not paying a majority of that rate, or that capping percentage, and then there is a discount for others. What is your opinion on that? Is that a bit left field?

Cr EDWARDS — I would not like to respond on behalf of the Peri Urban Group of Rural Councils. It is an issue that is common across the councils. I can give you a perspective from what I have seen at Moorabool, but generally speaking —

Ms BATH — Let us go with that. It is an interesting thing to explore because there is an advantage and a disadvantage.

Cr EDWARDS — We do a lot of strategic work, as do a lot of councils, trying to understand what the impacts are. So when we have the revaluation year every second year — and it might be every year soon — part of our strategy for what the levels of rates are that we are going to set for the different categories, if we set categories at all, is that it is done based on where are the most significant changes. This is what is really difficult. You might have an area — for example, Parwan south — where people are prospective buying. You might have a lot of overseas investors saying, ‘We think in the future this might be boomtown for residential’, so they buy it and they land stock it and the prices become exorbitant and that really pushes the farmers out. The rates become unrealistic in those cases. So council has the opportunity and the obligation to look at whether that is happening. The reality is when you look across the whole shire that might be happening in 10 per cent of your farming area. You might have protected areas like the rich market gardens — and when I say ‘rich’, I am talking about rich fertile lands, not dollars. I am talking about —

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Ms BATH — Soil.

Cr EDWARDS — The rich soils. You might have those areas that cannot be built on because we have overlays over them. They are well within our council plans, so there is no speculative buying and the process does not change. You might have one group of farmers, so then do you start to bring in a category — which we are not allowed to do under the regulations — for different types of farming? It is really a complex question, and for councils it is never going to be an easy ask. All we do is change the distribution by having different categories — ‘Who pays what?’. Yes, councils do and should consider what has happened in land valuations and what the uses are and the ability of people to cope with that is, but as soon as you change in one area, you have got to remember it has an offset against the other. And in council we get to hear the farmers. We understand their plight, particularly in the peri-urban region where there are such enormous strains on farming land. People want to grow it; they want to become rural-residential. The put in farm management plans and say, ‘Oh, yeah, I’m going to farm it’, but with no real intention, and then it becomes infested with weeds, which creates more problems for our farming community. So we have all these competing tensions, more so than what you would have in what I would call a genuine purely rural council, where primarily it is rural with some small settlements.

Ms BATH — The agriculture is the focus.

Cr EDWARDS — They are quite different tensions, so it is very difficult under the current structure to change much that would enable it. The mechanisms are there, but you do not see many councils, in my view, that say, ‘Okay, we’re going to give this huge discount here’, because then you have another group of ratepayers that come in and say, ‘Well, that’s actually unfair to us’. In my experience at Moorabool we have not changed. The rate variation is 0.8 for farming. For a peri-urban region we are around the mark. We are not the best, but we are two or three out of the seven or eight councils. We recognise that we have enormous pressure on farming.

Ms BATH — Thank you. I appreciate your comments.

Mr DALLA-RIVA — Thanks, gents. A lot of the questions were picked up by Ms Bath, so that was good. Just a couple of issues in relation to consolidation: you mentioned earlier, and we have heard this in evidence for the years we have been doing this inquiry —

The DEPUTY CHAIR — Nearly four years.

Mr DALLA-RIVA — One of the issues in the early stages was about the concealing of the cost of the rate variation when fees were applied. Some councils that employed people — some spent a lot of money. I am trying to rationalise. You have got a budget of, I think — did I hear correctly — $60 million?

Cr EDWARDS — Yes. It is approximately —

Mr DALLA-RIVA — So your budget is $60 million. You have made a rate variation of $150 000.

Cr EDWARDS — So the total budget is $60 million, but that includes grants and everything else.

Mr DALLA-RIVA — Yes, I hear that.

Cr EDWARDS — So, when you talk about your rate income, it is about 20 —

Mr DALLA-RIVA — I am trying to get some rationalising around — it is a $60 million budget, but you are asking for a $150 000 increase on your rate cap.

Cr EDWARDS — Yes.

Mr DALLA-RIVA — It does not sound much from a perspective of the $60 million budget.

Cr EDWARDS — Yes.

Mr DALLA-RIVA — So $150 000 is not going to deliver you a $13 million bridge and all those other things, so I am trying to work out: what is it that drives peri-urban councils to sit there and say, ‘Okay, we are going to put in the effort of asking for $150 000 when we could have actually applied for that $150 000 through
other grants or other opportunities, either through state, federal or other”? I am just trying to rationalise what drives a peri-urban council to make a decision to apply for a rate cap variation when there are lots of other opportunities — when you compare $150 000 against a $60 million budget. I am just trying to rationalise it for those people that do read the transcript and try and understand.

Cr EDWARDS — I understand your question. I used Moorabool as an example because the question was around that and I said I would use Moorabool as an example. We applied in the first year, so if we go back that is now three years. Would that be correct?

Mr DALLA-RIVA — Yes, three years.

Cr EDWARDS — Three years ago. So our budget back then was about $39 million. That is not quite the $60 million that it is now, because of the growth that is occurring.

The rationale behind that is: we apply for all of those grants as well on top of that. So if you put it in perspective, we will come out with a budget with an expectation that we are going to apply for these grants.

Let us say you have 35 projects that you are looking at. We will say we are going to do this, this, this, and this, and if we get the grants for that, that will go ahead, that will go ahead. But then we also really need to say that, okay, there is — I think the total ask was about $210 000 — about $150 000 after you lost the $60 000. I do not know the exact figures without getting the books in front of me. So $200 000 is to deliver project X, because when you go to Essential Services you have to be able to do the strategic justification about why you are applying for that money. So in our budget we will say we have this, this, this, and this. Now in reality we probably should be applying for more than that, but what you are doing is you are balancing, ‘Do we go up by 0.5 per cent for ratepayers or do we go up by 1 per cent for ratepayers?’ We would love to have 10 per cent and build all of that infrastructure, but the reality is you are going to get pushback from your community. There is only so much appetite for what the community will accept. So if we say we are going to do project A, B, C and D with that proposed $200 000, then we have a case to make.

Mr DALLA-RIVA — And that is based on the percentage increase that you have asked in the variation? And what you are anticipating to be the CPI?

Cr EDWARDS — That is only on the percentage difference in the variation.

Mr DALLA-RIVA — And what you are anticipating to be the CPI?

Cr EDWARDS — Correct.

Mr DALLA-RIVA — So it may only be 0.5 per cent. You have rationalised that 0.5 per cent, and the council makes that decision that it is 0.5 per cent based on the fact that that is what you think the community will absorb?

Cr EDWARDS — Can absorb, yes.

Mr DALLA-RIVA — Can absorb. And if you ask for 3 per cent than we are starting to break some of the friendships and potentially risk electoral defeat, and then there is the politics that play around it — let us be blunt. We are all politicians in some way, so there are political outcomes. If you ask for too much, then there is a political backslide that could hit you.

Cr EDWARDS — Correct.

Mr DALLA-RIVA — Yes, and that is just the way it is.

Mr LEWIS — If I can just add: one of the other critical differences between a variation of a cap and a three-point grant is that a grant or an additional grant of the same amount is usually a one-off. Once a variation has been approved, it is in the rate base ongoing.

Mr DALLA-RIVA — Yes, that is right, and then it builds on that. I understand that. Yes, for the record, it is important to remind ourselves.

Cr EDWARDS — Yes, so that is $1.5 million over your 10 years, or $2.1 million.
Mr DALLA-RIVA — So it adds on. I remember hearing at Mornington — anyway, it was in the early pieces about the expenditure and the costs of applying to the ESC — that the ESC has since done the Brown review, I think. Was it the Brown review?

The DEPUTY CHAIR — It was before that.

Mr DALLA-RIVA — To try and sort of streamline it. The ESC has been here giving evidence. We have sort of given them a run-through about trying to not make it too bureaucratised. Have you seen any changes in the requirements or processes that are necessary — and any of the gents here can say it — from any observations that you have noticed?

Mr LEWIS — The short answer is no. Whether that happens in the next year for variations to the cap is yet to be seen. However, we have had now three years, and for the most recent year, for this year, there was only one council. So in year one there were something like 10 or 11 councils; in year two there were five or six. There was only one council, and that was Monash City Council, and it was nothing to do with normal rates. It was because of waste, because most councils have a waste charge. They did not have one, so it was actually a left-field requirement. So the answer is: not at this stage.

Mr DALLA-RIVA — And Geoff, you have got something? I am happy for you to speak, Geoff.

Mr Potts — No, you talk about it. You actually understand.

Cr EDWARDS — The point Geoff put across was a point I made earlier. It was that the process was quite difficult and arduous, and you do not know until the last minute whether you are going to be successful. You are trying to get a budget out to your community and trying to say, ‘We are going to do this’. The time frames are very tight that you have got to go through this process. You have got to nominate up early.

For example, a new council comes along and you have got to make a decision in December about whether you are even going to apply for the variation. The new council says, ‘Oh, some people might have ran on the fact that we are not going to put rates up and zero rates’. By the time you get through understanding a budget, by the time it gets to that time frame and people start to understand how the system works, that has passed. Then you get into the next year, you get an understanding and you go through the process. You have got to decide early, and then you are trying to sell to people, ‘We’re going to do this, this and this’, and community expectations come back. For us, and I can only talk from the experience that I went through in Moorabool, which was that we were successful at the time. We looked at it and went, ‘Wow! We went through this whole process for that’. The process is difficult, and it is a hard sell. It is a hard sell to your community. Why are five councils out of the 74 councils applying for a rate cap? Is that because they are greedy, because that is the perception — and I say ‘perception’; the reality is that councils do an enormous amount of strategic work to justify decisions.

The DEPUTY CHAIR — We all agree that rate capping has been very successful in relation to ratepayers being quite comfortable with it. We have made some changes and I think there will be some efficiencies out of it. But also it has put pressure on some of the councils — yourselves — for example, in relation to how you fulfil your commitments to all these other projects; hence why you have put in some solutions in relation to duplicating or replicating the urban fund or the interface fund and trying to do business differently, really, to meet your requirements.

The question is: if the money is not coming from ratepayers who give you total flexibility to put your rates up every year, which is not going to be a goer anymore, because ratepayers will not let you do it, because they will be watching, is more or less trying to look at how we change your business model to deal with the services — where the money should come from, whether that is the state government, federal et cetera. So those are some of the solutions you have put together.

Cr EDWARDS — Yes, exactly right. So what actually happens is you look at other means either of raising revenue or cutting costs. So that means that the service delivery goes down, and that might work for two or three years. Our concern, particularly in the peri-urban region, is that for one or two or three years you absorb some of these potential losses. You cut your costs, you go back to bare bones, you look at all the different things like sharing services and you look at how you can reduce costs. The reality is when you are working on very small budgets to start with there is not a lot of spare meat on the bone, so by the time you get to four or five
years down the track all you are really doing is now pushing those projects that should have been delivered four or five years ago to four or five years into the future. So you are not delivering what you should be delivering.

This is why we get back to those four solutions. We are looking at those four key solutions that will enable those councils to have skin in the game, to be involved: either low-interest rate loans, which then have their own limitations because you can only borrow to 60 per cent. We are looking at: can we have an infrastructure fund, which would require us to have our hands in our pockets; we are not looking for the state government to fund this alone. What we are saying is that this needs to be a joint venture. So if we can get some of those solutions, then we are going to prevent what is turning into a problem from being a catastrophe 10 years down the track, when we have these very very dormant suburbs where people travel in and out of Melbourne.

You have got to remember that in the peri-urban area, and I did not talk about this earlier, 65 to 70 per cent of our workforce travels outside of your shire for work. So we will do less and less and less. We will create less jobs, we will do less of that strategic planning. All those things will accumulate and 10 or 15 years down the track everyone will say, ‘How did we get there?’.

Ms BATH — I guess when we look at decentralisation and the importance of taking the pressure off our central city of Melbourne, it is really important to be able to offer all the requirements and that comes with libraries, schools, pools and whatever. So there is that pressure. We do not want our great peri-ur-bans to be satellites; we want them to be a go-to and a chosen destination for people to go and live in.

Cr EDWARDS — And there are lots of opportunities. One of your questions earlier was: what would you spend the money on if you had these funds? But it is not just roads, sporting facilities, libraries and pools. One of the biggest things that peri-urban regions do is create jobs in our areas — employment precincts. How do you get agribusinesses?

No matter which peri-urban council you look at, we are close to most of the ports and we are within striking distance of airports. We have all this great asset that, if developed properly, will create hundreds of jobs or thousands of jobs in that region. It puts less pressure on transport; it puts less pressure on all sorts of things. Creating jobs in our environment is a massive win for the peri-urban region.

Mr Potts — We are just completing our economic development strategy for the peri-urban region. We have got a consultant doing a lot of work there, and what has come out of that is: based on the Plan Melbourne concept of a 20-minute lifestyle, a lot of the councils are very, very keen to get things like co-learning places established in these centralised areas. So rather than all our young people racing off to university in the city they can actually take their course or go to TAFE in an area and have multiple institutions providing teaching in that area. That could be cobbled onto, for example, an incubator for creative industries or a STEM incubator. We have got lots of examples of where people are actually doing very innovative things in these areas, but they have got no way to bring their ideas to fruition because they cannot interact with the business services and advice that somebody in, for example, the Melbourne University incubator can actually get to.

So if you have got these sorts of facilities there, it enables jobs to be created in these areas, rather than — I think predominantly the biggest industry developing in all these areas is social welfare administration and health. That is the major industry that is developing in all these areas. The question that we need, I suppose, to address is we need something other than that to drive these economies in the future.

The DEPUTY CHAIR — Gentlemen, thank you very much for your contribution. We really appreciate your time. I just remind you that a copy of the transcript will be sent to you in the next week or two. If you discover any discrepancies, or if you have been misquoted, let us know so we can get it corrected. That is our last hearing for the year. Our report will be done towards the end of September.

Cr EDWARDS — Thank you very much for the opportunity.

Committee adjourned.