

TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Melbourne — 9 March 2016

Members

Mr David Davis — Chair

Ms Harriet Shing — Deputy Chair

Ms Melina Bath

Mr Richard Dalla-Riva

Ms Samantha Dunn

Mr Shaun Leane

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Witnesses

Mr Terry Garwood (affirmed), Deputy Secretary, Local Infrastructure,

Mr Graeme Emonson (affirmed), Executive Director, Local Government Victoria, and

Mr Mark Curry (affirmed), Executive Director, Local Infrastructure Policy and Partnerships, Department of Environment, Land, Water and Planning.

The CHAIR — I thank the people from Local Government Victoria, and for the record I congratulate Graeme on his elevation to the director position. Many of us knew Graeme in an earlier iteration. We think he is a marvellous appointment. I apologise for our delay, and I think what that means is there will be a single short question from each person after your initial presentation, but we may need to do a second lap at some point.

Ms SHING — Or to seek further information on notice as well. That is another option available.

The CHAIR — Or a bit of both. I ask Graeme to make a short presentation, and thank you for this written presentation. I might take this opportunity to get someone to move that we accept the submission. Samantha and Daniel — thank you.

Visual presentation.

Mr EMONSON — Thank you, Mr Chair, and given the time I will move through this reasonably quickly, and you do have a written version in front of you as well. As you highlighted, Mr Chair, I am five weeks into this role, so I am very pleased to have with me on the table here tonight Mr Terry Garwood, who of course is the deputy secretary for local infrastructure, and Mr Mark Curry, who was, until I took up my current position, the acting executive director of Local Government Victoria, so he was in this position whilst the Local Government Amendment (Fair Go Rates) legislation was progressing through Parliament.

What I would like to do tonight relatively quickly is to proceed through a number of aspects associated with the system. I will keep the comments, given that we are obviously representing the department, around the system in terms of where it has come from, the sorts of policy objectives that the department has sought to achieve in the implementation of the government's policy, and touching finally on some of the monitoring and reporting process.

Starting at the outset with the design of the Fair Go Rates system, obviously from the department's point of view the key objective was about delivering on the policy position of the government, and there were a number of policy objectives that were clearly articulated as the background to the Fair Go Rates system. Certainly the state government had a key objective about driving down or putting downward pressure on the cost of living arising particularly around council rate increases. There was a key objective of the government to deliver more transparent and greater levels of accountability through local government to ensure that there is greater value for money and a demonstration of greater value for money in service and infrastructure delivery by councils.

Another key objective of course was to give ratepayers greater surety about rates going forward. The last objective of course was around encouraging councils to really embrace consultation around listening to and engaging with their communities, to understand and try to meet in the best way possible their various and varying community needs and aspirations. They were the government policy objectives, which the department in setting out to design a Fair Go Rates system was trying to achieve.

One of the things I would like to touch on tonight, Mr Chair and members, is to understand that there are essentially three key elements to the Fair Go Rates system design. The first of those of course relates to the rate cap itself and the establishment of the rate cap. Then the second key element revolves around the variation process, and we heard quite a bit of that from the presenters before us here tonight. And lastly and importantly, a regime for monitoring and reporting on the system as we move forward.

The members of the committee will be aware that the Minister for Local Government did announce that 2016–17 would be the first year for the implementation of the Fair Go Rates system, and as part of that — and as we have already heard again tonight and on the record — the minister established a single rate cap of 2.5 per cent to apply to all councils for 2016–17.

In terms of establishing the process, the establishment process had its gestation prior to the current government, then in opposition, announcing back in May 2014 a commitment to amend the Local Government Act to enable the government to implement a system of rate capping for Victorian councils. The commitment at that time included those councils requiring higher rate increases seeking the approval of the ESC and that the ESC would determine whether the rate increases were fair and reasonable.

As part of that, and coming to government, the Minister for Local Government in January 2015 announced that the new Fair Go Rates system would begin from the 2016–17 financial year. The ministers for finance and local

government announced in February 2015 an inquiry by the ESC to essentially recommend an implementation framework. The ESC released a consultation paper in April and in July released a draft report and invited submissions to their draft report. There were five public consultation sessions held across the state at that time — in Traralgon, Melbourne, Wangaratta, Bendigo, Horsham and Mildura — across the months of August and September. The ESC then produced, following that consultation, its final report to the ministers for finance and local government at the end of September.

In conjunction with that, the minister also established a Fair Go Rates reference group, and it met four times. That reference group had representatives from the peak associations that we have just heard from prior to us, as well as Ratepayers Victoria, Rural Councils Victoria, Regional Cities Victoria, the Interface Councils group, metropolitan councils, the ASU, the Australian Nursing & Midwifery Federation and the Victorian Farmers Federation. That group, as I said, met four times and provided key input into the design for the Fair Go Rates framework.

The bill was then introduced in Parliament on 20 October and the ESC's final report was tabled the day after, on the 21st. So the Local Government Amendment (Fair Go Rates) Bill was adopted by Parliament on 26 November, received royal assent on 1 December, and, following advice from the ESC, the Minister for Local Government determined, as I said earlier, that the rate cap for 2016–17 would be set at 2.5 per cent based on the CPI forecast by the Department of Treasury and Finance for the 2016–17 year. That is a little bit of quick background, Mr Chair and members — —

Sorry, Mr Chair and members. I thought I said mayor, going back to my previous habits.

Ms SHING — I am sure the Chair would not mind if you did.

Mr EMONSON — To now move to the system of variation or seeking a higher cap, of course with the way the system has been developed, applications to the ESC are required to be submitted by 31 March. We have already heard that some 21 councils have formally informed the Essential Services Commission of their intention to apply. That does not necessarily mean that all 21 councils, as we have already heard tonight, will necessarily make application.

We are aware that a small number of councils have already stated that they now do not intend to, and as of yesterday, we understand the Essential Services Commission has not received any formal applications at this point, but I will stress that councils have until 31 March to make those applications.

The higher cap process involves the Essential Services Commission being responsible for the assessment of the applications and determining the outcome. We have already heard tonight again some discussion regarding the six criteria or guidance points that the Essential Services Commission will be making their assessments against. They are, very quickly: an assessment of the reasons that the variation is required; how the application for a variation takes account of the ratepayers and community views; how the variation reflects the efficient use of council resources; what consideration has been given to other budgetary and financial and funding options; and some assessment of the alignment of the assumptions and proposals of the application to ensure that they are consistent with the council's adopted long-term strategic plans and financial management instruments, of which most councils obviously have very detailed reports these days.

If I move very quickly now, Mr Chair, to the monitoring and reporting elements of the Fair Go Rates system, there are a number of checks and balances that have now been built into the system. There will be an annual report on the councils' compliance with the rate cap to be undertaken by the Essential Services Commission, and the Essential Services Commission will be reporting that on an annual basis. Of course the first of these will come out following the adoption of the 2016–17 budgets.

The Essential Services Commission also has a requirement to report biennially on the outcomes and the impacts of the Fair Go Rates system, so the expectation is that that will provide a knowledge base around the impacts and the significance, and obviously will provide some intelligence into whether there are elements that need attention as trends start to evolve. The first of the biennial reports is scheduled to be conducted following the 2017–18 budget.

The final element of review, Mr Chair, is that the system provides for a four-yearly review of the Fair Go Rates legislative framework, and the ministers for finance and local government have a requirement to complete that in 2021 and then every four-year period thereafter.

That, Mr Chair and members, is a reasonably quick overview of where we have come from but hopefully it gives some insights to the key elements of the system that has been designed and implemented to respond to the government's policy in this issue around a fair-go rates system.

The CHAIR — Can I thank you for the submission and thank you given the hour in particular too. There are a lot of questions, and we will come back with those in a number of different ways over the next little period, but the one I am particularly exercised by at the moment is to understand how this process operates internally in the department and with the minister's decision-making process. So the machinery has been set up, the ESC has done its inquiry, it has got its system running and it makes a formal recommendation to the minister. How is the decision made from there? Is there advice from Local Government Victoria to the minister on this matter which is distinct from the ESC, and then what is the process the minister goes through to make the final determination?

Mr EMONSON — I might, Mr Chair, hand to Mr Terry Garwood, who was obviously deputy secretary at that time, to give some overview of how that process occurred.

Mr GARWOOD — Thanks, Graeme, and thanks, Chairman, for the question. The government has effectively implemented its election commitment, and it has done that taking into account advice that it has received from the ESC and advice that it has received from the department. If I look at the government's response to the ESC's recommendations around the annual rate cap, it says:

- ... The government accepts in principle the ESC's proposed approach to the calculation of the cap in the early years of the system. However, in the government's view, flexibility should always be retained by the minister to consider different factors or weightings to be taken into account at the outset of the system and as circumstances confronting the sector evolve.
- ... The government notes the ESC's rationale for recognising the limited capacity for councils to adjust their wage costs immediately and therefore for taking the WPI into account in setting the initial cap.
- ... The government also notes that inclusion of an efficiency factor in setting the cap could send a strong signal to councils that the government supports community expectations that councils should actively and continuously seek efficiencies in the way they deliver services. This could also encourage innovation and council investment in delivery and procurement approaches that result in better value for every dollar that councils spend.
- ... Should an efficiency factor be included in setting of the cap, the government accepts the recommendation to set the efficiency factor at zero for 2016–17 and accepts in principle that it should increase by 0.05 percentage points thereafter, subject to a detailed productivity analysis of the sector by the ESC to determine the appropriate long-term rate.

That provides you with the basis for the government's response, and in terms of the department's advice: the departments advice was broadly consistent with the ESC recommendations, for the record.

The CHAIR — Can we have a copy of that, please?

Mr GARWOOD — Yes, you can get a copy of that advice. That simply answers that.

The CHAIR — So the process that will go from here is that each year the ESC will make a series of steps and then come back with a recommendation, and it is not clear what decision the minister will make in forthcoming years — it could be the same as the ESC; it could be different. This inherent uncertainty I think is creating a lot of difficulty in the sector.

Ms SHING — That's your view, Chair.

Mr GARWOOD — Well, I think, Chair, the design of the system, as Graeme has outlined, is really trying to provide a couple of things in particular: simplicity of the system and also transparency of the system. So the ESC has got a particular remit; it has got a couple of things that it needs to do in particular, and Graeme has outlined those as part of the monitoring and accountability regime. So from our point of view it is very clear in the legislation what the role of the ESC is. The department, through LGV — we will continue to play our role in partnership with the sector about providing advice to the minister.

I mean, we are obviously focused on making sure that we have a workable system. We understand that if we had a vote amongst the councils about whether they put their hand up in support of the rate capping system, you would not get one vote, but the reality of course is that people have said, 'We want this system to be workable'. We have designed what we think is a workable and practical system, but we have also got measures in there to refine and work with the system to continue to sort of make sure that it delivers on the expectations of the government.

The CHAIR — I have many further questions, but we will come back to those at another time. However, I just put for the record that the rise is not the CPI. It is an estimate of a forward number — —

Mr GARWOOD — Yes, it is a forecast.

The CHAIR — It is not actually the CPI, so the commitment is not kept in that — —

Mr GARWOOD — It is a forecast of CPI provided by DTF.

Ms BATH — Thank you, gentlemen. My question this evening relates to council infrastructure, and you just mentioned that Local Government Victoria provides policy to the minister around a number of issues, so my question is: what is the department providing information or policy information regarding council roads and council bridges — what sort of policy at this point to meet the needs of, specifically, rural and regional councils?

Mr EMONSON — Local Government Victoria has a very comprehensive analysis process of monitoring the various financial instruments of councils, and a key component of that is a very close analysis of infrastructure spend. The largest part of infrastructure spend of course, particularly for rural councils, is related to roads and bridges particularly. So the department has a well-established, and intends to continue to maintain a very close, analysis of the various financial instruments, particularly the strategic resource plans. The strategic resource plans are a four-year forward look. Some councils have extended that out to 10 years. So with now a very strong database within Local Government Victoria we have the opportunity to very closely monitor trends around a whole range of aspects but particularly around infrastructure spend. So we are able to tell you what has been a historical spend on infrastructure. We are able to tell you what the councils for the next four years are projecting for infrastructure spend. And as part of the monitoring process, including through the Essential Services Commission with their biennial impacts assessment, infrastructure clearly will be one of the key focus areas.

Ms BATH — With that you have got monitoring, you have got information there, and then will you be providing information and policy to the minister on these important issues?

Mr EMONSON — One of the key elements of the ministerial statement produced by the Minister for Local Government is that there is clearly a recognition, particularly with the small rural councils, that they do have a range of particular challenges presented to them. The minister's statement makes it very clear that it is the intention of the government from a policy position to turn its mind to what levels of support might be provided, particularly for small rural councils that have large infrastructure, particularly large road networks, often unmade road networks, that they need to maintain, upgrade and improve on behalf of their communities. So there is a recognition, certainly in the minister's statement — and that is on the public record — that the plight of small rural councils is one that will need some attention.

Mr GARWOOD — If I could just add to that, Graeme. We are aware of the sustainability issues for small rural councils. It is not lost on us; we are aware of it. I have some information here. The small rural councils cohort collect rate revenue of about \$205 million through the Victoria Grants Commission that works out of Local Government Victoria. We have been very conscious of the challenges for small rural councils and we have a policy in place which sees that a greater share of the general assistance grants are being directed to small rural councils. This year, in aggregate, rural councils received \$124 million more in Victoria Grants Commission moneys than they did in 2000 and 2001, and of this amount \$60 million is due to a deliberate strategy to move additional funds to rural councils.

In 2015–16 small rural councils forecast cash and investments of \$125 million with a debt of \$55 million. With planned capital expenditure of \$492 million over the next four years, small rural councils forecast cash in 2020

of \$138 million and a debt of \$53 million. Debt servicing in the small rural cohort represents 0.6 per cent of total expenses.

Local Government Victoria continues to work with local governments, particularly small rural councils, on collaborative procurement programs and the support of the regional procurement excellence networks. These are networks designed to assist in better practice procurement that try to deliver better value for money for small rural councils. So it is an area of activity and interest to us. We have no interest in small rural councils falling over and not being sustainable. We have every interest in them being sustainable and being effective. We understand they have their own particular set of challenges and we will continue to provide policy advice that seeks to meet their particular needs.

Mr CURRY — If I could just add in relation to that, Chair. LGV is also involved in providing guidance to the sector, particularly asset management better practice guidance, so world's best practice guidance, which is about assets generally and management, but obviously roads and bridges and the like are included in that, so that is active support that LGV provides.

Mr GARWOOD — I might add just following on from that, if necessary we have our own staff who go out and we will place them and work with small rural councils, as well as providing consulting advice et cetera. We know they are facing difficulties and we intend to work closely with them to ensure their sustainability.

Ms BATH — I am wondering if the staff are any good at building bridges.

Mr GARWOOD — No, they are not very good at building bridges, I will admit that.

Ms SHING — Is that a metaphor perhaps?

Mr DALLA-RIVA — Following up on Terry's comments, you know that the smaller councils are facing difficulties. If you knew that and you placed staff into those rural councils, why would you not by default recommend to the minister that these particular councils — and you clearly know who they are — should receive a rate cap above what was recommended by the minister? Did you provide that advice? I am just trying to work it out because it does not reconcile with your — —

Can you just explain?

Mr GARWOOD — Thank you for the question. There are a couple of ways to approach it. Firstly, the way the system is designed, it is for councils to bring forward their case about the reasons for seeking a higher cap. Legislation provides five particular areas on which they have to give information to the ESC about the reasons for their higher cap, the process they have gone through to justify the higher cap and the work with the community they have done to justify the higher cap.

The government has set, if you like, a simple benchmark system for the first year — 2.5 per cent, and bring forward your applications for a higher cap where you think you have a good case for it. That is what the system provides for. So that effectively means that small rural councils, for example, could simply do that should they choose to do that. They would need to work with their local community to make sure they had the support et cetera and then bring that forward.

More than that, the legislation also provides that there can be groupings of councils that can be considered for different caps in future years. That is not done in the first year. We have, it is fair to say, an immature system that we are looking to mature. Over time we will work with the sector. LGV has, I say, a proud record of working with the sector. That does not mean that from time to time we do not have disagreements and different points of view. But we have no interest in the sector not being sustainable, not being viable, not being vibrant, not being able to provide services to the community. We have every interest in those things being done. We have got a fairer rate system that we say enables councils to bring forward their case where they think they have a case for a higher cap, and that may well be the case for small rural councils. I cannot speak for them. That is a matter for them to bring forward.

Mr DALLA-RIVA — It seems to me that after hearing the evidence, the concerns raised and reviewing past evidence we have taken that there is some level of concern about the complexity of the variation process. That seems to me to be at odds. On the one hand the government is saying, 'We want efficiencies' and 'We want you to be more efficient'. Yet on the other hand you are putting in a very bureaucratic process that is going to, as we

heard before, take people away from doing service delivery to filling out some useless bit of paperwork to satisfy your requirements. What do you say to that?

Mr GARWOOD — I will push this one to Mark. I am very happy to come back in on it, though.

Mr CURRY — Thanks for the question. I certainly have heard that concern about complexity. On the other hand, in the act itself are the five criteria which councils need to satisfy and respond to. They are pretty simple criteria, and the guidance and clarity that is sought is some elaboration on what are pretty basic concepts and criteria. You could argue that any council in setting a budget in any given year should need to be addressing these criteria irrespective of rate capping. So the question of priority setting, of engagement with ratepayers and the community, the question of alternative funding sources, the question of appropriate use of debt — all of those issues you would think would be normal, run-of-the-mill business for a competent council in setting a budget, so I would not have thought these were brand-new considerations that required great and complex extra work for councils to do. That is not to say there is not effort required to go into an application, but I think there is another side of that story about complexity.

Ms SHING — Thank you, gentlemen, for firstly the presentation and secondly for answering the questions to date. Thank you also for your indulgence in the lateness of the hour; we appreciate you staying for this extra time. Further to the question raised by Richard and the monitoring by the department of council budgets and forward plans, what does the data actually suggest in relation to whether or not or the extent to which councils have been restraining or even reducing rate rises and the preparedness of councils to make themselves ready for the introduction of the policy after the passage of the bill, and indeed in the lead-up to the bill becoming legislation?

Mr EMONSON — Thank you for the question. An analysis of data held by Local Government Victoria that would date back to 2005–06 — so we are talking a 10-year period — that data, which is now historical data so it is true data, shows averaged rate increases of 5.99 per cent over that 10-year period, so just on 6 per cent.

The CHAIR — What was the CPI in that period?

Mr EMONSON — I do not have that. I would have to take that on — —

The CHAIR — In the 3 per cent range?

Mr EMONSON — I would have to take it on notice, and we can certainly come back with that figure.

Mr GARWOOD — You could be sure that CPI would be much lower.

Mr EMONSON — So the 10-year average leading up to 2014–15 was just under 6 per cent — 5.99. The 2015 strategic resource plans analysis showed that councils on average went for a 6 per cent increase in rates. Then in the strategic resource plans which then looked forward beyond the current budget period, 2016–17 was projecting a 3.89; 2017–18, 3.87; and 2018–19, a 3.76 per cent increase in rates. So that is what the data which we hold, which is based on the councils' adopted budgets and strategic resource plans, would suggest about the historical impact of rate increases and the projected for the next three years.

The CHAIR — Do you have a similar time series on the EBA movements too?

Mr EMONSON — No, but I would think —

Mr GARWOOD — No.

Mr EMONSON — I am not sure we would hold that on enterprise agreements. I am not sure Local Government Victoria actually holds that data, Mr Chair.

Mr CURRY — No, we don't.

Mr EMONSON — We don't? Okay.

Ms SHING — Thank you, gentlemen.

Mr LEANE — I am interested in the LGV's role in monitoring the rate capping policy. Considering the evidence we have had today from both sets of witnesses around that there will be as a minimum half a dozen applications for variations, I think it has surprised some of us that there are not more. So as part of the monitoring I suppose that you will do is will you seek reasons from councils why there were not more applications with a view that there might be more in the future or there might be less, as I said, as part of the monitoring system that you have got?

Mr CURRY — Look, I think part of the remit of the Essential Services Commission in its biennial impact or outcomes sort of survey and reporting will be to not only understand why councils have applied for rate increases or rate rises above the cap but also to understand why they might not have applied and to make sure that there are not unintended impacts of the system. Certainly the ESC has an understanding of the need to look at the whole sector and how it responds to this system and to make sure that there are not disincentives in the system that are preventing an actual sensible application coming forward, so that would be part of that.

Mr EMONSON — I think, Mr Chair, just to add to that as well, in addition to Local Government Victoria doing a very comprehensive analysis and assessing trend data, of course the Auditor-General also does an annual financial audit on councils and in fact presents the Auditor-General's financial report on local government to Parliament every year. The Auditor-General's report generally has commentary around issues of sustainability and other aspects of interest to the Auditor-General, so we would expect that that mechanism will also identify trends and is likely to have commentary attached to it by the Auditor-General.

We also at Local Government Victoria this year have launched the Know Your Council website, and that now for the first time provides some really comprehensive data that is available to the community to assess a whole range of performance factors, including financial and financial sustainability factors for councils, and enables any interested observer to also make comparisons against like councils as well. So there are a number of forums and formats that the trend of financial impact and financial sustainability is likely to be assessed over the next few years of the implementation of the Fair Go Rates system.

Mr CURRY — And service quality as well.

Mr EMONSON — Yes.

Mr LEANE — And the usage of that new website — is it being utilised well?

Mr EMONSON — Yes. I wish I could quote the number of hits.

Mr CURRY — We could provide some data later on. But it has had extensive use.

Mr LEANE — If you could provide that data on those.

Mr CURRY — We can do that. We are certainly monitoring on a weekly basis.

Mr GARWOOD — The last time I looked it had had 19 000 hits, but that was some weeks ago so it will be more than that now.

Mr LEANE — Cheers.

Mr EMONSON — In addition to that, we can tell you what pages are of most interest to people et cetera. So we will give you some data on that, Mr Chair.

Mr GARWOOD — It is a very rich set of information.

Mr LEANE — A handy breakdown.

Mr EMONSON — Yes.

Ms DUNN — Thank you, gentlemen, for presenting this evening and particularly at this late hour of the night. I very much appreciate it. As part of your submission you talked about staff going out to councils and providing advice to councils. I am just wondering: how many people go out into the field, how often, to how many councils and how many are currently doing that?

Mr GARWOOD — The most recent example of that was working with the Colac Otway council in relation to the Wye River fire. That was a significant event for that particular council, and we had staff working at and with the council from the council offices, effectively supplementing their capacity and resources. We do that on an as-required basis. We have done it previously with other small rural councils. It just depends, as needs emerge. Sometimes we will be involved in funding consultants to actually work with councils. Some of the big accounting firms or smaller accounting firms may get involved, but I cannot tell you, ‘We sent out 10 this day and 5 the other day’. It does not work like that. We basically just respond to the particular needs and just try to support their resources and capacity in whatever way we possibly can. It does not happen very often, I might say, though, but from time to time we do it.

Ms DUNN — In terms of the consultants that might go out, would they turn their minds to assisting those smaller councils that may not have capacity to develop long-term asset management plans and identify infrastructure gaps? That strategic work that often is difficult for the smaller councils to achieve, is that the sort of thing that might happen?

Mr CURRY — That is exactly the kind of work that is done. A good example from some years ago, as I understand it, was Buloke shire, which had major impact from flood damage at the time. In that case there was a contracted person put in place, and that is exactly the kind of work that was done by that consultant, effectively to assist the council with its forward planning for recovering its asset base and planning its finances into the future. That is exactly the kind of work that is done.

Ms DUNN — What is the trigger in terms of getting a bod out to your council? The two examples you have used sounded like natural disaster scenarios. Are there other scenarios? Is it just day-to-day operation? We heard the Gannawarra example earlier from Mr Spence. I am just try to understand the trigger. Is it councils that call out to you or through your monitoring systems that you see these issues and you call out to them?

Mr GARWOOD — My answer is that it is a bit of both. It is a bit of both. It is all very well for the larger metro councils that have got significant resources and capacities at their fingertips, but that is not the case for small rural councils. So when you ask them to do X, Y and Z, actually the CEO will be doing X, Y and Z or nobody else will be doing it because everybody else has got some sort of other more general task not associated with administration. We are cognisant of that, and if we get requests for assistance, we will respond and react because we want those small rural councils to be sustainable and to deliver services. We understand that they are raising issues with the government, and that is entirely appropriate, and we will continue to respond to any request that we get.

Ms DUNN — In your submission as well you talked about there being an ability for those small rural councils to bring forward a case for a higher rate cap, and that does exist. Are you aware of what the cost impost for councils to actually undertake that work may be?

Mr EMONSON — Mr Chair, through you, there is no established cost at this point in time in terms of an application that certainly has been brought to our attention. But I would reflect on comments coming from the Essential Services Commission, and it goes to reinforcing what Mr Curry said a little earlier, and that is that the ESC has an expectation, particularly in this first year, that the demonstration that they will be seeking to justify or support an application for a higher variation will in fact be — or much of that work will in fact already be — within councils that are exercising good practice in budgeting and long-term financial planning, community consultation and asset management.

The expectation that I have heard from the ESC is that where there is good practice in councils which have those key elements, which are sound governance and financial management, they essentially will not be looking for much beyond that. That is probably a long answer to say we do not have any quantification of the cost of putting the application in — that has not come to us, to my knowledge — but the ESC’s view certainly is that they believe that where councils are exercising good practice much of that will go a long way to satisfying them in any application process.

The CHAIR — The figures I have heard have ranged from \$10 000 to \$40 000, and even \$50 000 has been put to me by some councils. No-one has done it yet, so there is no final cost on that, but do you disagree with those figures?

Mr EMONSON — I am not sure I am in a position to actually agree or disagree with those figures. I would have thought that if much of the work which represents good practice is already within the council, it will obviously be less of an onerous task. If councils have to construct some of those source documents and evidence from scratch, obviously it will be a larger task, but I am not in a position to validate or verify either way in terms of that cost range.

The CHAIR — Or dispute them?

Mr LEANE — There is no application fee from the ESC, is there?

The CHAIR — Not this year.

Mr EMONSON — No, there is no application fee. No.

Mr LEANE — Not just yet.

Mr EMONSON — Through you, Mr Chair, the minister has also of course said that the cost of the administration of the variation process this year will be met by the government.

The CHAIR — For the first year.

Mr EMONSON — For the first year.

Ms DUNN — I just wanted to go to the ESC and its variation process and particularly the evidence we heard from the prior submitters. Although I take the point that you have made that these are basic concepts that are not unfamiliar to local government, the criteria that need to be met, it is disappointing that there has not been clarity issued by the ESC to those peak bodies. I am just wondering whether you have a view in relation to that.

Mr CURRY — I do not think Local Government Victoria has a particular view. It is a matter for the ESC. It has been given responsibility for administering the system under the legislation. It is an expert body in these matters of regulation, and it has chosen to go forward. It has issued guidance. In fact there is quite an extensive guidance document that was issued around December, as I think you said. It is not that it has abdicated the field in that regard. Whether that is adequate or not I do not think is for us to judge. I think the proof in the pudding will be the outcome of this process in the first year.

Mr GARWOOD — Not to overstate things, but regarding the criteria that are laid out in the legislation for seeking the higher cap, applications will be assessed on the reason or reasons a variation from the cap is required. I think that is a pretty straightforward question. They will be assessed on how the application takes account of ratepayers' and communities' views. That is pretty clear. They will be assessed on how the variation reflects the efficient use of the council resources and what consideration has been given to alternative budgetary priorities and funding options. That is normal business, I would have thought, but anyway. They will also be assessed on whether the assumptions and proposals in the application are consistent with the council's long-term strategic planning and financial management instruments. I do not want to overstate it, but that to me is quite straightforward, and that is business that the council is already in, by and large, as we have said earlier.

Ms DUNN — It would seem it is — not irreconcilable; that is probably the wrong word — a different view in relation to what the ESC is providing and what the local government peaks are saying about the provision of that information. If you continue to hear from local government, whether from individual councils or the peaks, that this continues to be a concern — and I take the point that the variation process is still in train and happening — is that a matter that you will examine further if it continues to be something that concerns the local government sector?

Mr GARWOOD — Yes. We heard from the earlier information that was given to the committee about the engagement by the ESC, in particular by the chairman, Ron Ben-David, that the ESC is very tuned to this issue. It has heard quite extensively from the sector in relation to it, and I have got every confidence that it will continue to listen to the sector and make sure that we fine-tune the processes and the requirements so that it is not an onerous process, something extraordinary or something impossible to do. That is not the intention. That is not our expectation. I have got every confidence in Ron Ben-David and the commission staff, who have shown great capacity and engagement over the review process, and we heard that commented on. That is not to

say that people agree with everything — I understand that — but there was an acknowledgement of the ESC's preparedness to listen, take adjustments and take action.

The CHAIR — Thank you. I thank the three of you tonight, noting the lateness of the hour. We will have some follow-up pieces to sort out, and Keir will be in touch on those matters. We may want to come back and have another few discussions about these points, but thank you, we are very appreciative.

Committee adjourned.