

TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Hamilton — 23 September 2015

Members

Mr David Davis — Chair

Ms Harriet Shing — Deputy Chair

Ms Melina Bath

Mr Richard Dalla-Riva

Ms Samantha Dunn

Mr Shaun Leane

Mr Adem Somyurek

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Mr David Madden (affirmed), Chief Executive Officer, Moyne Shire Council;

Mr David Rae (affirmed), Acting Chief Executive Officer, and

Cr Chris O'Connor (affirmed), Mayor, Corangamite Shire Council;

Cr Peter Dark (affirmed), Mayor, and

Ms Bronwyn Herbert (affirmed), Director, Shire Services, Southern Grampians Shire Council; and

Mr Mark Crouch (affirmed), Chief Executive Officer, West Wimmera Shire Council.

The CHAIR — I welcome people to the hearing today of the environment and planning committee and begin by saying that this will be a process where we will take some evidence under oath. That evidence is protected within these surrounds, but if you repeat matters outside, you may not be protected. I want to begin by thanking the municipalities that are appearing. We very much appreciate the evidence that people are providing on the rate capping inquiry first, then we will take some evidence later on unconventional gas. If I can ask for short presentations, then we will ask a series of questions. We will just start with David on this end.

Mr MADDEN — Thank you. I might just highlight a couple of things that I think are important in regard to rate capping. It is not just rate capping that is impacting on rural councils at the moment, it is the freezing of the federal indexation grant, which has had a 2 per cent hit to our budget, and the loss of country roads and bridges, which is also a 2 per cent hit to our budget. We are dealing with a 4 per cent cut as well as the rate capping, and I think that they need to be considered together.

The second matter I want to raise is about fees. The state government often controls the fees that we collect to carry out a service, and the state government has been reticent in actually letting those fees rise with true costs. Therefore that is a subsidy that we provide for a number of services, and I do not believe that we can continue to do that if our rates are capped. Those are probably the only two things I wanted to highlight. You have our submission before you.

Mr RAE — Thank you, and thanks for the opportunity to speak to the committee today. Corangamite has made two submissions to the Essential Services Commission review as part of the rate capping development process. In reference to the terms of reference for this committee, Corangamite has undertaken some preliminary analysis in terms of the impact on its services. It is estimated to have a recurrent cost to council of \$500 000 per annum. Really that will have a direct impact on service provision to our community. With respect to David's comments regarding financial assistance grants, that is an important point. Clearly from our perspective if that pausation does continue into the future, beyond the current three-year term, then that will also be problematic for councils.

What is also confusing in terms of the proposed rate capping framework is variation to process. We are getting mixed messages from the ESC and also from the Minister for Local Government. The ESC are making it quite clear that councils are invited to be part of a variation process, whereas the Minister for Local Government has indicated that variations will only be considered in exceptional circumstances. We would like to see some more clarity on that issue and also see some best practice guidelines perhaps released as well.

With regard to the impact on rural councils, it is going to be high. Rural councils such as Corangamite have less capacity to raise income from other sources, and that will be problematic. The impact of that is that we will need to contain our cost increases into the future to the cap. That is going to have a flow-on effect to services, but also it is going to have a flow-on effect to employment costs. Employment costs are currently trending above the cap, and as we head into future enterprise agreement negotiations, that will become quite problematic.

The proposed efficiency factor by the cap will also have an ongoing impact on services, and our submission to the ESC has suggested that that efficiency factor should be deferred, if not abandoned, at best.

Council's priority from Corangamite's perspective is to continue to invest in infrastructure renewal. That is something that council will not compromise. Our economy is high-productive dairy output. We value our roads infrastructure, and that will continue to be council's priority into the future. That priority may have a flow-on effect on service delivery. For the first year, as I indicated, we are looking at a \$500 000 impact on a council such as us. Thank you.

Cr DARK — Can I defer to Bronwyn Herbert to speak on my behalf.

Ms HERBERT — I note the terms of reference for this inquiry. Given the state of the development of the framework, it is not possible yet to comment on the outcome of the policy as such. Notwithstanding that, it is possible to make some comments from Southern Grampians Shire Council's perspective on the work to date.

Ms SHING — You are the director of shire services, I note.

Ms HERBERT — Director of shire services, yes. We know that the Essential Services Commission has, through a two-stage consultation process, engaged in some extensive consultation. The second phase narrowed

the focus onto a proposal or model for rate capping about which we expect the minister to make a final announcement very, very shortly.

In terms of that particular process, there are a number of things for future reference that we want to actually note for future reference. They include, firstly, the terms of reference for the ESC were narrow to start with and were bound to produce a model for rate capping that did only that and excluded opportunities to build in sectoral development and innovation for the future. The title for the ESC's review, as you know, *A Blueprint for Change*, is hard to understand as it is only tackling the financial aspects of a potential reform program.

No. 2, local government has experienced several hits in terms of funding cuts or impositions in the last few years, including, as you well know, the freezing of the financial assistance grants, the call for the defined benefits scheme and now rate capping. While the economy is generally slow — we all know that, and we are aware that some businesses, it is a bit variable though, are doing it tough, with all governments tightening their belts — it is important to note that councils are significant employers at the regional local level and have the capacity to act as an economic stimuli through investment in capital works and social infrastructure, along with future planning beyond the short term. That is something just to keep in mind in terms of all of this.

No. 3, other tiers of government need to be careful when they continue to expand their expectations, and the community has continuing expectations regarding the range and breadth of responsibilities associated with local government. While a lot of this may make good sense as we are the tier closest to the people, it requires resourcing in an ongoing manner. An example is the mandating of the health and wellbeing plan. We are into the second, nearly the third, evolution of that. This is an example, along with a host of other strategies and plans, that places considerable pressures on the organisations in terms of resourcing, the delivery and implementation. To be serious about youth, positive ageing, community engagement et cetera, all those things need to be resourced with the appropriate skill sets. Too often staff in small to medium size rural councils have to juggle many functions. Councils are expected to be as modern and well-equipped in rural areas as they are in metropolitan areas. That is certainly what we want to do. Increasing sophistication of residents, customers and visitors means there is a tension as the organisation tries to grow and develop while being seriously financially constrained. Reducing rates is only part of the challenge and the opportunity.

No. 4, it is an interesting fact that Southern Grampians Shire Council's revenue-earning capacity, as with other councils, is very nearly fixed, other than fees which we have calculated to be around 15 per cent. That is the only room to move at the moment. Notwithstanding this, there might be some other avenues, such as land sales, which we are certainly exploring, but they are usually only one-off efforts, so it does raise a question about the structural funding issue for local government into the future. There is a possibility if councils are forced to take out greater loans, more loans, what that means from a long-term funding perspective as well. The implications of a rate capping regime over many years clearly need to be closely measured and monitored in terms of its impact on the sector's ability to design its own future rather than to be a handmaiden of state government and federal government.

No. 5, the introduction of the local government reporting framework by the state government — this is a fairly new initiative — has consumed a lot of resources, probably more at the state government's end than at our end, but it is limited and will not provide a good mechanism to understand the impact of rate capping. It struggles, as it only provides output measures and avoids the all-important issue of measuring outcomes. I would have thought this is of interest to the terms of reference for your committee. This is an area where the concentrated effort needs to focus to really understand the impacts on the community.

No. 6, the jury is out still on the issue of whether regional/rural councils should be treated differently. The update last week on the ESC's website suggests that this is still an issue that they are considering. It is a fairly vexed question, and one that has been tossed around quite a bit. While it has been argued locally that maybe there is a case for being treated differently, there is also an equally strong argument that smaller councils can act responsibly and plan for the future. Consigning us to a second cousin category, if you want to call it that, means that the best in rural/regional can be overlooked. There is nothing better than strong interaction across the entire sector to strive to improve and innovate into the future with strong lines of accountability.

No. 7, and the last main point, a number of councils have already been working on achieving efficiency gains, and that is certainly the case for us here at Southern Grampians. We have already factored that into our budgets over the next several years, so this comes on top of all of that. Councils do have the ability to self-regulate.

There is no greater transparency than at the local level. Federal and state governments could demonstrate how this can be charted.

To finish off, I just give you a few special features. Probably every rural/regional council will have some interesting features that are unique to them, but just to demonstrate some of the issues we are dealing with, Southern Grampians Shire Council covers a square kilometreage of over 6652 square kilometres. Hamilton — where you are here — is the main urban centre, but we have many other smaller town centres: Balmoral, Branxholme, Byaduk, Cavendish, Coleraine, Dunkeld, Glenthompson, Peshurst and Tarrington. They all have needs and have aspirations, so we work hard to relate to them and assist them as well.

The replacement value of non-current assets is \$528 million, with a written-down value of \$326 million. The number of services council offers is around 60, so we offer 60 services. The enterprises that we provide include the art gallery, the performing arts centre, Hamilton Indoor Leisure and Aquatic Centre, a cinema — because there has been market failure — a livestock exchange, an airport, a quarry and we are in the business of industrial land development, so that gives you a bit of an idea of some of the challenges and issues we are trying to deal with. Thank you very much.

The CHAIR — Bronwyn, thank you for that thoughtful presentation, and also while I am speaking, thank you for the use of the facility today.

Ms HERBERT — A pleasure.

The CHAIR — Let us record that.

Mr CROUCH — I will not repeat a lot of the points that have been raised by the other council representatives here. From a West Wimmera perspective, we are probably the smallest — an extremely large geographical area, but probably the smallest populated municipality in the state. We accept the political reality that some sort of rates capping regime is going to come into existence, and we can accept that. The big issue we face is around this whole issue of financial sustainability. As a small council you could argue that we face many challenges. Some would argue that we are already unsustainable and a rates capping regime by any form is not going to assist that process whatsoever.

We would seek in the variation framework that some sort of flexibility be given or structured into the framework that takes account of the small rural municipalities. The last thing we want to be doing is incurring considerable costs year on year, going cap in hand to the commission and trying to justify why we want a rate increase in excess of whatever the index may be. We are not structured to be able to do that, and that flexibility needs to be provided there. We have gone through a difficult EBA process. We have tried to reflect our increases in the EBA in light of movements in the sector. I think we have achieved that, but a poorly structured rate capping regime is just another nail in the coffin for the likes of the West Wimmera shire. I will leave it at that.

Mr BURGOYNE — I would say the same as my colleague: a lot of the points that I had intended to make have already been made. I would just like to reinforce a couple of things. The nature of our organisation is largely fixed costs with price escalators — particularly contracted escalated costs — that exceed CPI, so there is a structural difference between CPI and a lot of our fixed costs. We have made the point about rate capping and not looking at that in isolation of other revenue sources that have been frozen, so I will not labour that point. There is a transition issue that does emerge: long-term capital projects that we have already entered into in a contractual sense either through debt or through a contractor that are over and above CPI. If you look at debt finance now, it is in the order of 5.25 per cent. That is clearly over and above CPI. We have long-term — 10-year — projects that are debt funded, so that is problematic. So there is a transition issue there that needs to be addressed. The mix of revenue sources: we would classify as a large rural so we are more heavily reliant than perhaps metro councils on rate revenue per se. But I think largely the other points I would support and do not want to waste time in repeating myself.

The CHAIR — I have a couple of questions. The one I want to start with is just to get some understanding of the impact of the loss of the country roads and bridges program. Certainly my sense is that that has been a — and people tell me if I am wrong — in terms of the predictability of that funding and the impact of the loss of that funding in a rate-capped environment. So perhaps reflect on that.

Mr MADDEN — I am happy to comment about that because country roads and bridges of course replaced other programs that were available, such as roads to market and timber roads. Moyne previously used to get around \$700 000 per annum out of the roads to market and timber roads programs. Country roads and bridges was a better program in that it was up to us to decide how we spent it. We have now lost that \$1 million, so it is a large loss to our budget.

The CHAIR — A million a year?

Mr MADDEN — A million a year. It is a 2 per cent hit on our budget. For Moyne we know that that is the difference between probably maintaining our asset and not maintaining the asset. That is that critical factor. With the country roads and bridges, we have actually been making some progress; we now will not. It is hidden a little bit at the moment because of the extra Roads to Recovery money that the federal government has given us. We have got an extra \$3 million on top of the normal program. So the loss of financial assistance grants indexation or the loss of country roads and bridges is being a little hidden at the moment until the end of the next financial year.

The CHAIR — Is that similar across the other councils?

Mr RAE — I would support David's comments as well. Similarly we were the recipient of \$1 million per annum. The loss of that funding is a cost of 2.5 per cent of our budget. It has been a significant contributor to maintaining our bridge infrastructure network, and in the current year's budget we have got a major bridge renewal that has required funding. We have a funding shortfall at this point in time of about \$2 million to replace a major bridge in our shire.

Cr DARK — It comes at a time in the south-west when the projected timber harvest is in full swing. We now have the port of Portland, which is the biggest exporter of the woodchips in the world. While we welcome the export and the harvest of the timber, it has put unprecedented pressure on local roads because a lot of these timber coupes that are being harvested have first got to be carted onto shire roads which were never designed for B-double traffic, at the rate of probably one every half-hour. We all know what they are doing to VicRoads roads, but local roads are taking a pounding and we need every dollar we can get. I understand, and I concur, that we have picked up some money from the federal government with the extra from the excise bill, but I do believe in this area the fact that we are going to harvest, along with every other commercial activity, has put unprecedented pressure on our local roads. It will come to pass that a lot of them will not be able to be maintained to the standard that we need to have them at.

The CHAIR — And the impact with rate capping together?

Cr DARK — The roads and bridges program from the state and the rate capping too will all have an impact, but specifically to roads and bridges, because, as I said, we can spend that on roads and bridges as we need to. I think that is important. It is one of the few funds we get that we have control over where we spend it.

Ms SHING — Thank you, gentlemen, for your presentation and comments this morning and for attending the hearing to give evidence. The question I have is one of a very general nature. When it comes to the policy of rates capping, we have on the one hand councils that are very concerned about the impact of the policy when and as it is introduced on the capacity to deliver essential and non-essential services. On the other hand we have ratepayers who are faced with a rates notice. Despite the fact that best endeavours are made to make it clear and easily understood, that is not often the case from the perspective of the reader. I would like to hear your views on how it is that ratepayers can best understand where and how their rates are going with a clear line of sight. Putting the rate capping policy itself to one side, what work have councils done and will do to make sure that ratepayers and residents are best able to understand where and how their rates money is being spent? Who wants to dive in first?

Mr CROUCH — I think, through the Chair, there is a disjoint between people's expectations and our financial sustainability at the end of the day. At the end of the day local governments are a creature of the state government. We have been created by the state government to operate municipalities. We need the financial autonomy and the capacity to deliver on those services. We are very much infrastructure oriented. We have got major infrastructure exposures, asset and renewal gaps and what have you. Anything that retards that ability to address that issue is going to impact on these councils. Yes, it is very popular that people do not want to see their rates go up, but the expectation is that they drive on decent roads and that we provide a minimum level of

services out into those communities, and, if we are being pressured by the withdrawal of major funding streams or uncertainties or rate capping, it puts us in a very difficult position.

Ms SHING — So how do you sell that? How do you explain that sort of message to ratepayers who will see a rates notice with an amount on it and various information on the back of that notice about their rights of review in the event that they are dissatisfied? How do you actually translate what they see in the everyday, as far as services programs and outcomes to enhance the quality of their lives in the community, with the amounts they receive on their notices?

Cr DARK — How do we sell it? I think it is a difficult sell no matter what climate you are in. However, I believe that a lot of ratepayers do not understand or know the amount of services that local government in the area provide. We are going down a pathway at the moment of going through all the services we provide on a one-by-one basis. At the end of that we put against that the cost and the EFT numbers to that service. This is not going to take six months — it is going to take a fair while — but what we want to get down to in the end is having a document that shows that this is a service we provide, this is the cost involved in money and the cost involved in employee time, because we always get the thing where we just cut 10 employees, and you have got to, so we need to make sure that we put EFT time to that. We want ratepayers to tell us which services they want us to cut, because they need to understand the impact that this will have and they have to give us some feedback on that.

We are not yet in the position where we can go out to ratepayers with the full list, but we are going through this list one by one, and hopefully by the end of this council term we should have that list. The ratepayers will have a meaningful understanding of the services we provide, and I am sure that a lot of them will be absolutely gobsmacked by the fact that it is not just 10 or 20 but it is up to 60 services, so that is what we are trying to do at the moment.

Cr O'CONNOR — I guess I kind of take offence even to the question because with local government we have so much oversight and transparency it is unbelievable, and this is probably just at another level. We have our internal and external audit and report on those, and we report to VAGO. We also have the local government reporting framework, which is just another reporting burden that has come fairly recently, to which we report on 92 different sections of our operations. We have got the Ombudsman, who continually looks over us and comes in and does reports on local government. We have also got IBAC, as everyone does, which looks at any corruption. We have got the freedom of information, and now we got the Essential Services Commission.

Ms SHING — Chris, just to stop you there for a moment, I am not actually saying that there is not regulatory oversight. The question to which you have taken offence relates specifically to ratepayers and how they interpret what comes to them on their rates notice, not in terms of what the oversight of local government functions is.

Cr O'CONNOR — I am just saying there is lots and lots of transparency reporting and a huge reporting burden that we are suffering. We are struggling to do our work under this obligation. As far as our rates notice goes, I guess our rates are there for them to see, along with the insurance — —

The CHAIR — The fire services levy?

Cr O'CONNOR — Fire services levy, sorry — that sort of thing. And we do put out with our rates notice where each particular cent gets spent. We do all that — we report. Our oversight is overbearing. The Essential Services Commission — I have heard an estimate that if we do question our rates or we want to increase our rates above the set figure, it is going to be another couple of hundred grand to do that. In our case that is a couple of per cent of our rate increase anyway, so you ask what is point?

The CHAIR — David, you wanted to say something on that too.

Mr RAE — Yes, thank you. Just to add to Cr O'Connor's comments there, we do put a communiqué out with our rate notice that explains for every hundred dollars where our rates go — whether it is to infrastructure services, parks and gardens, aged and community care, for example. We also with our budget put out a simple one-page communiqué, which is available to members of our community, that highlights our rate increases but also where our capital works program will be prioritised and some of the new initiatives as part of that process.

Ms SHING — Thank you for that.

Mr DALLA-RIVA — This is probably just a statement, but maybe the gentlemen can answer. I understand from the committee's executive officer that Warrnambool Shire Council were invited here — they were? Yes, we have a nod. And they have not attended. Warrnambool shire fits within — sorry, because I am obviously not — —

The CHAIR — Moyne wraps around it.

Mr DALLA-RIVA — Moyne.

Mr MADDEN — We are a half a doughnut — you know, the old doughnut. Warrnambool sits in the middle, and Moyne surrounds it.

Mr DALLA-RIVA — Right. So the impact of rates capping to that city council — they would have the same, I gather. You cannot speak on their behalf, but — —

Mr MADDEN — Warrnambool is quite small geographically and has 33 000 people, so it is quite a different council to the ones you have at the table.

Mr DALLA-RIVA — So it would have been good for us as a committee to hear from them, and I just put on the record from the committee's point of view we are here in Hamilton, but it would have been nice for a city council to be here to give their views, given the size of their area. I am disappointed that they are not here, so I will just leave it at that.

Ms BATH — David, can you expand on something you said initially, noting that the country roads and bridges program has been lost and you are feeling the impact of that across the board. I felt that you might have said that the Essential Services Commission were open to discussion around the application for variations, but the minister was not open to that conversation. I would like you to expand on those comments.

Mr RAE — I guess in terms of the consultation that has been undertaken by the Essential Services Commission, the ESC made it very clear that councils are welcome to apply for a variation on an annual basis — a single year up to a four-year term, as is proposed by the draft framework. With respect to the minister's comments, and if I may pull out the document, I am referring — —

Ms SHING — In your opening statement you referred to mixed messages around the disjunction between exceptional circumstances and the open invitation from the ESC.

Mr RAE — I am referring to the *Ministerial Statement on Local Government* that was released within the last month.

The CHAIR — Three weeks ago, yes.

Mr RAE — Yes, and the last sentence of 'Action 10: fair go rates system' is:

Such applications will only be supported in exceptional circumstances.

We have the minister saying one thing, the ESC saying another thing — that yes, we would welcome your application for variation. We need some clarity around where the variation process will be.

Mr LEANE — The Southern Grampians shire this morning mentioned that some efficiency gains have been implemented. Would you be able to expand on what sort of efficiency gains have been implemented?

Cr DARK — We are pursuing a 2 per cent efficiency gain across the organisation over this budget and also the next two or three years.

The CHAIR — That is in aggregate or annually?

Cr DARK — That is in aggregate, yes. It is a goal that the council have set the officers to achieve. We need to make sure that we are as efficient as we possibly can be and look at all things. I think we are no different to other councils that are probably doing exactly the same.

Mr LEANE — Can you unpack what sort of things you are looking at to be more efficient in?

Cr DARK — If we find efficiency gains of around about \$600 000 — everything is on the table. We are not saying that it is with employees. Everything we do over time will be looked at to see if we can find an efficiency gain, whether in labour terms, in the way we procure things, whether we outsource or whether we do it in house. All those sort of things are on the table. We have not excluded anything from that efficiency gain.

Mr MADDEN — Could I make a comment around that? Most councils have a continuous improvement program running all the time. The Essential Services Commission are suggesting we ought to lock that in as an efficiency improvement and actually make that as a saving on the rates. For a first step, when we did the *Closing the Gap* report about infrastructure in rural councils it identified that most of us were not funding the replacement of infrastructure enough, so one of the key recommendations from that report was to find efficiencies and actually reinvest those efficiencies into our assets, and that is what most councils have done to try to close the gap. So you can only spend these efficiencies once.

The CHAIR — You cannot count it twice.

Mr MADDEN — No, and of course we also have our communities telling us that they want better township maintenance, better recreation reserves and all that, and most councils also then use any efficiencies gained to put extra effort into areas clearly identified by the community, so we are trying to spend it twice already. Now if we have to deliver an efficiency dividend, that is the third time we will be trying to spend it, as well as the cuts from those other two major programs, which we have to deal with through that anyway.

I almost found it offensive to have the ESC float an idea that was not in the original terms of reference for some efficiency dividend. I thought it was quite silly. Our communities and our councillors, who represent their communities well — because we do not have big populations the councillors are well engaged — know where the effort needs to go and what needs to be spent.

Ms DUNN — Thank you, gentlemen and Bronwyn, for your submissions this morning. I am interested in infrastructure and I am looking at the moment at what each of the councils have proposed as their rate increase for 2015–16. I note that they are all generally in the area of 5 per cent or marginally above except for Glenelg, which is at 1.95 per cent. My question is, firstly, within that rating increase are you meeting your infrastructure maintenance gap and your infrastructure renewal gaps in terms of what you have proposed as your budget for next year? I am just curious as to why Glenelg is at 1.95 per cent, when there seems to be a consistency with other councils in the region?

Mr YOUNG — Or is it a typo?

Ms DUNN — Yes, or is it a typo? To whoever would like to respond.

Mr CROUCH — From our perspective, we cover a massive geographical area of 9000-odd square kilometres. The infrastructure is a major issue for us. We do have a gap. I think we are doing extremely well at trying to bridge and address it as much as we can, but there is a gap there. We are not running our business the way we would like to be able to run it. We would not have a gap — if we were responsible asset managers, we would not be looking at gaps. I think we are coming from behind. The financial sustainability issue keeps hanging in there, and I think every council is a little bit different.

The city councils are dealing with growth issues. In West Wimmera we are dealing with decline. We have got a population of less than 4000 people now, yet massive road networks and still the community expectations are there. We do extremely well with what we have got. We have talked about efficiency. With all the impediments and the barriers and issues we have got to deal with, you could argue we are not really run as efficient organisations in many respects. We are heavily regulated. We do not get the opportunity to be able to operate exactly the way we want. We are curtailed in many areas. It is up to individual councils where they pitch themselves. We pitched a rate increase that we think is palatable. If the community wants more, we are going to have to justify it and go cap in hand to the commission at the end of the day — potentially.

Ms DUNN — I am just interested in whether the councils are currently meeting their infrastructure renewal and have plans in place based on their budget for next year. Does that incorporate meeting that gap?

Cr DARK — In our forward estimates of this last budget and for the next four years I believe we have a record infrastructure spend. We recognise that we need to keep up with the renewal gap. Not only that, but we have certain council-owned assets that provide a lot of input into town. I am talking now about our livestock exchange, for instance, and HILAC, which is our leisure centre. Looking at the livestock exchange, after a study of that, that brings in about \$22 million in direct employment benefits to our region. It is the second biggest benefit to our shire, so we decided that we needed to spend money on that.

The other thing is our sports and recreation. We believe we are keeping up with that, and the roads gap is getting smaller if we can spend what we projected in the forward estimates. However, we did that estimate without a rate capping scenario. Now we will have to go back and look at a lot of that and see where we stand.

Mr MADDEN — I am just going to make a comment about the infrastructure gap. We are not fully funding our infrastructure gap yet. We did have enough capital expenditure to cover it, but the council had actually built a few new facilities because of our population growth, like a new kinder et cetera; so that does not count towards your infrastructure gap but it is capital expenditure. We were sort of balanced, except now with the loss of country roads and bridges and the indexation of the financial assistance grants we think we are now about \$2 million short which we have not addressed yet. As I said, it has been hidden a little bit over the next couple of years because of the extra Roads to Recovery money.

Mr BURGOYNE — I was just going to make the point that there is a capacity issue too. We have got 180 bridges in our shire, so it is not just a financial discussion. We are talking about ageing assets that are over 50 years of age, so there are intergenerational issues that need to be addressed, and the revenue side of it is only one component.

Ms DUNN — But your rates are 1.95 per cent; that is correct?

Mr BURGOYNE — Yes, it is not a typo.

The CHAIR — It might be worth clarifying that, because there is a slightly different figure in the MAV list. I would just be interested to know what the councils believe your respective rate rises are this year.

Mr BURGOYNE — 1.95.

Mr CROUCH — We could argue with anything less than inflation you are driving your business into the ground, but it is up to individual councils to pitch their rate increases where they see it. Partly it is a political decision, partly it will be a business decision but it is up to individual councils to work through their process. We kept ours at around the inflation level, and that is where we see it from our point of view.

The CHAIR — What is your number?

Mr CROUCH — We had 5.5.

Cr DARK — We had 6 per cent, I believe.

Mr RAE — Our underlying rate increase is 5 per cent.

Mr MADDEN — 5.75.

Mr DALLA-RIVA — And Warrnambool? We do not know, because they are not here.

Mr CROUCH — In fairness to Warrnambool, I am sure they are dealing with the same sort of issues as other councils.

Ms SHING — We will let them provide that evidence.

Ms DUNN — Yes, we had better hear that from them.

Cr DARK — Sorry, can I just say we had 5 per cent.

Ms DUNN — It could be a political disaster quoting that.

Mr RAE — To add to the conversation on increases, historically Corangamite has been at 5 per cent for quite some time. In the interests of disclosure for the committee, there is the defined benefit impact that occurred several years ago. Council put an initiative in place where it would start to put reserves aside for the future. Our current rate increases include a component for that provision. We have also had to absorb the increase of the financial assistance grants pausation and also loss of the country roads and bridges program. Corangamite endeavours to manage renewal requirements on an annual basis and very little is spent on new capital works.

The CHAIR — What was the Moyne percentage, David?

Mr MADDEN — 5.75.

Mr YOUNG — Just off the back of Bridget's comment about not having a city council here, do you believe a rate capping system is a fair sort of system when you consider the differences between regional shire councils that have quite a large area and small population with more city-centric councils and their ability to raise revenue from other sources?

Cr DARK — Can I just go back to our submission. We only have control of less than 20 per cent of our income which we can vary, and that is fees and charges like garbage, HILAC fees, car yard fees and those sorts of things. That is a very small percentage that we can adjust if we have to come under a strict regime of rate capping, and it was brought up too that it was suggested that if we need more money, we can borrow — because a lot of us have been prudent, I believe, in borrowing only for intergenerational things rather than day to day. If we are forced to borrow to just maintain daily services, what is the future of that? Any business would not do that and survive; I do not think councils could either.

Mr MADDEN — I think for most of the rural councils at the table, our rate income makes up about 40 per cent of our budget. You would understand that whenever cost shifting happens or greater responsibility comes on local government, if we need to fund that, we only have 40 per cent of our funding source to use to do that. That is why I always find it amusing when people go, 'How come you aren't putting your rates up to CPI?'. That is because the rates only make up 40 per cent of our income, and if we need to find a dollar — if we lose a dollar in our overall budget — we have got to put up rates by more than CPI to cover that. It is not a surprise, and I should say that I do not think rural councils have been abusing rate collection. Most of our rates are fairly low, and most of us have had pretty quiet increases. Moyne's 10-year average is around 5 per cent, just like everyone else's, so it is not as though we have been trying to gouge our ratepayers.

Mr RAMSAY — I note collectively the councils have all said the loss of the country roads and bridges program has been significant in relation to their opportunity to do that renewal work which was very successful on local roads. I think that was the important thing. I understand the replacement funding does not actually deal so much with local roads but state-owned assets, so it is a huge loss. I also note the government has seen fit to increase the fire services levy by 7.2 per cent plus ask councils to cap their rates at CPI. There seems to be some inconsistency there. But the question I ask perhaps collectively is: have you had discussions with the ESC in relation to exempting some services, whether it is waste collection or other services, from the cap? Has that been part of some discussion?

Mr MADDEN — Yes.

Mr RAMSAY — Given there is a precedent already set with the fire services levy, I sort of thought you should be in discussion with the ESC and government in relation to some other services also.

Mr MADDEN — In our first round of submissions most of us raised that the waste service charges should not be included, because they are really well market tested. The ESC in their paper did actually acknowledge that, and so far they are intending not to include that in the cap.

Mr RAE — That is a really important point, because a lot of the cost pressures experienced for waste management services over the last several years have been largely driven by EPA costs. Corangamite shire has a regional landfill, Naroghid landfill. We are responsible for submitting back to the government a significant landfill levy annually, which we have to pass on to our customers, which include a number of councils in this room today.

Cr O'CONNOR — Just, for instance, with our landfill at Corangamite, \$250 000 for a cell up until three or four years ago, currently \$2.5 million for a cell.

The CHAIR — What is a cell?

Cr O'CONNOR — A cell collects the rubbish. A regional landfill does quite a few of the local shires. It does about 30 000 tonnes a year, and a cell lasts for approximately a year and a half. The cost has gone from \$250 000 to construct a cell to \$2.5 million because of EPA regulation. The cells are not any better, they do not perform any better, they do not take more rubbish and they are no safer — but just through regulation. That is one of the big issues with councils. That is a good example of how regulation or cost shifting, call it what you like, can really impact on what we do. It does not always give us a better result, and we do not always have control over it.

Ms SHING — They are no safer at all, you say?

Cr O'CONNOR — No safer whatsoever. If you want to go into the technicalities, we put this cell in a certain position because it was such a safe area. It is right out in the country. It has got 40 metres of high-grade clay before there is any water table, up to 1000 years before anything could possibly get through there. It was always really safe, and they are no better now. But that is the cost, and it is outside council's control. That is just an example of things that can come onto councils. It is a burden to council to carry. But we do not have any control over it. It is like that 40 per cent we talked about before.

The CHAIR — Chris, I am conscious of time. I welcome any further evidence that council wants to put to the inquiry on that point. It might just be a short note. That would be helpful.

Ms SHING — You may wish to provide further written material.

Cr O'CONNOR — I see. Yes, sure.

The CHAIR — I am inviting you to do that in a sense, because I think it is a pertinent point and obviously makes it difficult to live in a rate capped environment.

Cr O'CONNOR — Yes, and that does affect all shires around, because then what we do is charge them that extra fee. It is essential that that waste does not get included in the cap. Otherwise it would be quite disastrous for us all.

The CHAIR — Thank you. I am going to draw a line under this section now. I thank councils for their submission with regard to the rate capping inquiry. We will move to the evidence now around the unconventional and onshore gas. In doing so, I want to acknowledge Emma Kealy, the member for Lowan, who is with us today. Emma, thank you for being here. We welcome the presence of the local member. David, I wonder if you might put on the Hansard record the document that you quoted from before, just for Hansard's benefit.

Mr RAE — It is a *Ministerial Statement on Local Government*. That is all it is.

Witnesses withdrew.