

TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Melbourne — 30 October 2015

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Mr Kevin Ayre (affirmed), Group Manager Financial Services, Manningham City Council; and

Mr Geoff Cockram (sworn), General Manager Corporate Services, Stonnington City Council.

The CHAIR — I welcome Peter Smith, general manager corporate services, City of Whitehorse; Peter Utri, acting director corporate services at Banyule; Kevin Ayre, group manager financial services at Manningham City Council; and Geoff Cockram, general manager corporate services at the City of Stonnington. I indicate again that this about rate capping. Matters that you say here are protected; if you speak outside, they are not necessarily protected.

I note the materials provided to the committee. I also seek a short statement from each of you, and then we will ask some questions. Do you want to start, Geoff?

Mr COCKRAM — Yes. Mr Chairman, thank you for the opportunity. I was asked to provide 10 copies of our submission. I do not know whether you expected those before the hearing. I apologise if that is the case.

The CHAIR — That would be good; just circulate them now.

Mr COCKRAM — I do have them here. It has been a very chaotic week for us. We moved office for the first time in Stonnington's 20-plus years of existence. We now have the great majority of staff all in one office, so it has been a very chaotic week for us. My submission is, for that reason, not as detailed as the one you received previously. I understand I have about 5 minutes, so I will be as succinct as I can.

The City of Stonnington is opposed to rate capping but acknowledges that it was a pre-election commitment of the state government. Council is concerned that there may be as yet unknown unintended consequences which may impact on the financial sustainability and sound financial management of councils.

The consumer price index is not a good measure of costs of providing services. This is clearly understood by both the commonwealth and the Victorian state governments as evidenced by decisions of the commonwealth government to agree to an increase in private health insurance premiums of 6.2 per cent and by the Victorian state government in increasing the fire services levy by 7.1 per cent.

Salaries and wages are typically about 40 per cent of local government costs, so the cap needs to take account of this. This position was clearly enunciated in the Essential Services Commission report. The capacity of local government to effectively operate within the confines of a rate cap without deterioration of service or infrastructure standards will largely depend on constraining labour costs. In this regard the assistance of government, of whichever persuasion, will be required to manage down union expectations of salary and wage increases as part of the next round of enterprise bargaining, which in Stonnington's case must commence by 31 December this year for implementation from 1 July 2016.

For some councils the impact of the cap will be quickly felt. In this regard it is noted that 21 of Victoria's 79 councils reported underlying operating deficits in 2013–14, as reported by the Auditor-General in his report titled *Local Government — Results of the 2013–14 Audits*, which was tabled in the Parliament on 26 February this year. For other councils the effect will take a couple of years to be noticed, with a potential progressive decrease in capital works, deterioration in the standard of asset maintenance and appearance of parks and recreation reserves, a few more potholes in roads and reduction or withdrawal of services. The easy temptation for councils will be to cut capital works with longer term deleterious effect.

Stonnington council rates need to be seen in the context of property taxation generally by both the state of Victoria and the City of Stonnington. Attached for your information, Mr Chairman, is a report which was prepared early in the 2015 calendar year comparing property taxation by both the state and the council in the City of Stonnington area. As can be seen from the report, 76 per cent of property taxation annually in Stonnington is raised by the state and 24 per cent by the City of Stonnington. At the rating levels in place in 2013–14, and ignoring the time value of money, it would take 38 years for the rates and charges levied by council to reach or equal the amount payable 'up front' in the form of stamp duty and transfer fees to the state government on the purchase of property. This is based on the purchase of a property in Stonnington valued at \$880 000 in 2013–14, which was the average property value at that time. Thank you, Mr Chairman.

Mr AYRE — Thank you for the opportunity to talk to the committee. First of all, I would just like to say that Manningham is committed to the needs and aspirations of our community in a transparent and accountable way, and council takes seriously the onus placed on it to demonstrate that it provides services in line with community expectations and charges rates in line with the long-term interests of our ratepayers. Over successive councils over the last 10 years councils have been driving down the rates of rate increases to the extent where in

15–16 the rate increase for an average property in Manningham is just over 3.5 per cent. At Manningham we have two components of our total rate bill: we have a general rate and then we have a waste service charge. While we recognise that Manningham already involves the community in key decisions affecting the direction of council, we believe there is always scope to provide more community involvement in terms of both the mix and service level and the flow-on effects in terms of rates that impact our ratepayers.

In terms of the process of implementing rate capping and its potential impacts, I am not going to go into minute detail about Manningham but more some general concepts and ideas. It is currently proposed that the Essential Services Commission has a role in monitoring the impact of rate capping on councils. It is really important for the Essential Services Commission to rapidly understand how Local Government provide our services and how we relate to the community. I do not know whether they have that full extent of understanding yet. In particular, services between councils are often not comparable. They are derived by local needs and aspirations. Even side-by-side councils will have a varying asset base and service mix and service standards, which will influence the cost and therefore the impact on each ratepayer. Further down the line, comparing service cost data can be significantly influenced by the geographic nature of each council. Manningham has a greater length of road per residential property compared to some of our neighbours, so costs in that regard are higher than comparable councils.

Recently councils have adopted the local government performance reporting framework, and this has caused a considerable administrative burden on councils. What we are seeing at that moment is the rate capping and the Local Government Performance and Reporting Framework data reporting requirements are not particularly aligned. So through the rate capping process and the proposed data collection from the Essential Services Commission there is a significant administrative impost on councils in addition to what is already being applied in relation to the LGPRF.

The CHAIR — Have you costed that?

Mr AYRE — We have not costed that yet, no. But we certainly believe that an approach to streamlining the data requirements is required, and picking up as much existing data that is available rather than creating new templates and new processes.

In the community there has been talk about rate capping having a significant impact on smaller and regional communities. The full extent may not be clear, but I think what is more important is if it does impact on these regional communities, how can council respond to support those communities? I think that is unclear at this stage.

In terms of cost shifting — there has been a lot of cost-shifting discussion — clearly the existing cost base of council already has built in those cost shifts, but what the rate cap does not take into account is the likelihood of continuing cost-shift burdens on council from both federal and state government and in a wide range of areas from grants through to the lack of indexation of fees and charges.

In terms of the variation process it clearly needs to be timely and flexible, and the process that has been proposed certainly has some elements of that. I think there is still some work to be done in terms of how the Essential Services Commission may respond to a global or whole of local government sector approach. If, for example, the local government superannuation defined benefits fund had a local government-wide call at \$400 million, how would the Essential Services Commission or the variation process react to that? Maybe there is some fine-tuning in those areas. They are the broad considerations that I would like to put forward. Thank you for your time.

Mr UTRI — I will be brief. Thank you for the opportunity to take part in the discussion today. Fundamentally Banyule remains opposed to rate capping but understands the imperative that the government has brought in and the fact that both political parties have had views in the past that are in rate capping. Our issue to some degree stems from the fact that it is quite a blunt instrument that is looking to be implemented, and it gives little account for the starting position of organisations. We look at somewhere like Banyule, and it took 18 years for Banyule's cumulative rate rises to move beyond CPI post amalgamations. In the last few years we actually have had more substantial rate rises, but we have also had a far more substantial major capital program in place and have been responding to significant infrastructure works in terms of our renewal works and have accelerated our renewal program.

The imposition of rate capping clearly removes control at a local level, and what we would be looking for is that a mechanism is in place and there is some basis that local needs are still in place and the needs of local community. That comes back to the blunt instrument argument where we see that it is not about the ESC's capacity to determine either a better cap or individual cap for council; it has really been about the time frames that have been imposed around this process and what are perceived to be the ongoing costs. If we see that the ongoing costs for any cap administration are going to be passed onto local government anyway from the second year on, I would have thought that a more sophisticated, more multitiered capped system would be something that could or should be able to be implemented.

There has been a lot of mention in the previous presentations — and it came through panel members here — about cost shifting, but I think because of the insidious nature of some of the cost shifts, its full scope probably is not taken into account. One of the most stark ones to me is the fact that over — and it is a long period — 35 years library services have shifted from 80 per cent to 20 per cent funding, so that is reversed. It was the 80 per cent state 20 per cent local government; now it is the reverse. In Banyule's case, that is a \$4 million service. The cumulative effect of that over that period of time for the community to be absorbing is clearly an example of where rates need to rise larger than CPI and the whole discussion before about CPI being the wrong basket, the wrong instrument, needs to be looked at.

I suppose it is really about the fact that council and its communication to its community has really been well placed, Banyule sees, in the past in order to make decisions around major capital initiatives. We look at the WaterMarc. It was a \$40 million project for council, clearly a large financial impost. It was substantial but relatively minimal in the scheme of the project contribution from the state to the project, given the fact it was actually a regional facility. It is actually a regional facility providing funding of a regional nature. The attendance to that has moved from 100 000 to 800 000 people a year, so in terms of what you look at — the health benefits et cetera for the community — it is a really important asset for the region, but it is the sort of thing that we are looking at a local community having to fund on an ongoing basis and with there being a capped environment that being something that is an unlikely event to occur without more substantive or a defined program from the state or other levels of government that actually provide larger sums or larger contributions to it.

Mr SMITH — Good morning, and thank you for the opportunity. I think it is well documented, the vertical fiscal imbalance between federal, state and local. It is also well documented that property-based taxes are the most efficient form of taxes, and there is strong encouragement for that form of tax. We agree that it is a blunt instrument to cap a property tax which is fundamentally efficient, and as a result the City of Whitehorse formally opposes the introduction of rate capping in Victoria.

I would like to offer four main points. I do have a number of examples that, at the moment, are hypothetical. They have been considered before by our council and rejected, but in a rate-capping environment they are examples that will probably be reassessed. Firstly, what is the likely consequence to the City of Whitehorse? We estimate, based upon our reading of the draft legislation and of course the Essential Services Commission blueprint, it is in the order of \$2.5 million to \$3 million of general income per annum. What does that mean? We think that whilst council does and will continue to and must continue to innovate and focus on improving our business processes because our community expectations are growing — they are not capped — we will continue to improve our business processes and continue to seek out low-cost solutions, whether it be by smarter procurement or whether it be by actually finding little pockets of cost to cut.

There are three broad areas that we would be looking at to operate in a rate-capping environment. The first one is about new expectations of the community. We would be looking to scale back what traditionally is a strong business case process internally leading to a council decision about new initiatives. They typically stem out of strategies that are multiyear, but we would need to curtail those, particularly the ones that involve additional jobs; we would need to be quite hard on those. I am happy to provide a couple of examples, should the committee feel that helps.

Secondly, we would need to reconsider each service. We would all each talk about providing services numerically that might add up to 100 to 150 services to the community, so we would need to reconsider those services and also the community programs. For example, our community grants program is large, and it is the lifeblood of many not-for-profit groups. We invest into the community directly over \$800 000 in community grants, so clearly you start to question whether that could be or should be something less. Nevertheless the

consideration would be at two levels: one would be the amount of service provided for each of those 100 or 150 services and programs.

The second more challenging decision would be whether they should be continued. I am happy to provide some examples of those, but suffice to say, picking up on the theme of partnering between state and local government, a good example that was topical in the press yesterday is school crossings. Thirty years ago that was a VicRoads or, if you like simplistically, a state agency program. We have 95 crossings. Initially the funding from VicRoads was about 70 per cent when that was transferred. Today for Whitehorse it is about 30 per cent. We operate 95 crossings, but there are clearly a number of those that get zero funding from VicRoads, and the reason is based on the numbers. The numbers say there are not enough kids and not enough cars, so we get zero for those. That is, I guess, an interesting example of where in a rate-capping environment those partnerships might be questioned.

The third area I think is a little less intuitive but has greater unintended consequences. I am talking about uncertainty, and I am talking about long-term financial planning. I am particularly thinking not so much of our regular capital program. All of us, including Whitehorse, are very dedicated to investing in and maintaining our community assets. That is a high priority, and we have worked hard on that and will work hard not to let that slip. What I am talking about are those bigger iconic projects for the community that we all have and that are part of the fabric of our communities. Those are the projects that with uncertainty from rate capping — not just the reduction of our income capacity, but with the uncertainty — it is very hard to plan a 5-year or 10-year program when the legislation simply has CPI plus or minus at the discretion of the minister. It makes it a challenge to plan a major investment. Our capital works program is circa \$30 million per annum. To put it in the context of what I am referring to, it would be \$40 million for an aquatic centre, \$30 million for a new community hub or more for a performing arts centre. These face greater uncertainty as a result of the planning horizon.

Those are the three areas of impact; however, there are some, I guess, less clear impacts and perhaps unintended consequences. Those impacts are to our staff. We have 1300 people on the payroll, and many are part time. Forty per cent of them are also ratepayers. There will be an impact on our staff in terms of the next EBA negotiation. Hopefully we will manage it well, but potentially with future jobs there will be impacts on the community. Whether we do not proceed with a major project is not about the infrastructure itself so much, but there is a loss of construction jobs more broadly. But more importantly there is a loss of the service provision that comes from those buildings and infrastructure. The multiplier effect on the Victorian economy is perhaps something that has not received a lot of, to my knowledge, consideration.

I would like to finish with one final point about the Essential Services Commission and material that is publicly available on their website. I am referring to the significant difference between a compliance regime. We are good at compliance; I heard a previous speaker say that. The compliance regime is really simple. It is: have we put our rates up by more than the legislation, yes or no? The Essential Services Commission have come up with a nice little table that fits onto an A4 page. That is fine. What we are very concerned about is what appears to be a regulatory stance on top of all the regulation we already have on multiple fronts. I am referring to the fact that for every council — not just those that seek a variation, but every council — every year there are four A3 pages. They are so big that you have to print them on A3 to read them, and then I am worried that my glasses prescription needs updating.

It is vast, and I would urge the committee to see those and consider those because the question about compliance versus regulation is, I think, fundamental. The devil is in the detail. The level of detail in terms of those 100 to 150 services, if we are required to become a manufacturing, cost-accounting entity and provide data across multiple revenue streams and multiple expense streams and tie back all of our capital programs to each of those 100 or 150 services, and if that is the direction that underpins these A3 pages, then that is quite a significant cost to local government, not just the larger councils but in particular the smaller rurals. I do thank the committee for the opportunity.

The CHAIR — Thank you. That is incredibly comprehensive. I am just trying to work out how I start here. I might start in the way I did with the last group of councils and just ask: including the waste costs, what was the current year increase in your rates? I might just start with Stonnington.

Mr COCKRAM — Mr Chair, in terms of the rate in the dollar, 4.3 per cent. It is a non-re-evaluation year, so that amount would reflect directly on the person's rate notice when they receive it. With respect to the garbage charge, the increase was 4 per cent.

The CHAIR — So do we add those together to get a total impact on the bill?

Mr COCKRAM — No. I do not have a composite figure, but it would be a number like 4.2.

The CHAIR — Maybe you could provide that separately. That would be useful.

Mr COCKRAM — Yes. With pleasure, Mr Chair.

Mr AYRE — At Manningham the general rate was 4.5 per cent, and with the waste service charge we were actually able to have a reduction of 2 per cent, so we actually dropped the later charge.

The CHAIR — So then the aggregate?

Mr AYRE — The aggregate was 3.5.

Mr UTRI — Banyule was 4.95.

Mr SMITH — The City of Whitehorse does not have a garbage charge or other charges. Our general rate was 5.6 plus 2 per cent for major projects, making 7.6.

The CHAIR — That is the first one. The second one, as per the other group of councils, is about the EBA cycle. It would be helpful to know where your EBAs are. I might just quickly run through with Stonnington beginning.

Mr COCKRAM — Stonnington's current EBA concludes on 30 June 2016. We are required under the terms of the enterprise agreement to commence negotiations with the unions by 31 December 2015 and to conclude those discussions and have it across the line by 30 June 2016.

The CHAIR — And the current EBA? What are the increases in that?

Mr COCKRAM — The last increase was 3.75 per cent.

The CHAIR — And Manningham?

Mr AYRE — We are on a three-year cycle, which is due to conclude on 30 June 2017. For 2015–16 our headline rate was 3.1 per cent.

Mr UTRI — At Banyule we are pretty much in alignment with Manningham. We are looking at a 30 June 2017 conclusion, 3.3 and 3 over the next two years.

Mr SMITH — Whitehorse is in the last year of its current EBA. The headline number is 3.5 per cent, but what will be relevant for the next is the hidden costs, which are, one, we offer our lowest paid workers a minimum dollar amount and, two, there are mandatory increments within the award. They add about 1 per cent of costs to the council.

The CHAIR — So in effect it would be 4.5?

Mr SMITH — 4.5 in that sense, yes.

The CHAIR — That is helpful. There were a couple of points I wanted to pick up. I want to start at this end with Whitehorse. First of all you had a list of services. It would be very helpful for us if we had that list of services so that it is very clear what councils provide; you do not always see a consolidated list of services. You have many things you know, but that would be helpful.

The other point you made in terms of the ESC and its compliance and regulatory costs was that you mentioned these A3 pages. We might work with the secretariat to try to have a good look at those. Do you have copies of those? That would be helpful. Thank you. Have you done work to cost the impact of that?

Mr SMITH — Currently in the documentation the key issue is: how do you define the level of service that we are required to report in these four A3 pages? Currently — I must be clear for the benefit of the ESC — they are recommending that it be at whatever level we currently budget. So we currently budget down to about 40 bunches of services. The question mark, though, is whether that extends over time to drilling down from, say, 40 or 50 to 150. At the moment I think we would cope reasonably well with that 40 aggregate level. If the ESC, though, do push that down lower for the purposes of comparing councils and aggregating the state to the lowest level, then we estimate we probably need to spend one to two years in preparation, and several people.

The CHAIR — Has there been a regulatory impact process on that that we are aware of?

Mr AYRE — Not that I am aware of.

Mr SMITH — Not to my knowledge.

Mr COCKRAM — I am not aware of it, Mr Chair.

The CHAIR — Nobody is aware of whether that has occurred. We will seek some information on that. Just on the costs, Manningham also made some points about the costs of the data collection. You have not costed that as yet.

Mr AYRE — We have not costed that as yet, but we are certainly looking at that level of detail. But the requirements filter throughout the organisation; it is not just a finance issue to collect the data.

The CHAIR — Just to come back to the Stonnington submission, I thank you for this. We will receive that if someone wants to move that we received these various additional pieces. It shows a significant increase in state property taxation over a longer period, noting that you go back to 1998 or the late 1990s. Over that period was there a slower increase in council property tax? I think there was one property tax missing on there, property derived capital gains tax, which is federal.

Mr COCKRAM — Yes, that is so, Mr Chairman. I have not done that analysis.

The CHAIR — Is that analysis available, do you know?

Mr COCKRAM — No. I could do it, but not readily.

The CHAIR — Not readily. All right, I will stop now, but I thank you for your submission.

Mr LEANE — I am not being critical of councillors — I understand you are council officers — but I find councillors cannot help themselves and want to buy into anything that is pretty good. Just touching on that, a previous witness said they wished they had parliamentary privilege. They actually did, and you actually do, so keep that in mind in answering this question.

As long-serving council officers have you had face-palm moments where councillors want to buy into things outside their jurisdiction that you believe should not be entered into? To help you I will give you an example regarding one councillor. A ministry's office requested me to meet with a council's new level crossing officer that was just put on by a councillor in an area where those particular level crossings that fall inside that council had not even had an expression of interest to put out to remove them. As I said, you have got parliamentary privilege and you can tee off, but I assume you will not. Would you like to comment on that?

Mr UTRI — I suppose my only comment would be that Banyule likes to remain fairly beige — so, no, we do not have any level crossing officers. Realistically the relationship between our council and the stability in council certainly — and I have been there for 14 years — has been quite good, and the council has been quite good on taking advice on where its major initiatives should be, and a lot of the work has to be done in conjunction with community consultation in terms of community need. We really do not have too many level crossing officers or too-far-out-there art projects or those sorts of things that have occurred.

As I said, we remain fairly beige, and to be fair, whilst the officer's opinion may differ at times from where the council opinion is and what the political will may be, at the end the majority of things that I have seen have certainly had worthwhile community benefits. It may not be the no. 1 priority that you would see in terms of

what you want to renew, what you want to extend or its purpose, but certainly there is definable community benefit in what has been put forward.

Mr COCKRAM — I will use a current example. The answer is yes, there are times when councils are tempted to buy into things that in my professional view they should not buy into. One current example is in respect to the free trade agreement, where my council has been requested by another council to form a view and to make certain representations about that matter. In my opinion that is not a matter that we ought to get involved in, and the matter has not yet been formally considered.

The CHAIR — Favourably or unfavourably?

Mr COCKRAM — Unfavourably. In my professional opinion that is not a matter that we should be involved in. The matter has not yet been put before the council, so I do not know what the view of the council will be. My suspicion is that they probably will want to stay out of it. But that is an example of where we are asked to get involved in something, where as an officer I think we have no role.

Ms DUNN — Can I just follow up on that? In terms of cost impost of that example, what would be a cost impost in relation to something like that?

Mr COCKRAM — It is difficult to estimate. It would require me or one of my staff or someone else within the organisation to actually research and fully understand the free trade agreement, which I confess I do not, and to then write a report to the council to have it go to a councillors briefing and then formally go to a council meeting for a decision. It is speculation here. It might take me 10 to 12 hours to properly research it and write a report. It goes to the council and the council has some discussion that might take an hour or so, and you have got nine people around the table plus other officers in addition to me. I do not know whether you can put a figure on that, but that is the sort of quantum of time.

Ms DUNN — Thank you, and thank you for your submissions, gentlemen. I am not sure whether councillors would be happy or not to be referred to as beige in Banyule — probably happy, I would say. I am wondering whether any of you have had an opportunity to look at the draft bill before the house, the Local Government Amendment (Fair Go Rates) Bill, and just — —

The CHAIR — The so-called fair go rates.

Ms DUNN — The title is the title. I will leave the debate to the chamber. But I am just wondering if you have any comments in relation to that and any concerns you would like to raise before the committee in terms of what you have seen on that bill.

Mr COCKRAM — I have not examined it in detail. As I said at the opening, we have had a very chaotic week this week moving office, and other than a very cursory glance, the answer to your question is regrettably no.

Mr AYRE — I have had a brief view, and I guess it does give the minister flexibility to be able to move — —

The CHAIR — Enormous power. She can do whatever she wanted. You noted she could do whatever she wanted.

Mr AYRE — Not quite, no. There is some flexibility in how it is applied, but I guess there are two edges to flexibility. The more flexible it is, the less certainty there is into the future. I guess that is my only comment at the moment. I have not had a really good look.

Mr SMITH — Yes, I have read the draft and the government's response. I think my thoughts are in a couple of areas. I mentioned uncertainty. In the blueprint by the ESC, whilst there was a rate cap for year 1, it did provide years 2 and 3 for guidance, and I felt that was useful for the capital planning and long-term planning. Even service planning needs more than a one-year horizon to assess and evaluate, and if it involves families and community members, often it needs 6 to 12 months to implement any change, so that is a lack of certainty.

Another element of the lack of certainty is how it is CPI plus or minus something, so we are not sure what that something is, and the direction could be better or worse. That is a secondary element of uncertainty, and I have

already touched upon the question of whether compliance needed to be demonstrated or whether there is a regulatory overlay. It is a question mark.

Mr UTRI — No, we have only had a perfunctory look at it, and really it is about the fact that, similar to that, the facts of the matter are not in place yet, so we are not really sure about the quantum that we are dealing with and therefore the impacts that we are looking at.

Ms DUNN — Thank you for that. I am also wondering, in relation to the variations that have been proposed by the ESC in that process, if you have any comments on how that will impact on your organisation's interview if you do seek a variation.

Mr UTRI — For us it is still uncertainty about the base of the evidence that is required, and for us again being perhaps a little bit more conservative we are very interested to see the first groups or councils that were to go to see actually how they are assessed and what the impost will be on the evidence base of those.

Ms DUNN — So you would rather see how some test cases go first before you venture into the water?

Mr UTRI — Correct.

Mr COCKRAM — If I understand the question correctly, I think it is unlikely that Stonnington would be making an application, frankly. We have done our budget timetable for next year, and the timetable is so tight that from a practical perspective I just do not think there will be time to prepare a reasonable case for the commission to do a variation even if we wanted to.

We have started our budget process this week, so it is a process that goes through until the council adopts the budget in June. We tried to build into our timetable enough time to put in a submission to the commission, but it is very tight. I just think the practical reality is that there will not be enough time, even if we wanted to.

Mr SMITH — We have a similar view. The ESC has also published on its website the draft of not only what I have provided today, which is for all councils every year, but the additional mirror image of the same four A3 pages if you want a variation.

Our understanding of the process is that it is quite intensive to demonstrate that you have considered everything. So our assessment of it — and this is fairly plainly laid out in the blueprint — is that not only would you need to assess the subject service that is causing concern financially, but you would need to assess every other service to see if there is an offset as well as debt capacity reserves and other options. So we think that is quite a significant body of work to prove and that therefore the timeline is more likely to be something that you would work for the following budget rather than the current budget.

Mr UTRI — Yes, we would concur with that. We are looking at it being an 18-month process at a minimum that you are actually looking at collecting the data, presenting the case, and having done the sufficient analysis actually to put forward a variation.

Mr AYRE — And that community involvement as part of that process.

Mr UTRI — Yes.

Mr YOUNG — Thank you, gentlemen, for your presentation. I just want to put to you the same question that I put to the last group. Which would be the harder sell for you to take to the public: a cut in services or a rise in rates?

Mr COCKRAM — In Stonnington's case I suspect it depends on the service. As a general comment I would say it would be harder to sell a reduction in services than a rise in rates. We had what we call a ward meeting last night. It was the north ward, which is areas like Toorak, South Yarra and part of Kooyong. Of the 100 or so people that were at that meeting last night there was not a single person that talked about rates. What they were talking about were other issues to do with the South Yarra railway station and to do with proposals for land acquisition along Punt Road. A number of these issues were not even council matters, but they were an opportunity for people to air their feelings one way or the other. But not a single person raised the question of rates. So my belief is that service reduction would be a lot harder for us to sell than an increase in rates.

In my nine years at Stonnington I would think there have been only about a dozen occasions when I have had a resident take the time to ring me to express concern about their rates. The two most recent examples were two gentlemen in the east ward, in the Malvern East area, who were both self-funded retirees and who were saying that they are not getting the income stream they used to get and therefore the council rates were too much. But from my perspective complaints about rates at Stonnington are very infrequent. The issue is service delivery: 'My garbage was not picked up', 'My street was not swept', and 'At the local parks the grass has gone brown'. They are the issues for us. Service reduction would be a lot harder for us to sell than rates.

Mr AYRE — I would certainly concur with that. Even as part of each year's annual budget process when we put the budget out for exhibition for 28 days, people might lodge a submission that is called a budget submission, but really when you look into their issue usually it is service related, not actually about rates per property.

Mr UTRI — Yes, certainly I would concur with that. Our budget submissions are predominantly about an increase — people's requests for increases in services, not anything about reduction. We do have letters intermittently saying, 'Your rates are too high' et cetera. But in community satisfaction surveys that we did, there is actually a pretty even split in the responses in terms of 'Would you prefer a reduction in rates or would you prefer an increase in services'. So it is about 50-50 from the survey work that we have actually done out in the community. That does not give us a lot of direction, but we have asked the question about that. I suppose the evidence again is that where we have tried to reduce services in different spaces there have been the petitions that you heard about from the earlier witnesses.

The CHAIR — No snake catchers, though?

Mr UTRI — No, no snake catchers at Banyule. We give them the number of the local snake catcher.

Mr SMITH — We have declared our rate rise to be 7.6, which is high. Our recent years have been high. They have been 6, 5.8 and 5.6. Despite that, we are coming off a low base and we openly share with our community that our average rate is one of the lower ones in metro. Our surveys have been consistently around the 80 per cent value for money, so not focusing on the quantum but what you get for it as well.

Our concern about the service conversation is that it could be very divisive in the community because if we say to one sector of the community that we are proposing to trim back some of the less traffic-oriented school crossings, that might be absolutely fine for a middle-age group cohort, but for young parents or for grandparents it might not be fine. If we say we would like to trim back the grants, that would be a very unhappy situation for certain groups. So we are concerned about the divisive nature of that. Even with our high rate rises in recent years, the 80 per cent value for money, I think, is important.

Mr DALLA-RIVA — Thank you, gentlemen. I particularly thank Banyule City Council and Peter for your beige tie. Just a question in respect of Whitehorse. I am interested that you based a 2 per cent infrastructure fund, which I have not heard from other councils. You specifically had a rate rise of 5.6, and then you put this infrastructure fund?

Mr SMITH — Correct.

Mr DALLA-RIVA — I am trying to work out what the rationale was and how you justify that in the overall sense, given that every other council incorporates that in their overall budget?

Mr SMITH — Yes. The reason is that we are going through an intense planning process for five or six major projects on top of our regular capital spend, and for about 18 months — perhaps two years — we have been in some very early feasibility planning but in particular financial planning and modelling over 15 years as to how we would pay for those major projects. So these are not new facilities but rebuilding current and existing community facilities.

Mr DALLA-RIVA — Sorry, how many years for the infrastructure?

Mr SMITH — Fifteen years. These are existing facilities that are old and need to be replaced, or not replaced. Our funding model has been very much a multisourced approach: large amounts through debt, and we are low debt now; using our reserves, and we are fortunate to have cash reserves; intentionally targeting parcels of land to be considered for sale for funds; and about 20 per cent through rates. The council's decision was that

with the uncertainty of rate capping, whilst our rate rise has gone from 6 to 5.8 to 5.6 and trending down towards 5, they felt that if we did not have rate capping, we would be able to deliver those additional projects within that 5 point something over a 10-year horizon. With the uncertainty of rate capping, they felt that they wanted to seize the moment and asked for 2 per cent to give some planning certainty so that we could at least do many of those, if not most of them, in a rate cap environment. That was their rationale.

Mr DALLA-RIVA — With that in mind, I am somewhat confused, and that is why I asked how many years. If you have an infrastructure program, you have asked for some money up-front, but that will only allow for a small amount of infrastructure. If rate capping comes into play, you will have these five or six projects that will essentially become nothing, because my understanding from other councils is that there will not be enough for infrastructure built in the future. So I am really trying to work out how a 2 per cent cash grab now would benefit five or six programs over 15 years.

Mr SMITH — Yes. It effectively added \$2 million to the rate base every year into the future in perpetuity. That is the effect of a one-time 2 per cent — it adds \$2 million each and every year.

The CHAIR — But quarantined for capital purposes?

Mr SMITH — Correct. Council saw it as, if you like, some insurance to give a bit of a buffer. We may not do all of those additional major projects, but it is a buffer to allow us to do a number of them that are perhaps the most high priority, such as the Nunawading community hub that we are planning to build on the former Nunawading Primary School site.

Mr DALLA-RIVA — And just following up, Chair, obviously we have had some other issue submissions, particularly from residents groups. One in particular was from the Whitehorse ratepayers association. Comparatively they were quite vitriolic about the lack of capacity and transparency of councils, particularly Whitehorse. So we seem to have had an association organisation very bitter about the way Whitehorse had done these types of activities, as opposed to other residents groups from other councils which did not have that same level of concern. You may not have a comment, but it is just an observation that it seems to have had an adverse effect, if that was the intention, because it seems to have just fired up certain groups about the behaviour of council, and it seems to somewhat justify the concerns they had, given that 7.6 per cent is clearly well above the CPI, given that 1.1 was the CPI. So I do not propose that you have any comments on that. I am just putting it out there as a statement.

The question I have sort of follows on from the previous questions. If the rate capping is applied as proposed, have any of the councils present here started work on what services, programs or infrastructure programs they are going to either cull or cut back?

Mr COCKRAM — In Stonnington's case, the answer is no, but I think the easy temptation for councils will be to reduce capital works in the short term, which you will not notice the immediate effect of and it will take time to flow through. But I think that will be the easy temptation for councils.

The CHAIR — Or debt?

Mr COCKRAM — Indeed, Chair, or debt. Stonnington does have low debt, about \$12 million — relatively low.

The CHAIR — You can keep your services going if you just put your debt up.

Mr COCKRAM — That is certainly a choice but not one I would be encouraging the council to take.

Mr AYRE — We have not undertaken that core level of work. We are doing planning at the moment within the organisation, but we do not sort of have that detailed work yet to say that we will wind down or reduce the service level in this particular area.

Mr DALLA-RIVA — So no detailed work yet, but you must — —

Mr AYRE — We are in the planning phase of understanding the impact that rate capping might have on various services, but we do not have a list. We are just trying to understand what the global impact might be.

Mr UTRI — We seem to be grappling with that core/non-core discussion, and the reality is that there are not a lot of things that are absolutely core. There are other providers; there are other groups that can do things. Banyule has a lot of its services in-house, and it really has been about how we have responded to the community and how the community has viewed our services to date. For me it is interesting, because one of the things that I see is that rate capping is a bit of a stick argument. It is really where is the carrot amongst any of this? One of the greater effects I would see in terms of driving efficiency in local government in Victoria would actually be shared services. There is no coordination, really, around that shared services argument, whether it be the back of house — —

Really anyone can do our IT. With our dataset we could do the dataset for our neighbours. Across the organisation financial services and systems could be streamlined and run across several councils. But their action would follow the time and thought that would have to be put into that. To me that is again more of that carrot space there rather than it being all the stick space, and I think you could actually achieve greater gains for your community by concentrating on that space than perhaps the rate cap space.

Mr SMITH — We commence our conversations more formally with the councillors next week. I think the officer-led proposals in terms of how to approach it at a high level will be as I have outlined at the commencement. But I think there will be an appetite to have a more disciplined scaling back of new initiatives. To give some specific examples of new initiatives funded this year — money for a bicycle strategy, accelerating our playground upgrade program and a big community interest in significant tree studies, so \$900 000 there as part of what we did this year. Those may be scaled back, I suspect.

In terms of services, in the last two budgets before rate capping became part of the conversation we were required to present to our councillors a list of things that could be trimmed, and there has typically been a strong commitment to keep those services going. To give a few examples that would perhaps be re-looked at, I have mentioned the crossings and the grants program. We currently have three service centres. We have a large elderly community who enjoy coming in to pay their rates, pay their bills and have a chat. Maybe we look at two. There are street tree programs. We have got a big visitor program for our Blackburn lake. We have been quite deliberate in having additional street sweeping and stuff like that. We could be winding some of those things back. It is too early to commit the council, but they are examples of what we have previously looked at, and I suspect we will again.

Mr UTRI — Just in terms of that, some of that stuff is actually now, but it is actually about what is going to evolve. We probably will be fine for the next few years; it is really the longer term. We are in the next rollout for the NDIS, so for us there are very significant strategic decisions that we need to be in in terms of that space and what we do in both the HACC services and those disability services.

Mr DALLA-RIVA — I am conscious of the time. This is a question without notice that follows on. Would you be able to have your rate capping and then have an infrastructure charge additional, like what Whitehorse did? Does the legislation allow for that? In other words, to get around the issue of rate capping that it is tied to CPI — a charge that is separate?

Mr AYRE — I do not believe so. I stand to be corrected, but no, I do not believe the legislation would allow that.

Mr UTRI — We can have a municipal charge which is designed to defray administration, but that is covered.

The CHAIR — You could potentially ask for a variation on a specific project. That is my reading of it. I do not think anyone knows yet.

I just had a couple of items that would be helpful to us. One is, Banyule, you mentioned some survey work. A copy of that would be very much appreciated.

The other point is state payments. I would be interested in if you had a time series of payments by state governments, or the sources — others, if you want to — over a period to see what came in this financial year, last financial year and the financial year before, including particularly 2015–16 and 2014–15, and any other service reductions that you might be looking at.

Finally, we are obviously aware of the Whitehorse ratepayers groups, but are there other ratepayer groups in your municipalities?

Mr UTRI — No.

Mr COCKRAM — To my knowledge, not designated as such, but there are certainly community interest groups, mainly with an interest in planning and development issues, particularly in the South Yarra area and in the Malvern and Malvern East area. Their focus is one of they do not want someone to build some monstrosity next to them, not particularly about rates.

Mr SMITH — Chair, may I just comment on that particular group? We have at least two other resident groups, and the tone of those is very much engagement and services and working together. That particular group, I think it is fair to say, is quite extreme in their outlook on a number of issues, including, for example, quite open conversations around the lack of constitutionality of indeed the state and local government. So it is an interesting group.

The CHAIR — To be fair to them — and they have presented here — they do make points that represent the views of some in the community about costs. The truth of the matter is that costs have a significant impact on families' and household budgets.

Mr SMITH — Yes.

The CHAIR — Thank you. I thank you all for your time. The secretariat will be in touch on a number of matters. We are very appreciative, and if you could convey that to CEOs and mayors.

Committee adjourned.