

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into Budget Estimates 2015–16

Melbourne — 21 May 2015

#### Members

Mr Danny Pearson — Chair

Mr David Morris — Deputy Chair

Dr Rachel Carling-Jenkins

Mr Steve Dimopoulos

Mr Danny O'Brien

Ms Sue Pennicuik

Ms Harriet Shing

Mr Tim Smith

Ms Vicki Ward

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#### Witnesses

Ms Natalie Hutchins, Minister for Local Government,

Mr Adam Fennessy, Secretary,

Ms Carolyn Jackson, Executive Director, Finance and Planning,

Mr Mark Curry, Acting Deputy Secretary, Local Infrastructure, and

Mr Colin Morrison, Director, Governance and Funding Programs, Local Government Victoria, Department of Environment, Land, Water and Planning.

**The CHAIR** — I declare open the public hearings of the Public Accounts and Estimates Committee inquiry into the 2015–16 budget estimates. All mobile phones should now be turned to silent.

I would like to welcome the Minister for Local Government, the Honourable Natalie Hutchins, MP; Mr Adam Fennessy, Secretary of the Department of Environment, Land, Water and Planning; Ms Carolyn Jackson, Executive Director, Finance and Planning; Mr Mark Curry, Acting Deputy Secretary, Local Infrastructure; and Mr Colin Morrison, Director, Governance and Funding Programs, Local Government Victoria.

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All evidence given today is being recorded by Hansard. You will be provided with proof versions of the transcript for verification as soon as available. Verified transcripts, PowerPoint presentations and handouts will be placed on the committee's website as soon as possible.

Departmental officers may approach the table during the hearing to provide information to the witnesses if requested by leave of myself; however, written communication to witnesses can only be provided by officers of the PAEC secretariat.

Members of the public gallery cannot participate in the committee's proceedings in any way. Members of the media are to observe the following guidelines: cameras must remain focused only on the person speaking; operators must not pan the public gallery, the committee or witnesses; and filming or recording must cease immediately at the completion of the hearing.

I now invite the witness to make a very brief opening statement of no more than 5 minutes. This will be followed by questions from the committee.

### **Visual presentation.**

**Ms HUTCHINS** — Thank you, Chair. Today's presentation in the area of local government will set out our priorities, acknowledge our inherited challenges and our way forward with our challenges and also our budget initiatives and how they are going to assist.

I will now provide just a quick snapshot of how big the local government sector is and how it delivers \$73 billion of community assets and spends over 7 billion each year on the provision of services. The government works cooperatively with 79 councils across Victoria, and our focus in going forward as a government are: to improve integrity and good governance across the local government sector; improved capacity and performance; and to deliver for all Victorian communities.

We have inherited a very outdated act which does not actually provide clear guidance. It has been the subject of 91 amendments and is in desperate need of an overview. We have also taken on a challenge that has existed in previous years but seems to be even more dominant this year around individual councillor conduct and issues of governance. That is a real challenge going forward, as is electoral reform and the cost-of-living pressure that has trickled down from local government council rates.

The freeze on commonwealth financial assistance grants to councils is a really big challenge. There are infrastructure challenges, particularly for the interface councils in meeting demands and needs of the growth corridors. There is a need for a more accountable and meaningful reporting system on council services and council capacity and capability to respond to emergency events, which I have already seen firsthand in my role as Minister at the Moyston fires. There is also the challenge of Sunbury out of the city of Hume.

In terms of responding to the challenges, we have taken forward the election policy of reviewing the Local Government Act and modernising it to try to improve its relationship, and how it acts as a support base in the relationship, between state government and local government in Victoria; improvements to local council governance and conduct arrangements as a priority and, of course, introducing a fair-go rating system for the state. As part of that process we have appointed the Essential Services Commission to design a new system. We

are not looking to take an off-the-shelf product from another state but rather to design a system that will last long term and suit the needs of this state.

We have invested in an investment fund for new infrastructure in the interface councils, and we are looking to refine and implement mandatory performance reporting systems as well, which I am happy to go into more detail about, and support to assist in any future emergency events that might come about. In response to the challenge of Sunbury out of Hume we have also appointed some transitional auditors to make recommendations around the process going forward with the separation of Sunbury from the city of Hume.

In the budget we have specifically — and underpinning all of these goals that we have ahead of us in trying to meet some of the demands of these challenges — committed \$1 million to review the Local Government Act, \$50 million to support local councils and communities in the outer suburbs with the Interface Councils Infrastructure Fund, which primarily targets the delivery of community facilities, and also the extension by a \$5.2 million commitment of the roadside weeds and pests management program across the state.

We have also committed \$5.4 million to support Victoria's libraries and to provide for the upgrading of facilities and the purchase of the books for the Premier's Reading Challenge, which is a very important initiative to encourage children to read. This particular money will go to buying the books that are on the challenge list every year so they are available through local councils and so that all children can participate. Whether their parents can afford to buy the books or not, they will be available to borrow. Of course, this is all in addition to a record \$40.5 million in recurrent library funding.

In addition to that there is the emergency management capacity project, which is \$1.6 million over five years, to further extend and build the relationships between our local governments and emergency services management teams and officers. Finally, there is the Endeavour Hills community precinct, which is in LFS, a \$50 000 commitment to the City of Hume for planning for a community precinct in Endeavour Hills.

**The CHAIR** — Thank you, Minister. In the context of the 2015–16 budget for your own portfolio responsibilities can you inform the committee how this budget acquits *Labor's Financial Statement*?

**Ms HUTCHINS** — Thank you, Chair. I guess if I start with the last point that I just touched on in the presentation, which is a budget allocation of \$50 000 in the form of a grant to the City of Casey to move forward with some precinct planning in Endeavour Hills. This is a grant that will contribute towards the design of a new town centre and kiosk, which will help lift and improve the cultural involvement of locals in that area. I know that has been a welcome boost to the city of Casey.

We have also put our budget commitments around the alignment and implementation of our election commitments, and that is first and foremost to deliver a fair-go rating system, to review the Local Government Act and to provide additional support to the interface councils where they are — and have been for many years now — struggling to keep up with amenity, and particularly community amenity, as their populations grow at extremely rapid rates across those 10 interface council areas. That is a fund that will be available to all 10 councils.

In terms of the fair-go rating system our aim is to have that system in place in time for councils' budgets next year. I am pleased that the Essential Services Commission has come on board in actually taking on the challenge of helping us to consult and build a new framework to put that in place and also to have an ongoing role in overseeing it in the process of helping us to determine at which level a rate cap should be introduced, how often it should be reviewed and also the terms by which a council can make exemption from that rate capping system.

Those exemptions will be built on a number of factors: first and foremost, taking into account a council's capacity and ability to bring in income outside of their rate structure; and, secondly, looking at the effects on that council of the cuts by the federal government to the federal assistance grants to their budgets. We are also looking at how fast that council's population is growing, or in fact declining — they are major factors — and the current financial situation of that particular council. When I say that, I have some small rural councils in mind that need to have special attention paid to them through the formation of this framework that we are currently working on.

It is a big program that we are looking at ahead of us, and of course, as I mentioned in the presentation, there is the review of the Local Government Act, which we are hoping to have established and kicked off by the end of this year. It could be a process that takes up to 18 months. We want to make sure that we make this piece of legislation relevant to a modern local government system in Victoria. We want to make sure we take the time to consult so that we have contemporary policy and a good legislative framework that is going to support the local government sector into not only the next five years but potentially the next 25 years.

Finally, just to reiterate, the interface council fund and the \$50 million that we have committed to that, I know, having visited some of the interface councils already —

**Ms WARD** — Yes, thank you for coming to Nillumbik.

**Ms HUTCHINS** — that there are already claims on the table by particular interface councils that are ambitious to spend the entire amount in one go, but it will be a fair and open and transparent system. There will be criteria for councils to apply for in that fund and priority will be given to community-based facilities and just how wide they are supporting different elements of that local community in going forward, but it has been extremely well received.

**Mr MORRIS** — Minister, I refer to budget paper 3, page 406, and the table which apparently shows a \$38.47 million cut to local government funding in 2015–16, and the statement on the next page:

The key drivers of this difference are downward revisions in grants and transfers to local government by the Department of Environment, Land, Water and Planning due to a reduction in commonwealth financial assistance grants and identified local roads grants ...

Can you indicate to the committee how a reduction in commonwealth financial assistance grants is identified as a key driver of this significant cut when financial assistance grants for councils in Victoria actually went up by \$8 590 248 over this current year? Next year is up by that much on this year.

**Ms HUTCHINS** — Thank you for the question. I may refer to my department for some of the specifics because I actually dispute that the money from federal government grants has gone up, which seemed to be the premise of your question. In fact I note that, from all of my meetings with local councils in the short time that I have been Minister, they have put at the forefront the effects of the \$1 billion Australia-wide cut that has been affecting their planning for this year's financial budget —

**Ms WARD** — That is right.

**Ms HUTCHINS** — and that came in the form of, I guess, a freeze on the annual indexation of federal grants, and that pause has had a huge flow-on effect to councils. I do not think we can deny in going forward as the receiver of those funds that then passes on to local governments, that there has been a decline.

**Mr D. O'BRIEN** — A freeze is not a cut.

**Mr T. SMITH** — Minister, we've made our claims — —

**Mr DIMOPOULOS** — On a point of order, Chair, where is that reference that Mr Morris — —

**Mr MORRIS** — Page 406, BP3 —

**Mr DIMOPOULOS** — Page 406 talks about the increase in — —

**Mr MORRIS** — and 407 is the commentary.

**Ms SHING** — And 407 says 'the key drivers of this difference are downward revisions in grants and transfers', so I take it Mr Morris's question is that he was disputing the calculation of the commonwealth grants as the basis for that explanation.

**Mr MORRIS** — It actually rose by \$8 590 248 over 2014–15.

**Mr DIMOPOULOS** — My question, on the point of order, is: where did Mr Morris get that figure from?

**Mr MORRIS** — From the commonwealth government. That is the amount they paid. If the officials here want to dispute that, then I would be happy to hear it, but that is the figure the commonwealth says it has paid to the state.

**Ms SHING** — Again, that is where I think the Minister has indicated that the department might have some further light to shed on the calculation of that financial grant from the commonwealth.

**Mr MORRIS** — It is not a calculation. It is an amount down to the last dollar.

**Ms SHING** — Again, this is where we differ and perhaps that is where the department might be able to assist.

**Ms HUTCHINS** — Before I ask Mr Fennessy to supplement the answer, I do stand by what I just said in that the estimated grants and transfers to Victorian councils will be \$29.6 million less, but I might ask Mr Fennessy to talk through some of the detail of that.

**Mr FENNESSY** — The commonwealth government has announced that the financial assistance grants provided to local government will be frozen at their 2013–14 level. From the Victorian government context, the independent Victoria Grants Commission has estimated this will reduce the funding available to Victorian councils by more than \$200 million over a four-year period. Going to the budget papers, which is what the question was based on, the 2014–15 forecasts were based on an estimate of financial assistance grants to Victorian councils of \$570.4 million that year, and that is referenced in the 2014–15 budget paper 5, page 168. What we now know is factored into the budget papers is that only 538.7 million was provided in 2014–15, with a similar amount estimated for 2015–16, and that is outlined, for the committee’s reference, in the 2015–16 budget paper 5, page 175.

**Mr MORRIS** — There is some disagreement around the edges — around whether it is 538.7, Mr Fennessy, did you say?

**Mr FENNESSY** — That is the figure that I have got, \$538.7 million in 2014–15.

**Mr MORRIS** — I have got a slightly higher figure, but it is neither here nor there —

**Ms WARD** — Is it possible you have not done your homework again?

**Mr MORRIS** — the fact is that financial assistance grants for this year increased by almost \$8.6 million.

**Ms SHING** — The submission says ‘the key drivers of the difference are downward revisions’ as opposed to growth compared to previous years.

**Mr MORRIS** — The claim is it is a cut. In fact the quantum increased by almost \$9 million.

**Ms SHING** — Downward revisions are the basis for it, though. That is what — —

**Mr T. SMITH** — The Minister is running around town saying that it has been cut by \$30 million. It has not.

**Mr MORRIS** — A \$9 million increase is not a cut.

**Ms SHING** — Downward revision is the basis for the — —

**Mr MORRIS** — A \$9 million increase is not a cut, no matter how you dress it up.

**Ms HUTCHINS** — Chair, if I could just respond and then ask Mr Fennessy to give some more detail. I absolutely do not agree with the premise of the supplementary question. In fact we have put more money into local government as a state government than ever before — \$50 million for an infrastructure fund, rollover of current very essential programs such as roadside weeds and pests and library funds and so forth. The Living Libraries Infrastructure Fund is extremely important. These are all progressive moves and further investments by this state government —

**Mr D. O’BRIEN** — Country roads and bridges.

**The CHAIR** — Order, Mr O'Brien!

**Ms HUTCHINS** — but I do not shy away from the federal assistance grants cuts that have had a huge effect — —

**Mr T. SMITH** — It is not a cut. It has gone up!

**The CHAIR** — Order! You are not to verbal the Minister.

**Ms WARD** — Can you cut back on the Weet-Bix, please, Mr Smith?

**Ms HUTCHINS** — I might ask Mr Fennessy to further go into the federal assistance grants.

**Mr FENNESSY** — I can clarify further that the changes to the federal assistance grants cuts were as indicated in budget paper 5, and there is that reduction. In addition to that — and this may be where clarity is required — the commonwealth government has provided separate natural disaster relief and recovery funds to Victorian councils where they have been impacted mostly by fire or flood. Looking at commonwealth funding under the NDRRA, which is that fund, the revised figures include that, and that was \$23 million more for that period because there were fire and flood requirements to be funded. That is separate to the federal assistance grants, but that means the overall amount of commonwealth funding is higher not because of the assistance grants but because of disaster relief.

**Mr MORRIS** — That brings us to a point where the statement in the budget, which lays the blame for the lower amount at the door of the commonwealth for reduced financial assistance grants and identified local roads grants, surely is an exercise in mendacity?

**Ms SHING** — Is that a supplementary? Where are we going with that?

**Ms HUTCHINS** — I do not know if that is a third question, Chair.

**Mr MORRIS** — We have just heard from Mr Fennessy that it is not financial assistance grants.

**The CHAIR** — Order! Mr Morris has already had his supplementary question.

**Mr D. O'BRIEN** — On a point of order, Chair, Mr Fennessy talked about the table on page 175 of budget paper 5. That table, table 4.5, says 'commonwealth government grants to local government' and indicates that the figure has not changed, with the exception of going up by \$200 000. Am I missing something here?

**The CHAIR** — How does that relate to the fact that a question or supplementary question — —

**Mr D. O'BRIEN** — There has been a \$30 million cut, but this does not show that at all. I am not quite sure what we are looking at.

**The CHAIR** — The Minister and Mr Fennessy have provided an answer to both the substantive and supplementary questions by talking about a range of factors that relate to the payments made from the commonwealth and why there has been a reduction. Mr Fennessy has been quite fulsome in answering the question and providing a broader explanation. If the Minister or Mr Fennessy want to make any further contributions, I am happy for them to do so, but I feel satisfied that they have answered the question.

**Ms HUTCHINS** — I am astounded that there is not a real understanding around how the natural disaster relief program works.

**Mr MORRIS** — You did not say 'natural disaster relief program'; you said 'financial assistance grants'.

**The CHAIR** — Order! The Minister is answering the question.

**Mr MORRIS** — It was a lie, and nothing more than that. It was a straight-out lie.

**Members interjecting.**

**The CHAIR** — Order! The Minister is seeking to answer the opposition's question, and she will do so in silence.

**Members interjecting,**

**Ms SHING** — On a point of order, Chair, Mr Morris has just indicated that it was a straight-out lie for the Minister to refer to the answer in those terms. Firstly, that is completely improper and completely incorrect. Secondly, there is a reference to the smaller magnitude of natural disaster events in 2012–13 and 2013–14 compared to previous years, which Mr Fennessy went into — —

**Members interjecting.**

**The CHAIR** — Order! Ms Shing is making a point of order, and she will do so in silence.

**Ms SHING** — The secretary and the minister have been into this answer in some detail, and the Minister was seeking to make a further contribution, and now we have descended into chaos again. The description is set out very clearly at page 407, and again, if you are not happy with the answers to questions you are getting, buyer beware in terms of who is drafting them on your side.

**Mr T. SMITH** — Chair, I seek to table the federal minister's media release that outlines exactly what the federal government is providing to councils in Victoria.

**The CHAIR** — I do not think that is necessary. The minister was concluding her answer.

**Ms HUTCHINS** — I just want to acknowledge that in the budget papers it does talk about a \$23 million increase in the area of natural disaster relief and support from the federal government and its program, which I think is referred to as the NDRRA. That is going to fluctuate from year to year. It is unfortunate that it has gone up. I would like to see that go down, because that is in direct relation to less emergency responses and less natural disasters for this state. It fluctuates year to year accordingly. At the end of the day this state government has put more money into local government and the delivery of services through local government. The federal government has put a freeze on the federal assistance grants, and there is no doubt about that. Any council will tell you about the effects that is having on their annual budgets.

**Members interjecting.**

**Dr CARLING-JENKINS** — I would like to pick up on a couple of comments you made both in your presentation and in your answer earlier to the Chair around addressing the rate-capping framework. This has obviously been something a lot of local councils have been coming to me, and I am sure to other members of the committee as well, to raise. The MAV has asserted:

If rate capping is introduced, it will result in a long-term devastating impact on the quality and availability of local roads and community facilities across Victoria.

It is from 2015, and I am happy to supply it for Hansard. What strategies have you been able to put in place to ensure that councils will not feel or indeed be forced to defer essential works on community infrastructure such as road maintenance, renewal and replacement?

**Ms HUTCHINS** — Thank you for your question. It is a good question, and one I do get asked regularly. I have made an effort to be out and about, talking to as many councils as I can, in place with them, and meeting with as many councillors, not just mayors and CEOs, to hear from all of them. Yes, they are concerned about rate capping, as many councils in New South Wales were concerned. That is why we are not picking up a system that exists somewhere else. We are actually building a new framework here in Victoria. We are calling it the fair go rateing system, and we are calling it that because it is important that we look after our ratepayers and how they are struggling with the increased, compounding costs of rates in some areas — not all, but in some areas — going up at 8, 9, 10 per cent year after year over the last three years and compounding, without much consultation with local communities.

What we are saying is that we want to bring a reasonable and transparent system into place where there can be some reliability for ratepayers around what it is that they need to pay with their rates. It is the second highest bill that comes into the letterbox of most households, behind a mortgage, and there needs to be some certainty

around that and there needs to be some connection to how our economy is tracking. Whilst we have had record high unemployment over the last 13 years and we have seen some of our manufacturing industries go backwards, we have not seen any relief in some areas of rates skyrocketing. Across the board we have seen rates over the last three years go up at double the CPI level. This is where we are trying to put a system in place that is fair.

At the same time we want to ensure that councils can continue to deliver the services they need to deliver to their communities. So we are talking about increases into the future and having a regulatory system that makes them transparent and reasonable. For those councils that have dire maintenance needs or real needs for new infrastructure, those cases will be able to be put in the new system regime. They will be able to ask for exemptions, and the Essential Services Commission will be able to make a judgement on that.

I have strongly urged all councils to have their say in the development of the current framework and to also ensure that, in the future if they are looking for exemptions to put their rates up above CPI, they look at programs that are relevant to their local communities and do it in consultation with their local communities.

**Dr CARLING-JENKINS** — Thank you, Minister. I really appreciate your answer. I do understand that cost-of-living issue, and I appreciate — and I am sure a lot of people appreciate — the work that you are doing in this space. I just have a very quick follow-up question about the fair go rating system. When do you anticipate that review will be complete?

**Ms HUTCHINS** — There is a discussion paper out at the moment, and there are a number of meetings that are happening with the Essential Services Commission to, I guess, formulate the best framework. It will be a two-stage process of consultation, and we are looking to actually have a report back to both myself and the Minister for Finance on where the Essential Services Commission sits in terms of responsibility by 31 October this year, so that we can look at what legislative requirements are needed to support that and to have a new system in place for the budget processes for next year for local councils. I do note that many local councils work on their budgets over the December–January period.

**The CHAIR** — I would like to thank the witnesses for their attendance this morning — the Honourable Natalie Hutchins, MP, Minister for Local Government, along with Mr Fennessy, Ms Jackson, Mr Curry and Mr Morrison. There were no questions on notice.

**Witnesses withdrew.**