T R A N S C R I P T

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Torquay — 12 August 2015

Members

Mr David Davis — Chair	Ms Samantha Dunn
Ms Harriet Shing — Deputy Chair	Mr Shaun Leane
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Ms Colleen Hartland	Mr Simon Ramsay

Staff

Secretary: Mr Keir Delaney

Research assistants: Ms Annemarie Burt and Ms Kim Martinow

Witnesses

Mr Keith Baillie (affirmed), CEO,

Cr Margot Smith (affirmed), Mayor, and

Mr John Brockway (sworn), Manager, Finance, Surf Coast Shire Council;

Mr Colin Hayman (sworn), Corporate Services General Manager, Shire of Colac Otway;

Ms Carole Kirby (sworn), Revenue, Property and Valuations, and

Mr Michael Kelly (sworn), Chief Financial Officer, City of Greater Geelong; and

Mr Lenny Jenner (sworn), CEO,

Cr Helene Cameron (sworn), and

Cr Bob Merriman (sworn), Borough of Queenscliffe.

The CHAIR — I welcome our witnesses to the hearing on rate capping. From the Shire of Surf Coast we have CEO Keith Baillie; Cr Margot Smith, the mayor; and John Brockway, manager, finance. Colin Hayman is from the Shire of Colac Otway; and Michael Kelly and Carole Kirby are from the City of Greater Geelong. Evidence given before the inquiry today is protected by parliamentary privilege. If you repeat outside what you have said here today, that may not be protected by parliamentary privilege. I will ask each council to make an opening statement and follow with some questions.

I indicate that the deputy chair, Harriet Shing, will be here shortly. She is a little delayed. Before starting, I officially record the committee's thanks to the Shire of Surf Coast for its hospitality to us in allowing us to use this facility today. Thank you.

Visual presentation.

Mr BAILLIE — Thank you, Chair. Perhaps Surf Coast could kick off. I am mindful of not exceeding a reasonable time, to allow others to present too. It is a pleasure for Surf Coast to present on rate capping. I wanted to initially set for the committee a context of the characteristics of our shire and how that is relevant to rate capping. Firstly, Surf Coast is a high-growth shire and in fact is the shire with the highest growth rate in regional Victoria — over the last five years at 3.5 per cent. Growth is an important element for us, and that is reflected in terms of rating through a high supplementary rate. We receive $500 000 of that per year, which when annualised becomes $1 million. That is a very important source of rate revenue for us. In terms of rate revenue dependency, we are somewhat unique in that our percentage of total revenue that comes from rates is high, at over 70 per cent. That is well above what you would typically expect to see in a council.

One of the challenges we have is that there are limited alternative options, given for example that our foreshore, which might include opportunities for parking or caravan parks and the like, is actually under the governance of another agency, the Great Ocean Road Coast Committee. We published our asset renewal backlog in our budget for the first time this year line by line, showing the community that if we had more money these are the assets we would refurbish in this year. At this time, to be fair, that is not a very large backlog, compared to what you would see across other places in Victoria. But nevertheless, we would do $1.3 million if we had funds right now. Some other councils would be not unreasonably in the $15 million to $30 million category, I would think, at that stage. That reflects our assets being relatively new, so that just means that over time if we do not keep up our commitment, our position will degrade and so we must have the ability to sustain our asset renewal funding.

I have included there our rate increases over recent years, averaging out at 5.7 per cent. Council views that as responsible and had planned 5 per cent moving forward. Interestingly enough for the committee, in our recent budget process, in 2015–16, we had 78 submissions. Many of them asked for more money; not one was concerned about the level of rates. I think that is a reflection of our community.

Moving on to the impact of rate capping on us, we have modelled that, and the graph on the left of the screen shows the impact of rate capping, assuming a 3 per cent rate cap, which actually is borne out to be true roughly in the draft report. We believe to be at a 2 per cent lower rate would reduce our rate revenue by over $100 million over the next 15 years, so instead of 5 per cent, at 3 per cent. To be balanced and fair, on the freezing of the commonwealth financial assistance grants, we calculated the impact of that just for a three-year freeze at over $5 million over 15 years, so both of these things are occurring to us at the same time.

There are three things I would like to point out that are at risk. New infrastructure is at risk, and in a growth shire that is very important. In this graph the green illustrates the contribution from new ratepayers, so from supplementary rates, and the blue is from existing ratepayers. The issue with new ratepayers is that it is absolutely critical that the supplementary rates are correctly calculated in the rate cap discussion. If they are not, we lose the ability to benefit from that growth and to turn that around for new infrastructure for people. The current draft report from the Essential Services Commission incorrectly deals with supplementary rates. I have made direct representations to the ESC, and they acknowledge that error and are going to correct it. It talks about supplementary rates received in the year as opposed to what is called annualised supplementary rates, the difference being that when the supplementary rate is struck during the year you pay only the pro-rata remainder to the end of the year. What we need for the rate base is the equivalent of an entire year, so annualisation of supplementary is important. In terms of existing ratepayers, the point is that setting the rate cap below what is a reasonable index will over time erode our contribution to new infrastructure. We are concerned about the ability to provide new infrastructure for existing ratepayers.

Moving on to asset renewal, this is a particularly hot topic for us and one of great concern. Over recent decades repeated governments have worked with local government to improve our asset management. We have made a lot of progress, and our asset management practices are much better. I am concerned that there is a risk that that amount of work will be forgone as councils respond to rate capping. This is a graph from our last budget. The green line shows our anticipated expenditure allocation to asset renewal over the next 15 years. We allocated $5.9 million in the 2015–16 budget. We already know that we had planned $6.3 million in the 2016–17 budget, and you can see as we extrapolate our modelling forward 15 years that it is a similar trend.

That increase from year to year is 6.48 per cent in asset renewal funding required, whereas rate capping will only be at 3.05 per cent. So immediately council will be faced with a decision about whether to not progress new initiatives, new services, new infrastructure and the like because they want to sustain asset renewal. Our council is yet to discuss that, but when faced with that challenge in New South Wales, councils went for new things and did not do asset renewal. I know that because previous to here I was at Campaspe shire in northern Victoria and worked very closely with the Murray shire, just across the river. I talked often with their general manager about this. In the choice between new and asset renewal, asset renewal misses out. It is a very real issue and one that we will face very shortly as a council.

Also at risk are services, and there are two types of services that I have highlighted. In relation to council services that are not fully funded, so they run at a net cost that council needs to support through rates, the problem with those ones is the council may well be unable to continue with those services or at those fee levels or with those waiting lists associated with those services. This is particularly true if those services are not fully funded, so that they need to be subsidised from rates. There are many services that council offers in this category, and those net subsidies are all outlined in council budgets. Most councils do that; it is part of the model budget presentation.

The second category of services that are at risk is where we have non-core responsibilities that councils pick up, and they may be non-core because they might be potentially government responsibilities, such as the SES or whatever. It is discretionary. They are not core or typical to local government, but council has chosen to support them. I think funding for that support and for either services or facilities to community organisations or agencies will be under severe threat.

Finally — it is a big long list — I have thrown together the top issues that we will be likely to include in our submission to the Essential Services Commission. Council will consider this at its next meeting on 25 August. But quickly running you through them, in relation to the annualisation issue, it is absolutely critical that our annualisation of supplementary rates is calculated correctly. If that is calculated as it is outlined in the Essential Services Commission report, we will lose $70 million over 15 years. It is important that it is annualised, but it has been recognised by the Essential Services Commission and I believe they will fix that. The report talks about a single cap. Generally the industry, and I think our council as well, do not believe that a single cap adequately covers the different circumstances across different councils. For us a growth, but for other councils across the state — for example, those with reducing populations and rural road networks and the like — there are a lot of different circumstances.

In relation to asset renewal, there is a strong risk that as services and new projects take priority the good work over decades by repeated governments will fall away in asset renewal. CPI is thought to not reflect the local government cost base, and the MAV has prepared a cost base indicator that is more accurate. For WPI — wage price index — I think the industry agrees there should be a wage price index, but it may well consider factors that are not reflective of local government.

The notion of an efficiency factor is a very important point for local government. We understand that state departments and the like, water utilities and the taxi industry and all those regulated industries that are looked after by the ESC, have an efficiency factor. Our point being that it is not that local government should not be efficient. We believe to even achieve the rate cap is going to be the largest driver of efficiency ever to hit local government since amalgamation, and to throw an efficiency factor over or on top of that is one step too far. It removes all of the remaining discretion from a democratically elected government, so we believe efficiency factors are not relevant.

On the use of debt, the ESC draft report talks about an increase in debt in local government. It does not provide any guidance about under what circumstances debt should be used. If it is used to fund operating deficits or if it is used to fund renewal, then that is a slippery slope and we should not go there. That is what happened in New South Wales. That is a short-term destination to unsustainability.

On multi-year plans, this one is more my opinion — council has not reflected on this yet — but I believe councils may naturally be hesitant to put in a request for a variation. The whole premise of the ESC report is that you can put in a variation request, and if justified that could be granted. The history in New South Wales is that councils have not applied for variations when they should have. Why have they not? It is because the regulator comes out with a number once a year. Councils then have to decide whether they want to front their community and ask for more. What happens is the *Herald Sun* puts out a league table and says, ‘Here are all the councils that have been unable to manage their affairs within the cap set’. Councils are shy of issuing a variation when in fact they should do. I think there needs to be method of actually taking it away from a media decision to a more strategic basis, and perhaps a multiple-year plan would do that.

On the monitoring of fees, the draft report says that the ESC might have a role in monitoring councils service fee levels. We believe that is outside the scope of the ESC and would turn them into an absolute quasi-regulator of local government, and that is not appropriate.

On statutory fees, the draft report recommends to government that government reviews the fact that statutory fees, such as the fees that we can charge for planning applications, be reviewed, because they have not been adequately indexed for some time — 10 years or more — and the real cost impact on local government has been dramatic. The ESC recommends that in a stronger way, as the ESC is able to.

The second last one is the time frame. Not finding out about a variation request until May of 2016 when we are trying to do a budget is practically impossible for us. We would most likely have to run two parallel budgets, and I think that is not practical.

Finally, there is yet to be a decision as to who is going to cover the administration costs of this system. It is understood that one of the options is that all of the ESC costs would be levied back on local government for the cost of running the system. We feel that is not appropriate and government should absorb the cost of running rate capping.

The CHAIR — Thank you for that submission, which I think is an erudite and very good summary of many of the issues around rate capping and as they particularly apply to your municipality. I think some of your points, particularly your last list, actually get to a number of the key issues that I have certainly heard around the state as we move around. I have a couple of points that I want to follow up. The first is your item in the last table about the use of debt, and what I think you are saying — and I am not trying to verbal you; I am just trying to understand clearly — is that the New South Wales experience of rate capping is that councils sought to run greater deficits, and that over a period of time that got them into a point where asset renewal was impacted and also particularly the financial viability was further threatened.

Mr BAILLIE — Chair, that is essentially correct. When faced with a decision about whether to decommission a service or to not proceed with an investment in a new piece of infrastructure, the first thing that is at risk of going is asset renewal and then an operating deficit also is at risk of being run by that council, and repeatedly on that basis there is no way to cover that other than debt.

The CHAIR — So that is a short-term strategy in that sense and ultimately leads to a negative outcome in the longer term?

Mr BAILLIE — Yes. Also, supplementary to that, The ESC is of course also the regulator for the water industry and the like, and they seem to be referring to the water industry as using debt in a more constructive way. I am not sufficiently familiar with the water industry to know whether that is a good parallel, but I do understand they have very high debt and that asset renewal gaps is a major issue for them, so I am a bit concerned about that.

I am also concerned that there is a view that local government has a lot of cash in the bank, and we should be using that better. From Surf Coast’s perspective, just as an example, we had about $25 million at the end of the last financial year, but we know for every dollar what that is allocated to, with the exception of unallocated money of $1 million. We are very clear about what our cash balance is and what it is for, so any view that there is some sort of free float of cash within local governments I think is not right.

The CHAIR — I am taking the guidance of the Deputy Chair, who suggested that we might be better moving through each of the councils before we go to questions.

Ms SHING — By the way, I have just arrived. I have been in another committee meeting in Melbourne, so it is no sign of disrespect that I am here some 15 minutes late. My apologies.

The CHAIR — We will come back with further questions for Surf Coast, but we will ask the Colac Otway shire to present.

Mr HAYMAN — Colac Otway appreciates the opportunity to present to this hearing. Colac Otway, like many other municipalities — and you have already heard from Surf Coast — has a number of concerns about rate capping. In terms of Colac Otway, it is just down the road, but we are all different in terms of councils. Surf Coast is growing rapidly. Geelong next door has got a huge population. Colac Otway has a minimal increase in its population. We have 1632 kilometres of road; we have 134 bridges and culverts. Councils in Melbourne may be lucky to have one bridge. We have got a lot of coastline, like Surf Coast, and we have got a lot of forest national park. Each council is different. We need to have the capacity to be able to raise rates in terms of the services we deliver and the funding required to maintain the assets to the level required.

It is important that not only financial considerations are taken into account, but also we play a critical role in community development and delivery of social policy outcomes. They are critical for each community that we represent. Like other councils, we deliver about 90 services, which impact on various sectors of the community. Rate capping will mean a smaller council like Colac Otway will need to review the services we deliver, placing further burdens on our communities.

I also note that a number of councils in rural areas have limited income streams, which Surf Coast also mentioned. It is well documented that smaller councils — and Colac Otway probably comes into that category — are already suffering in terms of sustainability. It is important that those sorts of pressures are not furthered by rate capping.

We have an ageing population in Colac Otway, like a number of other councils as well, and rate capping will place further pressures on that sort of planning for the future in terms of what we do. There are also high levels of disadvantage in Colac Otway. Colac Otway will work through the issues obviously in terms of rate capping, but these are considerations we will need to take into account.

We also have a high reliance on rates and charges. It is not as high as Surf Coast, but ours in 2014–15 was about 54 per cent, which is also higher than the average of councils. Any impact on rates has a significant impact across the board: 1 per cent of our rates equates to about $250 000. That is quite significant for a smaller council.

In terms of a strategic resource plan, which all councils need to prepare in terms of four-year plans, if a council's 5 or 6 per cent increases are reduced to, say, 2.5 or 3 per cent, it leaves a big hole in our forward planning for budgeting in service provision, asset renewal and other factors. Each reduction in rates has a big impact.

In terms of impact on council functions, we rely very heavily on grants; and grants are not keeping pace with what our communities require. Certainly some of the things we know of such as library funding is one funding source that has reduced considerably over the last 10 years as a percentage of what we require to run the library services. For example, back in 2000–01 we were receiving about 40 per cent; in 2015–16 that will be 26 per cent. So obviously local government picks up the extra tab.

There are also other services in which we are in partnership with the state government — that is, maternal and child health, home and community care, and a whole range of services which rely on funding. If we have not got funding to carry out our proportion, the quality of services is most likely to decrease and have a flow-on effect.

In Colac Otway we do not have fees and charges that maybe other councils have. We do not have parking meters in Colac Otway. We have tried, but we have not got anywhere. Certainly we do not have that facility to raise significant fees and charges; 8 per cent of our revenue comes from fees and charges, so it is not as significant as for other councils.

With rate capping, we will need to review our current arrangements, obviously reduce the level of services and possibly even hand services back to the state government. Asset renewal was mentioned by Surf Coast as an issue that all councils have. Local governments manage about $73 billion of infrastructure assets. I will just read what the Auditor-General said in February 2014 about councils:

> … spending on renewing or replacing existing assets is not keeping pace with their rate of deterioration … resulting in cumulative renewal gaps that grow each year.

We also recognise the challenge of the renewal gap. Council has been working hard to address that issue, but we also have a gap. Placing more pressures on our rating base will further add to the capacity to raise rates for infrastructure renewal.

I want to close by quoting from the Auditor-General, who in February 2015 released the results of the 2013–14 audits. On page 27 of that report he stated:

> To be financially sustainable, entities need to be able to meet current and future expenditure as it falls due, and to absorb foreseeable changes and financial risks without significantly changing their revenue and expenditure policies.

For 2013–14 Colac Otway showed a low-risk rating in all categories, but back in 2006–07, less than 10 years ago, the Auditor-General saw that Colac Otway exhibited immediate liquidity concerns. It also stated it had reported mixed results for the past financial years, making it difficult to identify a pattern of performance. Colac Otway on average over five years underspent on asset renewal as well as reporting an average negative underlying result for the same period. Colac Otway has been rated as high risk because of the combination of its relatively high operating deficits and its underspending on infrastructure renewal over the past five years and because its forecast for the next three years for these items remains negative.

Colac Otway took hard decisions in terms of making sure that its finances are sustainable in the long term, including significant rate increases. As a result, we are now classified as a low risk in each of those categories. It is critical that council sees itself remaining low risk, so that if rate capping is introduced there is a strong process in place to monitor the impacts of rate capping on a community with respect to the council's viability, service impacts on local communities and impacts on the provision of local infrastructure.

The CHAIR — Can I ask the Geelong city council to present, too.

Mr KELLY — The City of Greater Geelong appreciates the opportunity to speak to the committee today. I would also like to compliment Surf Coast on their summary on this very important matter and Colac Otway on their presentation. The City of Greater Geelong supports most of what has been put in front of the committee today.

In terms of the material I would like to focus on today, I would like to take a little bit of a different tack and not go over the same ground for the committee. I would like to focus on the rate notice itself. The rate notice is a statutory notice that is issued, and we would like to argue that what rate capping presents is an unnecessary imposition in terms of the economy that councils have in setting the rates.

The rate notice is heavily regulated, as I have said. It stipulates a number of things, as per the Local Government Act. I want to take the committee through some of the key components, because rating is not a complex issue in terms of the striking of the rate. It is complex in its surrounding and related issues, but it is purely a rate in the dollar multiplied by a capital improved value and that equals the rates to be levied. Then of course we have service charges, the municipal charge and now of course we have the fire services levy.

The capital improved value is regulated by the state under the Valuation of Land Act. There is a requirement for councils to revalue property every two years, and currently councils are engaging in a revaluation dated 1 January 2016. The state recognises the cost to local government of that and contributes approximately 50 per cent of the cost of doing that revaluation. The revaluation has no impact on councils. It has a big impact on the state because the state is able to lodge and levy land tax based on those valuations. The direct beneficiary of the biannual revaluation process is the state, not local government, but it is a key component. From a local government perspective, the revaluation process causes us considerable angst and considerable resources in arguing to ratepayers why their rates have gone up by a disproportionate amount over and above what was advertised as part of our budget. We are expecting as part of our process when we issue rates for next year that councils will be heavily exposed to the same issues as we have observed in the papers at the moment with the property boom in terms of property prices. So you will see automatically an impact where people will argue 'Why are rates capped when we are seeing rates go up by greater then what we have been told?'. The reason? Because their property valuation has increased by greater than the average. The capital improved value, as I said, is regulated.

We then go to one of the key areas, which is our waste collection charge. Our waste collection charge is exposed to the EPA landfill levy. EPA landfill levies have been going up disproportionately to CPI, and at this point in time the EPA levy that is embedded in our waste service charge represents 11.1 per cent. So 11.1 per cent of our garbage charge is actually state government revenue and that rate, as I said, has been going up by greater than CPI. It is not capped.

The other component of our charges is the municipal charge, which is used in the context of recovering some of the fixed costs of governance, as we would argue. This is a charge that is also capped. It is capped at 20 per cent of our general rate revenue.

The fire services levy was introduced two years ago, as you know, and is now an embedded charge on the council rate notices. However, the community sees that as council rates. The distinction between, if you like, the subtotal of council's rates and the subtotal that represents the fire services levy does not matter to the ratepayer; they look at the bottom line. They look at the total rates due. The fire services levy that they used to pay on their insurance notice as opposed to the rate notice is very quickly forgotten, and it is seen as council rates.

There is a whole range of controls that are embedded on the back of the rate notice, such as appeals to VCAT for the differential in valuation that is used. There are also controls on what interest we can charge and how we are to levy that interest. We used to charge interest on an annual basis. We now have to charge based on the quarterly overdue amounts.

The key component is, of course, that under that CIV differential rating, council can accept differential rates. The state has now imposed ministerial guidelines so that council can only levy what are deemed to be appropriate differentials. That has a big impact on the City of Greater Geelong. We have had to respond in that area because we, like some other councils in Melbourne, took it upon ourselves to charge appropriate differentials for what we saw as appropriate land use. The minister, however, deemed that to be inappropriate land use. The setting of differentials is another area that is now controlled by the state.

Now we come to the rate in the dollar. The rate in the dollar is, as I said, one of the key components in that simple formula: rate in the dollar by the CIV equals the rates to be paid. Applying the cap is, as I said, an intrusion into the autonomy of local government to manage the business of local government. I agree with all the thoughts that have been said about that at this point in time. However, with regard to the imposition of the cap we have conceded that the state is determined to implement an election promise, but with the Essential Services Commission role now it is increasingly going to become another bureaucratic hurdle for council and in fact the state to administer. We think that is unnecessary for what is generally perceived in Australia-wide standards as a well-administered, well-governed local government sector in Victoria. The components of the cap for 2016–17 has been highlighted as 3.05 per cent based on the weighted average of CPI as forecast by the Department of Treasury together with a weighting for the wage price index.

The City of Greater Geelong has promoted, through its strategic resource plan and its budget that was adopted for 2015–16, a proposal of 3.5 per cent for the forward estimates. Likewise the state also puts forward forward estimates. Councils are required, once again by the state, to prepare a strategic resource plan on which we engage with the community and seek submissions. So 3.5 per cent is what we have discussed with the community or advised the community through our budget papers and we have in turn set our commitments to our city plan, a document where we have also engaged with the community and secured our promises, if you like. We now have a gap between 3.5 per cent, as we are intending to rate, versus 3.05 per cent, which is the cap. The process of making a submission for a request for a variation for such a small difference is ridiculous in our opinion and will generate just a whole layer of additional work and effort.

The release of the framework by the Essential Services Commission has not covered what can be considered minor versus major variations from the cap. We think it should. Conscious of the time, I will conclude on that note.

The CHAIR — Thank you for your submission and I also welcome the Borough of Queenscliffe representatives: Lenny Jenner, the chief executive; Cr Helene Cameron and Cr Bob Merriman. I might ask the staff to swear them in if that is possible. I ask the representatives of Queenscliffe to present briefly, and then we will open up for some questions.

Mr JENNER — We have copies of our presentation to hand out. Council welcomes the establishment of the committee and we are very grateful for the opportunity to present an address to this important body. The borough is not debating rate capping as such but the Essential Services Commission approach as detailed in their draft report. In part the draft report is inconsistent with the Local Government Act. It is practically unworkable and proposes actions that we believe will undermine the very positive partnership and relationship between council and its local community and will produce outcomes that are contrary to state government policy and Labor Party policies.

By way of background, the Borough of Queenscliffe is a lean and agile local government. Our size necessitates a high level of productivity and requires an innovative approach to maximise efficiency in council operations. Small councils such as the Borough of Queenscliffe with fewer resources are at a greater disadvantage if the proposed ESC approach to rate capping is implemented in its current form. The Borough of Queenscliffe's programs and services reflect a dynamic mix of legislative obligations, agreed service agreements with other levels of government and commitments to council priorities clearly expressed through the council plan and council's annual budget.

Essentially the range of services provided by the Borough of Queenscliffe council is determined by three different, and sometimes related, processes: firstly, services that we are obliged to deliver under various state and federal legislation; secondly, services that we deliver under formal agreements or contracts with other levels of government; and finally and a very small part of our budget, services we decide to deliver with the remaining budget that council has access to in response to identified high-priority community needs.

I have provided a table that gives a sense of the examples that fit into those three categories: firstly, those that fit under a statutory framework, such as our environmental health services, our statutory planning services and our management of domestic animals, but I could have provided other examples as well; secondly, those services that are conducted under formal contracts with other levels of government, such as the delivery of our home and community care services, school crossings, our management of foreshore reserves — and on that note, in terms of the Borough of Queenscliffe council's responsibilities in comparison to other local government authorities, council would have one of the highest, if not the highest, proportion of Crown land management responsibilities in the state in terms of size of land; and thirdly, there is a small component of council's budget that delivers areas that the council has identified as priorities in its annual budget determination. Those include our contribution to business development given the high level of emphasis on tourism development in the borough and employment in the borough — about 40 per cent of employment in the borough relates to tourism-related employment. The council places a high priority on activities such as our visitor information services and a range of different ways in which we support local businesses, as well as activities that are associated with community development programs in support of various population groups.

Council remains one of the lowest rating municipalities in Victoria, yet in order to deliver current services we still cannot achieve a rate rise lower than CPI or the proposed rate rise determined by the Essential Services Commission, which is a combination of CPI and what is referred to as WPI, or the wage productivity index. Council's 2015–16 rate increase was contained to 3.8 per cent, following extensive consultation and operational efficiency gains. This reflected the average increase of 3.8 per cent as per the MAV's local government cost index of around 3 to 4 per cent, which tracks councils' actual cost movements.

In the last six years — in the six years I have been the CEO at the Borough of Queenscliffe — council has passed a set of annual rate increases that would be amongst the lowest if not the lowest in the state. Council does not have a separate municipal charge or a garbage charge due to council's view that these are regressive in nature. Council has determined to incorporate any municipal charge or garbage charge into its actual general rate to ensure that the lowest value properties pay the least amount of money, assuming that those people who own the lowest value properties are typically going to be those people on the lowest incomes, and fixed incomes to that fact.

We believe that rate capping will place pressure on council to introduce a garbage charge. We would be foolish not to separate now the garbage charge out of the general rate charge. This will disadvantage lower value properties, which represent a comparatively high percentage of older residents in the borough who are retired and are likely to be on fixed incomes. It is council's underpinning position that serious consideration should be given to applying a different cap to small councils, as per the Local Government Victoria definition, and earmarking allocation of grant funds to small rural councils to offset the impact of any proposed universal statewide cap.

In the following page and a bit, council has just summarised the key issues that we believe emanate from the ESC rate capping framework. We believe the one-size-fits-all approach fails local communities. The commission recommends that there should be one rate cap that applies equally to all councils in Victoria. This one-size-fits-all approach prevents each council from responding to the specific and unique needs and pressures of the communities they serve. This underpins service delivery and capital programs which inform each council plan, strategic resource plan and our respective budgets.

On addressing equity and disadvantage, we believe the methodology undermines council's ability to implement a more equitable distribution of rates to benefit lower value properties. Rural communities and smaller councils have a higher proportion of asset management responsibilities. This disadvantage is not recognised or addressed in the ESC proposal.

The underpinning cost indexation, we believe, is flawed. The proposed cost indexes utilised in the formula are not an appropriate cap. A significant proportion of council costs related to construction, asset maintenance, waste management, contracts, wages, fleet and plant expenses and utility costs do not reflect the CPI or WPI. We believe there is a back-to-front budgeting process that misses the mark. I think this point has been made by other presenters. The application of the cap, as presented, does not reflect the way in which councils are required to prepare a budget and determine a rate rise. The rate rise is a product of the amount of rate revenue to be raised, including annualised supplementary rates from the previous year, not the other way around. The proposed ESC approach — to apply a fixed cap and work backwards to determine the level of rate revenue — we do not believe complies with the act — —

Ms SHING — Sorry, Mr Jenner, just to interrupt you through the Chair, I might ask that you — —

The CHAIR — I think we will just let him continue, please. We do not want to cut people off, but if you can be as swift as you can, that would be good.

Mr JENNER — Okay. On the responsible use of available funds, section 6.3 infers that councils should raise debt to offset the impact of rate capping and before applying for a variation. We believe that would shift the rate burden onto future generations. That might be relevant for some projects — some major capital works that have benefits for future generations — but it cannot be applied across the board. We do not believe the proposed time line is workable, given the current approach the council takes to develop a genuine consultative approach to our community. Council's approach to the preparation of our annualised implementation plan and budget takes three months. Council is committed to a genuine level of collaboration in consultation with our community, and the proposed framework would undermine that. Finally, we believe the proposal undermines the best value provisions in the Local Government Act for the reasons outlined in the presentation.

The final point where there is no recommendation by the ESC, but where we are putting a point strongly in our submission, is that we believe the Essential Services Commission activities should be funded by the state government, as applies in New South Wales.

The CHAIR — I thank the borough for its presentation. I am going to ask a general question and then specifically to Surf Coast about a more narrow point on that. The first is: have any of the councils here had an increase in funding from state government this year, has funding remained the same or has funding fallen parallel with this period, in the 12-month period? Specifically to Surf Coast: you are a peri-urban council in the peri-urban group, but not an interface council. As I understand it, there is additional money available for interface councils. But given the population growth that you and perhaps even Golden Plains nearby, for example, have, I think you are at a significant disadvantage in that sense. So there are two parts to that question — one general and one a specific Surf Coast one.

Mr JENNER — Can I clarify, Chair, in terms of the question, are you making that question in relation to the 2014–15 or 2015–16 year?

The CHAIR — This year compared to last year. This financial year compared to last year. For example, in your case, Country Roads and Bridges.

Mr JENNER — The two major areas of reduction in funding that have applied to the Borough of Queenscliffe council are the one that you have referred to, Chair, the Country Roads and Bridges program, which was $1 million a year for four years, and that ceased last financial year. The other significant initiative — —

The CHAIR — On 30 June?

Mr JENNER — That is correct. The other significant initiative that has not continued in the current financial year is the local government infrastructure fund. Those two areas are not part of the 2015–16 budget. Council was fortunate to have a significant allocation through the state election, a promise from the Labor Party and now the Labor government, in terms of its Queenscliff sport and recreation precinct project that will upgrade both our recreation reserve and the associated caravan park.

The CHAIR — In terms of recurrent funding?

Mr JENNER — That is correct.

Mr HAYMAN — Similar to Queenscliffe, the Country Roads and Bridges program affected Colac Otway. We were putting our $1 million straight into bridges, which, as I said before, we have got 130-odd, and that was devoted to bridges over the period of that funding. Without that funding, bridge funding for 2015–16 is drastically reduced.

Mr KELLY — For Geelong no direct reductions. We were pleased to get an increase in VicRoads funding, which commenced last year, and also school crossing supervisors was another bonus.

Mr BAILLIE — In terms of Surf Coast, yes, we do not have access to interface funding, and that would put us at a relative disadvantage. I have perhaps a broader point though about grants. There are two points. If grants require us to provide matching money in order to get the grant, if we lose our discretionary funding ability, we will struggle to produce the matching money. Grants by themselves are not a solution when Surf Coast under this cap arrangement would lose $800 000 a year cumulative, so that is $800 000 year one, $1 6 million year two, $2.4 million year three. We would struggle to raise the matching money required to get grants.

In terms of Country Roads and Bridges and Roads to Recovery, they are valued and appreciated. However, they are still grants programs that could be taken away. You have to retain your own ability to fund renewal, because if you are relying on one-off grants in order to do that, if they are ever removed, your ability to sustain enough renewal funding out of your operations has gone and you would have a shocking great spike in the following years. They are a bit of a double-edged sword.

Ms SHING — Thanks, everybody, for your presentations, and for outlining the various elements of the positions that you have taken around the implementation of this policy. I have a question that follows on from the material that you presented, Mr Kelly, in relation to the rates notice. You said that applying the rate cap is an intrusion into the autonomy of local government and it is another bureaucratic hurdle which is unnecessary for what is generally perceived to be a well-administered system in Victoria. That is to paraphrase something that you have indicated this morning on the record. I am just wondering, given the rates cap notice and the complexity of that notice, given the way in which we have many comparatively disadvantaged ratepayers and residents who we have all heard about throughout the shires that you represent and given the complexity involved in devolving the way in which rates have come up from a layperson's perspective, how is it that you maintain that the intrusion, as you have put it, in terms of oversight is not reasonable, given the messaging, given the imaging issues around the way in which rates have been set, given the optics around the way in which residents and ratepayers perceive rates to be — in the community at least and in terms of the evidence that we have heard — very high and not correlating to the services, the programs and the amenity that they receive on an everyday basis? That is a question that anyone might like to chip into with the time that we have left.

Mr KELLY — Just very briefly, every council is different, has its own set of circumstances, and Geelong is no different in that context. Our average capital improved value is $377 000. Our average rate increase over the last eight years has been 4.84 per cent, including the garbage charge. The garbage charge, as I said earlier, has been significantly impacted by state government charges. Now 4.84 per cent, yes, we concede that that is above what would be the average of CPI, but it is all of the extra costs that you have heard today that have been imposed on local government that have directly resulted in that. In terms of hardship and other aspects, in terms of the rates that do not take into account capacity to pay, we think the industry has been very proactive in managing hardship issues in regard to rates. It is secured against the property, and we can defer rates and we can enter into separate arrangements. That has been our approach.

Ms SHING — On the question of perception too, if anyone wants to add something.

Cr SMITH — I would like add the point that from a council perspective we are actually answerable to the community, and we do actually have to go through a very long consultation process outlining where the money is spent, listening to what the community comes back to us with and their needs and wants in terms of where that money gets spent. In terms of our whole process around setting the rates, it is an open, transparent approach on this, and it is not something that we just come out with at the one time. I would say that that element of transparency and openness into the community is really important for us, and we take notice of that feedback. From our shire perspective, our feedback in the 79 submissions was that no-one was wanting the rates to decline, or no-one was unhappy with the rate setting that we had actually gone out to the community to discuss. After they have got the rate notice of course some will come up with some people who had not been engaged. But that is the way things sit within our community at the moment.

Ms BATH — Thank you, they are very well put together submissions. I just want to go back to something that Keith presented earlier and maybe blend it into a couple of questions. You made commentary that shire councils would be reluctant to ask for variations based on a number of factors, and also how would you go about appealing a decision on rate capping. My question probably would then be, if we are going forward in this point, would you prefer rate caps to be metropolitan-based, peri-urban-based or regional-based? How would we deal with this? How would you deal with this if you had the magic wand?

Mr BAILLIE — You raise a good point about appeal rights. To my recollection, the draft report from the ESC has no mention of appeal rights, so that could be a feature that should be addressed. It is a good point that you raise.

Council's hesitation to put in variation requests — I should be clear. That is my opinion. It is not a matter that is being discussed with council at all, but my understanding is that is an issue in New South Wales, and I understand that might be an issue. I think the way to get around that is we need to make rate increases and our overall financial planning as strategic as possible with a very essential community dimension but where long-term strategic financial planning is very important. Anything that can take us away, I believe, from an annual process to something that more aligns to a longer term strategic plan, I think, is better. It also then takes the focus away from perhaps the annual ESC rate cap announcement to put it on a more strategic footing. So I believe that is where the organisation should go.

Having said that, I do not think we are like the water industry. There is one element of the water industry I actually do like, which is that they have an obligation to do a water plan once every number of years. I think that length of strategic planning is appropriate, and I will be counselling our council to try to be more in that space.

Mr LEANE — Thank you very much. I feel like I have had a flashback sitting across from Cr Merriman.

Cr MERRIMAN — I am sitting on the wrong side this time.

Mr LEANE — It is sort of good and sort of bad, Bob.

Cr MERRIMAN — I hope you get better decisions than I gave you!

Mr LEANE — You went to the point I was actually going to get to, which is that, sure, we would be identifying what councils see as their core responsibilities, and you have given some examples in your document, and I am sure there are more examples that other councillors can give us. Then there has been a theme put to us in these hearings about non-core responsibilities. The MAV were the first people we spoke to. They started that theme, and Cr Merriman will understand that your union will tell you to go to the most emotive things, as in HACC and SES, which have been mentioned in this hearing today.

I want to put it to you: is there going to be a point in the future, with your perception of rate capping, where councils sit around and say, 'We're not going to actually buy into this particular area, because we see it as not our core responsibility'? The other thing I put to you is that I cannot see the day, because councils have had a history of not being able to help themselves. I am not saying that in a nasty way; I am saying that in a good way. Councils have had a history of buying into good things, and when you look at the history of one of those particular services I have mentioned before, your union put it to us that the history of that is that the councils actually got into that particular service after World War II. So does history deem that it is actually part of your responsibility? When does it actually deem that? What is your core and what is your non-core, and what period of time does it go from one category to the other?

We are actually over time, and I am sure we are going to go a bit more over time, but I am interested to hear your comments on that.

Mr JENNER — If I could just reflect back the comments I made in the submission, the vast majority of council's activity either fits into areas where there is a legislative obligation to deliver it or there is a formal agreement with another level of government to deliver services that are primarily the remit of those other levels of government, whether it be home and community care or whatever. The amount of funds that council allocates to those non-core areas in the Borough of Queenscliffe is minuscule, and the question about what we would cut — I think it would be difficult to implement the proposed framework without having an impact on either the legislative obligations or those areas where we have a formal, legal funding agreement.

Mr LEANE — It is interesting. Can I just understand what you have said, then? The funding that goes towards those particular examples, you said, is minuscule.

Mr JENNER — Yes.

Mr LEANE — Okay.

Mr BAILLIE — Can I start out by noting I am not comfortable with the characterisation of what you have described. I do not view this from what my union or whatever would say, and I am not really that interested in the emotive element of it.

Mr LEANE — Good.

Mr BAILLIE — I am very concerned that we run a financially viable organisation, so I cannot continue to run things at a loss. I cannot allow the council to do it. The last thing a council would want to do is leave vulnerable people in our community without something that they need. So the councillors are going to be in a genuinely conflicted and difficult position because of what they are going to face. They will have to make choices about letting things go that vulnerable people need, and if they try to make that case to government, then they might be characterised as doing the wrong thing by those vulnerable people, but because of the situation they have been put in. My experience with councils — and Lenny has been a CEO for a while, and I have been one for nine years — is that I do not ever find a council that wants to do something horrible by people and takes things away from vulnerable people, but they are going to be left on the horns of a dilemma, unable to do otherwise.

Cr MERRIMAN — Can I just add to what has been said there? I have difficulty in looking at table 2.2 in the report, which goes to the DTF's forecast of rate of increase in the WPI. It comes at 3.5, and there is no description within that of whether that covers all labour costs. I suggest that it probably does not cover the add-on costs of the labour once you come to superannuation, insurance et cetera. So to apply the figure they have applied, I think, is questionable. I really think that figure coming into the calculation of 40 per cent of what is going to be allowed in the cap should start off with an actual base of what it is costing in labour rather than missing out on some of the things we are obliged to pay. I do not think it covers all of that question of actual costs.

Mr HAYMAN — I would just like to say that each year, obviously, councils review their budgets extensively, both core and non-core services. It is what the community needs. You mentioned the State Emergency Service before. Councils were talking about state emergency services, and then it hit the press, 'How dare councils cut state emergency services?'. On one hand we are providing services, but on the other hand if we start talking about it, the community soon, I suppose, rebels and says, 'Well, councils should be doing it'. We need to consider all those sorts of things as part of this rate capping process and even before that.

We review all our services on a yearly basis. Each of us does that extensively. So we are continually reviewing the costs we provide.

Mr LEANE — When you do that I suppose you prioritise the services.

Mr HAYMAN — We do. Every service we go through in detail as part of the budget process. We start our budgets in October–November, and the time line for this ESC is not possible to meet, because we are starting a budget process in a few months time and looking at core and non-core services.

Mr RAMSAY — Thank you all for your presentations, and I declare I am a ratepayer both at Colac Otway shire and CFA Geelong. My question is in relation to the CFA of Geelong. You raised an issue around the fire services levy, I think. I note that the government has increased the fire services levy to the City of Greater Geelong by 9.6 per cent and to the Surf Coast by 12.1 per cent, so there is that additional cost already, well and truly over CPI, that the government has incorporated into that charge.

Your budget indicated a significant increase in debt in relation to your being able to hold your rates, I think, to around 4.4 per cent. So all councils are indicating that in fact if this cap were introduced for councils next year, you are either looking at cutting non-core services or core services and/or increasing debt. Then there is the sort of murky water around the ESC and how it will interpret the applications of variants in relation to capping. I perhaps just ask if you could indicate, one or all, about the core services you are already looking at that you would cut, given that there has been a loss of significant programs, like the country roads and bridges program, which many of you councils have enjoyed in trying to cover off the backlog of lack of investment in those areas, and also, obviously, there was the CPI freeze on the federal-state component of road funding. So if it is not roads, what other core services are you expecting to reduce given the imposition of a rate cap?

Mr KELLY — For Geelong one of the key areas that has been in the press of late is the saleyards project for the saleyards facility in North Geelong. Small farmers, hobby farmers et cetera value that facility. It comes at a significant cost to council. That has already been highlighted as one of the areas for review. In Geelong we have 121 services. In terms of prioritising those areas that we will be looking at closely, I can say to you that we are looking at it from the point of view of what the ratepayer subsidy is for them. Taking into account other revenues, fees, charges et cetera, the net gap is what the ratepayer is contributing, and all of those gaps will be closely analysed as part of this process.

Cr MERRIMAN — I think the answer to the question could well be that you go further into debt because you either cut out the things that you have control over, which are minimal in our case in Queenscliffe, or you go further into debt and, as we put in our submission, you leave it to generations further on. That is the only alternative.

Mr BAILLIE — Just to close that one out from my perspective, I agree with the representative from Geelong: the things that have the highest net subsidy out of rates are the first things that should notionally be looked at. I think, though, that it is not possible to identify specific ones here. The reason is not because I do not have my mind across them, but to name particular services at this time would be very difficult for our staff, who would be affected by that. We need to have a very structured and disciplined process about how we respect people's roles and work that one through. In the broad, anything that is requiring a subsidy for rates is something that should be reviewed.

Ms DUNN — Thank you to the local governments for your submissions today. In terms of what we have heard today, we have heard about impacts in relation to asset renewal and asset maintenance, and we have heard about a range of services that local government provides, some of them fully funded, some of them partially funded and some of them considered non-core. The fact is that your community values those services. They meet the needs in your municipalities, whatever that might be, and I am sure the shape of that looks different in each of the four municipalities here. In looking at the ESC report and recommendations, I am interested in exploring this further. There is a mechanism there for variations. It is based on five different criteria. My question to you as local government representatives is: that mechanism exists and you have a raft of valuable service and infrastructure provisions, so if it is that valuable to your community and if they really do cherish the fact that local government does deliver that to them, why would you not apply for a variation and use that mechanism in order to continue to provide those services that the community holds dear? I am interested in unpacking that a bit further, because I know that you have all talked about that in varying snippets and degrees, but I am interested in unpacking why that is not an option to maintain services.

Mr HAYMAN — I suppose it is because of some of the issues we mentioned before. One is that it takes time to prepare applications — that is one issue, in terms of bureaucracy. That was mentioned before by a number of councils. The other significant one is timing. In terms of processes, we are starting our budget process in a few months time, yet we will not know the results of variations, as I mentioned before, until May. That is a significant issue. Under the Local Government Act, we need to go through a proper consultation process. Colac Otway has a six-week consultation process rather than the four under the Local Government Act, so that places more pressure on them. As I said, it is resource intensive, the time line impacts on councils, and I think councils will be loath in some ways to put in variations because that is going to create other avenues of bureaucracy.

Mr JENNER — The Borough of Queenscliffe would particularly underline the question of the timing that is proposed through the ESC report. We would also reinforce the point about the resources required to prepare a variation. The other thing that we would be looking for in the proposal presented by the ESC is that the ESC is proposing that in each year the rate capping framework is implemented there is an additional year that they would consider in response to a variation. In year 1 they would only consider one year; in year 2, two years, et cetera, building up to four years. We cannot see why you would not support a four-year model being implemented immediately, which would provide greater incentive for councils to seriously consider a variation. Notwithstanding that, I think there is an issue around the timing and the genuine consultation with our local communities.

Cr SMITH — I think there is also, from a councillor perspective, that issue, particularly in that first year, of ensuring that you have your arguments. As Lenny has suggested, going there on a one-year basis, do you have the resources, do you have the want, and is it something that in that 2016 year you really want to do from a council perspective? That may put you on a slide for future years. It is going to be difficult from a council perspective to pull apart what the sorts of things are that you want to be going to that commission for. Far be it from me to say, but who wants to be the first council to go there? That is the reality.

Mr BAILLIE — I think very much the first year could well be a transitional year; I get that. The sooner we can move to an alignment for longer term strategic planning, the better, and take it away from an annualised cycle. We may not be able to achieve four years — even though it would be a good goal, because it would align to a council plan or whatever, but perhaps not four years — only because the Department of Treasury and Finance's CPI and WPI forward projections span only three years, so we may only be able to go out to three. But if we could get it onto that strategic footing as soon as possible, it would be better for everyone.

Mr KELLY — In terms of the variation process, our interpretation with the five criteria that are there is that those criteria should be quantifiably assessed so that when we get our feedback to the variation request, you have got a learning opportunity. At the moment it is a yes/no answer we are likely to receive, and that is in the interest of administrative efficiency, which we support. However, to put all of that work in and just get a 'no' would be particularly discouraging and would be difficult to communicate to our ratepayers.

Ms DUNN — And I imagine it would be quite difficult in terms of shaping up another request for a variation where you do not know where to pitch where you might have gone wrong in the process.

Mr KELLY — Yes, that is right.

Mr YOUNG — I suppose the ultimate end goal of rate capping is to reduce the financial burden on ratepayers. We hear a lot about how it is a terrible idea and is going to have these implications, but are there any other ways from a council perspective that this could be achieved without the burden on the councils?

Mr KELLY — I think the state is able to achieve its desired objective by issuing ministerial guidelines in regard to differential rating. Historically in the 1990s the minister was inclined to issue a directive to local governments so that local governments should have to justify to the community if they were increasing rates above the CPI. That was a communication that came out, if you like, as a warning to local governments. There are some soft touch approaches that could have been easily implemented, and the act also provides for the minister to apply a cap at the moment. So there are ways it could have been done to give clear direction and leadership to the industry rather than the sledgehammer approach.

Mr BAILLIE — Can I also suggest that Local Government Victoria has historically fostered efficiency initiatives across the sector that we have all been trying to participate in. In fact all types of government have done those. I think working collaboratively with us to lift efficiency would be wonderfully well received.

I would not mind saying just one more thing. It is a little off topic, but I am concerned also about the relationships between councillors that comes out of this. If discretionary capacity in a council's finances is removed, and progressively there is no room for councillors to be able to respond to their constituents' feedback by even getting a little bit of something for some area that they are trying to assist, the richness of the experience of being a councillor will diminish. They will not be able to achieve what they had hoped to achieve when they ran for office. So I wonder whether councillor conduct issues and the harmony of councillors and the number of candidates and all those things will reduce if in fact that flexibility is completely removed. I think there needs to be an element of a rich experience for a councillor, and I am concerned that that might have gone one step too far.

Mr JENNER — The other point that I would add to Keith's comments is that I think that the option open to the state government is to look at the question, given its policy in relation to rate capping, how might that be offset against grants that might be allocated to particular areas of local government that are seen to be at greater disadvantage and vulnerability. The Borough of Queenscliffe has put forward a proposal in relation to that to the state government, and it is interesting to look at the way in which the federal government have responded recently. On one hand they have frozen the CPI in financial assistance grants, but with a strong response by local government they have turned around and provided very good grant funding to local government in relation to the fuel levy, specifically targeting roads. The opportunity is there for the state government to potentially do a similar thing that is consistent with their policy priorities.

The CHAIR — I am going to draw a line under this now and say thank you to the four councils for the information on rate capping. We need to move to the inquiry on unconventional gas. I wish to record our thanks too for the magnificent detail and quality of presentation.

Witnesses withdrew.