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Legislative Council
Environment and Planning Committee

**Fourth report into rate
capping policy**

Parliament of Victoria
Environment and Planning Committee

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Committee functions

The Environment and Planning Committee (Legislation and References) is established under the Legislative Council Standing Orders Chapter 23 – Council Committees and Sessional Orders.

The committee's functions are to inquire into and report on any proposal, matter or thing concerned with the arts, environment and planning the use, development and protection of land.

The Environment and Planning Committee (References) may inquire into, hold public hearings, consider and report on other matters that are relevant to its functions.

The Environment and Planning Committee (Legislation) may inquire into, hold public hearings, consider and report on any Bills or draft Bills referred by the Legislative Council, annual reports, estimates of expenditure or other documents laid before the Legislative Council in accordance with an Act, provided these are relevant to its functions.

Government Department allocated for oversight:

- Department of the Environment, Land, Water and Planning

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This report is available on the Committee's website.

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Chair's foreword

This is fourth report of the Environment and Planning Committee into rate capping policy and there have been significant developments. The Committee is pleased to report that the Essential Services Commission and Government have improved the processes around rate capping in response to the Committee's earlier reports.

Notwithstanding these changes the process remains cumbersome and costly for councils and the variation process is unwieldy.

There are a number of emerging issues impacting on the sustainability of rural and regional councils that the Committee will follow in the next six months. These include waste levies and the impact of changes to valuation policy.

The Committee noted with regret the reduction in the Growing Suburbs Fund in the May 2017 budget from \$100 million over two years to \$50 million over two years. There is no funding for the Growing Suburbs Fund in the third and fourth years of the forward estimates, leaving a shortfall of \$150 million.

This is despite the massive population growth in the 10 interface councils, in some cases between 4 and 5% annually.

The Committee remains concerned at the impact on country municipalities of the loss of the Country Roads and Bridges program funding.

I want to put on record my thanks to Committee staff for their work on the Inquiry, Secretary Michael Baker, Administrative Assistant Prue Purdey and particularly Kieran Crowe, Research Assistant, for his assistance in drafting the report. I also wish to record my thanks to the submitters and to the peak bodies who have provided input to the Committee through recent reports: MAV, LGPRO and VLGA.



Hon David Davis MLC
Chair

Finding and Recommendation

FINDING 1: The City of Yarra has not broken any rules in respect of its proposed waste service charge. The Committee will examine this further in the next reporting period. 14

RECOMMENDATION 1: The Committee seeks a statement from the government that places in the public domain how many valuers employed by councils in Victoria will be made redundant and what the cost will be to each council for any such redundancies. 26

This is the fourth of a series of reports from the Legislative Council's Environment and Planning Committee on the inquiry into Rate Capping Policy.

This report is intended to provide an update on the developments associated with the implementation of the policy. The Committee will continue to gather evidence and report again in six months.

During this reporting period (December 2016 – June 2017), the Committee received a total of two submissions. The Committee conducted hearings with the Municipal Association of Victoria (MAV), the Bayside Ratepayers Association, and the Essential Services Commission (The Commission, ESC).

There are 79 local councils in Victoria. For the purposes of this Report, they are divided into three broad groups, metropolitan, interface, and rural/regional. This last group is sometimes further broken down into a fourth group known as peri-urban.¹

The policy to cap rates, known as the 'Fair Go Rates System' sets a limit on the maximum amount that councils can increase rates each year, without applying for a higher rate. The 2016-17 financial year was the first year that councils were required to comply with the cap.

The ESC, which provides advice to the Minister for Local Government on the operation of the Fair Go Rates System, has reviewed the implementation of the first year of the policy. It has sought feedback from councils and other stakeholders about the reporting requirements and the process for applying for a variation to the cap. This information has fed into the ESC's Fair Go Rates System Guidance for Councils 2017-18, which will be discussed further in Chapter 3 of this report.

The Minister has set a new cap for the 2017-18 financial year of 2.00 per cent. This cap is not in line with the advice provided by the ESC. The ESC's advised average rate cap takes into account the Consumer Price Index (CPI) and the Wage Price Index (WPI) published in the Department of Treasury and Finance's December budget update paper. The ESC's recommendation to the Minister for an average rate cap for 2017-18 was 2.15 per cent. The Minister decided to set the rate at 2.00 per cent to fulfil an election commitment to keep rate rises in line with the forecast CPI, which was predicted to be 2.00 per cent. The actual CPI, according to the Australian Bureau of Statistics for the year from March 2016 – March 2017 is 2.1 per cent.

¹ The 'peri-urban group of rural councils' are Bass Coast, Baw Baw Golden Plains, Macedon Ranges, Moorabool, Murrindindi and Surf Coast.

For the 2017-18 financial year, the ESC has extended the deadline by which councils need to submit a rate cap variation application to 31 May 2017. The ESC will inform councils of the result of their application by the end of July 2017. The Minister has also changed the date by which councils must adopt a budget and strategic resource plan for the 2017-18 financial year to 31 August 2017. These changes to the timings of the rate cap variation process and the council budget process will be discussed in Chapter 3.

The Committee also spoke to the MAV during the reporting period. The MAV passed on feedback they had received from local councils about the some of the emerging financial pressures that councils are beginning to face as a result of the rate capping policy. This includes:

- Road maintenance
- The school crossings program
- The State Emergency Service (SES),
- Home and Community Care programs, and;
- Maternal and Child Health programs.

This Report is broken down into four sections:

- Chapter Two provides an overview of the activities undertaken by the Committee during this reporting period;
- Chapter Three provides an overview of what has occurred in relation to rate capping since the Committee's previous report;
- Chapter Four Provides a summary of the Evidence the Committee has received in relation to the rate capping policy; and
- Chapter Five highlights some of the issues that the Committee may explore in future reports.

Terms of Reference and inquiry process

On 27 May 2015, the Legislative Council agreed to the following motion as moved by the Hon Mary Wooldridge:

That pursuant to Sessional Order 6 this House requires: the Environment and Planning Committee as part of its oversight of Local Government Victoria, to inquire into and report every six months on the outcome of the State Government policy of local government rate capping on councils' viability, service impacts on local communities and impacts on the provision of local infrastructure.

To date, the Committee has tabled three reports so far as part of this inquiry:

- First report, tabled on 8 December 2015
- Second report, tabled on 7 June 2016
- Third report, tabled on 8 December 2016.

For this fourth phase of the inquiry, the Committee sought an update on the progress of the policy's implementation from the local government regulator and the peak body. Submissions were kept open on the Committee's website. In response, the Committee has to this stage received a total of 79 submissions or supplementary submissions.

The Committee conducted hearings with the Essential Services Commission, the Municipal Association of Victoria and the Bayside Ratepayers Association during this reporting period. As this is an ongoing inquiry with reports to be tabled every six months, further hearings will be undertaken as the Inquiry progresses.

The Committee thanks those who provided a submission or gave evidence to the Committee for their help with this inquiry.

3

Overview of rate capping in Victoria

3.1 Third report into rate capping policy

The Committee's third report (Report 3) was tabled on 8 December 2016.

The report made two recommendations to government. These were:

1. The Committee notes that the government intends to review the Fair Go Rates System and the Committee recommends that the review be independent, public and transparent, with terms of reference that include timeframes and the variation process.
2. The Committee recommends that the government simplify and streamline the variation process to reduce the costs to local government and the community.

The government response to Report 3 was tabled in Parliament on Tuesday 6 June 2017 and is published on the Committee's website at: www.parliament.vic.gov.au/epc/article/3187

The government supported in full the Committee's recommendation 1. In addressing that recommendation, the government said that a review of the Fair Go Rates System will take place every four years, commencing in 2021. The review will be undertaken independently with consultation from the ESC.

The government supported in principle the Committee's recommendation 2. In its response the government said that the ESC is an independent body responsible for establishing its own processes, however, the government is committed to minimising the administrative burden associated with the rate capping process.

The government also addressed the committee's findings. The Committee notes in particular the government's response to finding 2, which states that the government uses the forecast CPI in the December budget update, rather than a retrospective CPI, because it is the preference of the local government sector. The government acknowledges the tension between the Committee's preference to set the rate cap earlier and the local government sector's preference to use the December forecast figures. The government re-iterated that it will continue to explore the merits of setting the rate cap earlier.

3.2 Minister sets the 2017-18 rate cap

As indicated in this Committee's previous reports, the ESC provide advice to the Minister for Local Government each year on what the average rate cap should be using the following formula:

$$\text{Rate Cap} = (0.6 \times \text{Cost Price Index}) + (0.4 \times \text{Wage Price Index}) - 0.05 \text{ efficiency factor}^6$$

The reasons for using this formula are outlined in the ESC's report, *A Blueprint for Change – Local Government Rates Capping and Variation Framework Review*. The report explains that the ESC uses the cost price index (CPI) to reflect the government's policy of keeping rate rises in line with cost price inflation, as well as the wage price index (WPI) to reflect increasing council wage costs.⁷ The efficiency factor is also included to 'create incentives for service providers to pursue efficiencies in their operations.'⁸

In order to get a figure for the CPI and the WPI for this equation, the ESC use forecasts published by the Department of Treasury and Finance in the budget in May each year, and in the budget update, which is released in November or December each year. The May 2016-17 budget forecast of the CPI for 2017-18 was 2.5 per cent and the WPI was 3.00 per cent.⁹ The budget update forecast for the CPI was 2.00 per cent and the WPI was 2.5 per cent.¹⁰

The ESC wrote to the Minister on 7 December 2016, before the release of the budget update, to give advice on what the rate cap should be for the 2017-18 financial year. They told the Minister that if she wished to use the May budget forecast of the CPI and WPI figures, the rate cap should be 2.65 per cent.¹¹ They did not know what the forecast CPI and WPI figures would be in the budget update, but provided a table of what their advice for rate cap would be, based on a number of possible forecasts of the CPI and WPI. The Budget update was released a few days later on 13 December. It gave a forecast CPI and WPI of 2.00% and 2.5% respectively.¹² This meant the ESC advice to the Minister, if she wished to use the budget update figures, was a cap of 2.15%.

6 The Essential Services Commission, *A Blueprint for Change – Local Government Rates Capping and Variation Framework Review*, 2015, p.19

7 The Essential Services Commission, *A Blueprint for Change – Local Government Rates Capping and Variation Framework Review*, 2015, p.13

8 The Essential Services Commission, *A Blueprint for Change – Local Government Rates Capping and Variation Framework Review*, 2015, p.13

9 Department of Treasury and Finance, *Getting it Done Victorian Budget 16/17 Overview*, p.5

10 Department of Treasury and Finance, *Getting it Done Victorian Budget 16/17 2016-17 Budget Update*, p.7

11 Correspondence from Dr Ron Ben-David, Chairperson, Essential Services Commission to The Hon Natalie Hutchins MP, Minister for Local Government, dated 7 December 2016

12 The Federal Government provided the same predictions of 2% CPI and 2.5% WPI for the 2017-18 financial year for the country as a whole in the Federal Budget.

Report 2 of this Committee's inquiry noted that the Minister chose not to take the ESC's advice to set a cap based on forecast CPI and WPI for the 2016-17 financial year.¹³ Instead, the Minister set a cap based on the forecast CPI only. A media release from the Minister explained that this was in line with an election commitment to cap council rate rises to the CPI.¹⁴

The Minister made a decision on the rate cap for the 2017-18 financial year on 19 December 2016.¹⁵ Like the previous year, the Minister did not take the ESC's advice for a cap based on forecast CPI and WPI, and instead set a cap of 2.00% based on forecast CPI only. A media release from the Minister explained that this was in line with a government election commitment to keep council rate rises 'the same as CPI as forecast by the Department of Treasury and Finance.'¹⁶

The Committee acknowledges the government's policy of keeping rate rises in line with the forecast CPI. However, the Committee notes that the actual CPI as recorded by the Australian Bureau of statistics has proven to be different to the forecast CPI provided by the Victorian Department of Treasury and Finance in the budget papers. The table below outlines the differences between the actual CPI, the forecast CPI, the recommended rate cap the ESC provides to the Minister and the rate cap set by the Minister for Local Government.

Table 3.1 Actual CPI, Forecast CPI, ESC's recommended rate cap and rate cap set by the Minister 2015-16 to 2017-18

	Actual CPI (nationwide ^(a) , June to June)	Forecast CPI in Victoria ^(b)	ESC's recommended rate cap	Rate cap set by the Minister
2014-15	1.5%	2.25% ^(c)	NA	NA
2015-16	1.0%	2.50% ^(d)	NA	NA
2016-17	2.1% ^(e)	2.50% ^(f)	2.8%	2.5%
2017-18	NA	2.00% ^(g)	2.15%	2.0%

(a) Figures are from the Australian Bureau of Statistics.

(b) From the December budget update figures published by the Department of Treasury and Finance

(c) Department of Treasury and Finance, 2013-14 Budget Update, Table 2.1 column 3, p.4

(d) Department of Treasury and Finance, Victorian Pre-election Budget Update, Table 1.1 column 3, p.5

(e) March 2016 to March 2017.

(f) Department of Treasury and Finance, 2015-16 Budget Update, Table 2.1 column 3, p.4

(g) Department of Treasury and Finance, 2016-17 Budget Update, Table 2.1 column 3, p.4

¹³ Environment and Planning Committee, *Second Report into Rate Capping Policy*, 2016, p.8

¹⁴ The Hon. Natalie Hutchins MP, Minister for Local Government, *Council Rate Increases Capped to Inflation*, (Media Release), 22 December 2015

¹⁵ The Hon. Natalie Hutchins MP, Minister for Local Government, *Victorian Council Rate Cap set at CPI Again* (Media Release), 19 December 2016

¹⁶ The Hon. Natalie Hutchins MP, Minister for Local Government, *Victorian Council Rate Cap set at CPI Again* (Media Release), 19 December 2016

3.3 Updated Fair Go Rates System guidance for councils

The ESC's Fair Go Rates System guidance for councils has been updated to reflect the recommendations of the independent review of the Fair Go Rates System by Peter Brown (the Brown Review) as well as consultation with councils and other stakeholders based on the experience of the first year of the implementation of the fair go rates policy.

The Committee held a public hearing with the ESC during the reporting period. Dr Ron Ben-David, Chairperson and Commissioner at the ESC was eager to let the Committee know about the consultation process that has informed the updated guidance and continues to inform the ESC's work:

I would now like to touch on the work that the commission has been doing since the last hearing to respond to the feedback from the sector, from the committee's reports and indeed from the Brown review. As well as ongoing advice and support for councils — and I just want to stress this — the team is always taking phone calls from the sector. Just last month Andrew and a couple of the team were out on the road, going around to all the councils that we were expecting to make an application at that stage. We hold workshops. So we are not sitting up in our tower on Lonsdale Street waiting for them to come to us. We are going out and we are working with them as closely as we can.¹⁷

The Committee notes the work of the ESC in this regard seems to have expanded beyond its core role of the provision of advice on setting the rate cap and providing guidance to councils on rate cap variation applications.

3.3.1 Timing of variation process

The ESC has extended the deadline for councils to apply for a rate cap variation for the 2017-18 financial year. Previously, councils had until 31 March to put in an application for a higher cap variation and the ESC's decisions on the applications were made by 31 May. Now councils have until 31 May to apply for a variation and a decision will be made by 31 July.

The Brown Review identified that councils who wished to apply for cap variations had difficulty with the deadline of 31 March. This is because they were required to have a 28-day public consultation period between 31 May, when they were notified of the result of their application, and 30 June when they adopted their budgets before the start of the financial year.¹⁸ The Brown Review recommended that the ESC could advise the Minister to use the May budget CPI and WPI figures (instead of the December figures) and give the Minister their advised rate cap in August. One of this Committee's previous reports into rate capping, Report 2, also made a recommendation (rec 2) for the government to set the cap earlier than December. This would allow sufficient time for councils and the ESC to go through the cap variation and budget process before the start of the next financial year. The ESC said in their response to the Brown Report that it would not support

¹⁷ Dr Ron Ben-David, *Transcript of Evidence*, 24 May 2017, p.3

¹⁸ *Local Government Act 1989*, S.223

the recommendation. This is because it believes the Minister may be required under the *Local Government Act 1989* and the *Financial Management Act 1994* to use the CPI in the December forecast because it has the most up-to-date estimate for the coming financial year.¹⁹

3.3.2 Variation application deadlines for 2017-18

Instead of arranging for the variation application process to begin sooner, the government has extended the application deadline by two months from 31 March to 31 May.

The ESC has said they will assess variation applications between February and July 2017. This would mean that a council who submitted a variation application close to the deadline at the end of May might not have notice of the outcome of their application until the end of July. Councils are still required to have a 28-day consultation period for their draft budgets. This could lead to a situation where councils may not be able to adopt their budgets for the financial year until the end of August.

The Minister for Local Government has made arrangements for councils to adopt a budget and strategic plan after the start of a financial year. A notice published in the Victorian Government Gazette informed councils that for the 2017-18 financial year, councils will now have until 31 August to adopt a budget and strategic resource plan.²⁰

The Committee believes councils without budgets approved until after the start of the financial year could create uncertainty for their stakeholders including ratepayers, council staff, contractors, creditors and the Commonwealth government. The Committee believes the sector should have further input on this matter and will seek further input from councils and peak bodies.

A second annual rate variation window

The ESC's updated guidance document states that the ESC is considering the option of having an additional higher cap application period in September each year. The Committee is unsure if this would be a variation request for the remainder of a financial year, (a six month cap variation), or whether it would be for the coming financial year. If it was intended to be for the coming financial year, it would be necessary to use the May budget CPI and WPI forecasts to calculate the cap for the next financial year, because the May figures would be the most up-to-date.

As noted above, the government has gone to some lengths to ensure that the most up-to-date December budget figures are used for the current rate cap calculation. This includes allowing councils to adopt budgets after the start of the financial

¹⁹ Essential Services Commission, *Esc Response to the Recommendations of the Independent Review of the 2016-17 Higher Cap Application Process*, October 2016, Table 1 Section 5.6 ii

²⁰ Victorian Government Gazette, Minister for Local Government, Notice under the *Local Government Act 1989* S.126, 130 and 185E, 1 December 2016, p.3016

year. If the second variation window is to be for variations for the coming financial year, the Committee believes it would be inconsistent to allow the use of the May forecast figures for a second variation application window.

The Committee is cautious about a second round of variations in rate caps, as it may result in higher rates and see more complexity and confusion.

3.3.3 Variation applications – reporting requirement burdens

This Committee's previous reports addressed concerns by a number of councils about the burden of collecting large amounts of data required by the ESC when submitting a rate variation application. The ESC told the Committee they have streamlined these requirements in consultation with the Victorian Grants Commission (VGC), and will rely on existing data collected by the VGC. The ESC still requires councils to submit data as part of the Annual Compliance Information and the Budget Baseline Information. The ESC told the Committee:

Since we last spoke the commission has significantly reduced the annual reporting requirements in terms of the information required by us to meet our obligation to report on compliance with the rate cap. Discussions with councils and policy bodies identified a crossover with the data we were seeking in terms of services and infrastructure information, with much of that data already provided to the Victorian Grants Commission. We now access that data via the VGC, relieving councils of having to provide that information to us. This means we only need to ask councils for information directly related to the calculation of the rate cap and the monitoring of service rates and charges.²¹

The ESC are of the view that the information required for a variation application should be easily available to councils who follow good financial management and community engagement practices:

It is our view that councils that are already complying with their statutory obligations in terms of good financial management, budgeting and community engagement will find that the commission's cap variation process adds minimal additional requirements.²²

The independent review by Peter Brown that we initiated last year highlighted that while the cost of an application in year one varied between \$20 000 and \$80 000, albeit there was one outlier, Peter noted that the ongoing cost to councils should become negligible if they incorporate the higher cap application process into their normal corporate planning or apply for a four year cap.²³

The Committee is pleased that its recommendation in Report 3 regarding reporting requirements has been taken on board by the ESC, however, it notes that there is further work to do in this regard. The Committee hopes that the use of the data already held by the VGC will alleviate some of the administrative burden of applying for cap variations.

²¹ Dr Ron Ben-David, Chairperson, Essential Services Commission, *Transcript of Evidence*, p.3

²² Dr Ron Ben-David, Chairperson, Essential Services Commission, *Transcript of Evidence*, p.2

²³ Dr Ron Ben-David, Chairperson, Essential Services Commission, *Transcript of Evidence*, p.2

3.4 Rate variation applications for 2017-18

Five councils have applied to the ESC for a higher cap variation for the 2017-18 financial year. The applications are outlined in table 2.1 below.

Table 3.2 Councils' application for a higher cap in 2017-18

Council	Higher cap being sought	Increase above the Ministerial cap of 2.0% being sought	Dollar value of increase above the cap (\$)
Pyrenees Shire Council	3.5% over two years (2017-18 and 2018-19)	1.5%	\$116 000 in 2017-18, and \$120 000 for 2018-19
Hindmarsh Shire Council	4.0%	2.0%	\$144,017
West Wimmera Shire Council	3.5% over four years (2017-18 to 2020-21)	1.5%	\$228 677 in 2017-18 \$236 671 in 2018-19 \$244 954 in 2019-20 \$253 528 in 2020-21
Towong Shire Council	5.55% over four years (2017-18 to 2020-21)	3.55%	\$365 000 in 2017-18 \$387 000 in 2018-19 \$408 000 in 2019-20 \$427 000 in 2020-21
Borough of Queenscliffe	4.5%	2.5%	\$150,000 ^(a)

(a) Borough of Queenscliffe, Higher Cap application form, summary of key reasons for the application, paragraph 2, <www.esc.vic.gov.au/document/local-government/53873-borough-queenscliffe-higher-cap-application-including-appendices-f>, viewed 13 June 2017

At the time of publication, the ESC has made a decision on the applications of one council.

Pyrenees Shire Council

Approved: The Commission approved Pyrenees Shire Council's proposed higher cap of 3.5 per cent for the next two years (2017-18 and 2018-19). In its decision, the ESC noted 'because Pyrenees's overall finances are constrained and it has demonstrated a long term funding need to renew assets, particularly gravel roads.'²⁴

3.5 Council productivity study

The Commission told the Committee that they are undertaking a study to assist them in assessing an appropriate efficiency factor to use in the formula for calculating the average rate cap. Dr Ben-David told the Committee:

We have commenced a productivity study. This study will assist us in developing an efficiency factor if needed for the purposes of the rate cap formula. That goes back to our original work of a few years ago, which recommended that the rate cap be set

²⁴ Essential Services Commission, Pyrenees Shire Council, *Decision on Application for a Higher Cap 2017-18 and 2018-19*, 2017, p.1

based on a formula which included an efficiency factor. At the time we said that we did not know what that should be, but we would do a study to inform us. That is this study that is now underway. We have got a technical working group which consists of representatives from councils and peak bodies, and that working group is assisting us with the study and to broaden our collective understanding — that is, ours and the sector's — of productivity in indeed the local government sector.²⁵

It is not clear to the Committee why the ESC is undertaking the productivity study. The Committee believes such a study should be conducted by Local Government Victoria in consultation with the sector.

3.6 Growth study

As well as the productivity study, the Commission told the Committee they were also working on a study to improve their understanding of the financial situation of growth area or interface councils. Growth area or interface councils face particular challenges in meeting large up-front infrastructure costs required for new and growing suburbs. Chapter 4, section 4.1.2 examines the particular financial difficulties faced by these councils. The ESC told the Committee:

We are also undertaking a growth study to improve our understanding of the effects of population growth on the capacity of councils to provide services and infrastructure over time. Six growth councils have participated in the study. They are sharing information and their experiences with us in how they manage growth. What we are trying to get to the bottom of with this study is what we hear of a lot from particularly growth councils: that growth costs a lot of money and that that money needs to be funded by existing ratepayers. What we are trying to understand is why that is the case. Why does growth not basically pay for itself the way it would in other sectors? The important thing is that both studies are being developed collaboratively with the sector and that we will share the results with them, and the final studies will be made public.²⁶

The Committee believes that any such study should include an assessment of the adequacy of the growth area infrastructure contribution, other developer levies and the growing suburbs fund to provide infrastructure for growing communities.

3.7 Waste service charges

During their public hearing, the ESC addressed a proposal by the City of Yarra to introduce a waste service charge as part of its draft 2017-18 budget. According to the Council, the charge is being introduced to fully recover the cost of delivering the waste collection service. The Council says the policy is in response to a

²⁵ Dr Ron Ben-David, *Transcript of Evidence*, 24 May 2017, p.3

²⁶ Dr Ron Ben-David, *Transcript of Evidence*, 24 May 2017, p.3

number of financial challenges.²⁷ The Council claim the proposed charge would bring it into line with 73 other councils who also have a separate waste service charge.²⁸

At the time of writing, the Council is proposing to charge an annual fee of \$165.00 for each residential 80 litre bin, \$247.50 for 120 litre bins, and \$800 for 240 litre bins.²⁹ Similar charges would be implemented for commercial bins. The Council estimates the proposed waste charge would raise \$8.5 million for the 2017-18 financial year.³⁰

The Council believes the charge is necessary ‘in order to improve its short to medium term financial sustainability’.³¹ It goes on to say that ‘If the waste service charge is not implemented, Council will be required to reduce services and/or service levels, or reduce the capital expenditure program in the next budget cycle.’³²

The Minister wrote to the ESC seeking advice on whether the City of Yarra’s waste service charge proposal was compliant with the *Local Government Act 1989* and the ESC’s guidance. The ESC replied to the Minister on 4 May 2017. In its response, the ESC noted that the proposed waste charge would be the equivalent to the City of Yarra applying of a rate cap variation of 10.3 per cent.³³ Had the City of Yarra sought to raise income this way, the ESC said it would expect:

A very extensive application from the council. That application would have required both consultation on the magnitude of the increased revenue but more importantly, we would have expected to see extensive consultation on the reason the additional revenue was required.³⁴

The ESC say that based on publically available information that ‘Yarra City Council has not fully explained to its community how they propose to use the additional \$8.5 million.’³⁵

The ESC note that under the Fair Go Rates System, service charges, including waste charges are not subject to the rate cap. Such charges are currently at the discretion of councils and the *Local Government Act 1989* does not require councils to engage with ratepayers when setting such charges. However, the ESC does provide guidance on service charges, stating that such charges should be

²⁷ According to the City of Yarra draft budget, these include: the need to ‘cash back’ reserves (approximately \$20 million), as well as creating working capital for debt redemption or refinancing of Council’s \$32.5 million in approximately 3 years’ time. (Yarra City Council, Draft Budget 2017-18, p.1)

²⁸ Yarra City Council, Draft Budget 2017-18, p.92

²⁹ Yarra City Council, Draft Budget 2017-18, p.92

³⁰ Yarra City Council, Draft Budget 2017-18, p.58

³¹ Yarra City Council, Draft Budget 2017-18, p.1

³² Yarra City Council, Draft Budget 2017-18, p.1

³³ Correspondence from the Essential Services Commission to the Hon. Natalie Hutchins MP, Minister for Local Government, 4 May 2017, p.3

³⁴ Correspondence from the Essential Services Commission to the Hon. Natalie Hutchins MP, Minister for Local Government, 4 May 2017, p.3

³⁵ Correspondence from the Essential Services Commission to the Hon. Natalie Hutchins MP, Minister for Local Government, 4 May 2017, p.4

cost neutral and not result in any windfall gain for the council. The ESC stressed in their hearing that this was only guidance, and that councils were not required to follow the guidance. Their advice to the Minister reflected this.

The ESC told the Minister that they will seek further information about the service charge when they assesses the City of Yarra's compliance with the 2017-18 rate cap in November 2017.³⁶

The City of Yarra council has deferred adoption of its draft 2017-18 budget that included measures for a waste service charge so that an alternative budget without a waste service charge can be considered. The City of Yarra is conducting a consultation process for its alternative budget ahead of a final adoption meeting on Tuesday 1 August.

The Committee believes councils should not use service charges to circumvent the cap. The aggregate sum of service charges for each council should be published so that it can be determined whether such charges are being used by councils for additional income above the rate cap prescribed by the Minister.

FINDING 1: The City of Yarra has not broken any rules in respect of its proposed waste service charge. The Committee will examine this further in the next reporting period.

3.8 The landfill levy

The Committee believes there should be more transparency in how the landfill levy is spent by the Government. The landfill levy is collected by each council and paid to the Environment Protection Authority (EPA), the levy helps to fund Sustainability Victoria and the EPA. A portion of the levy is paid into the government's sustainability fund.

The Committee notes that the landfill levy is no longer distributed in accordance with the *Environment Protection (Distribution of Landfill Levy) Regulations 2010*. The EPA has passed responsibility for the distribution of the levy to the Department of Environment, Land, Water and Planning, which administers the sustainability fund.³⁷

The Committee believes the government should release an annual statement on the balance and expenditure of the sustainability fund.

The Committee notes that the Auditor General will be undertaking an audit of the landfill levy system in the 2017-18 financial year. The Committee looks forward to the outcome of the Auditor General's investigation.

³⁶ Correspondence from the Essential Services Commission to the Hon. Natalie Hutchins MP, Minister for Local Government, 4 May 2017, p.6

³⁷ The Environment Protection Authority, *Waste, Landfill*, <www.epa.vic.gov.au/your-environment/waste/landfills>, viewed 13 June 2017

4 Key issues in the evidence received in this reporting period

The Committee heard evidence from the Municipal Association of Victoria (MAV) about some of the emerging financial pressures faced by local councils following the first year of the implementation of the Fair Go Rates System.

The MAV is the peak body for local government in Victoria. They advocate on behalf of councils to both state and commonwealth governments, assist in building council capacities, initiate policy development and advice, provide support councillors and promote the role of local government.³⁸

The MAV told the Committee that they had undertaken consultation with local councils across Victoria during the first year of the implementation of the rates capping policy.

The feedback received by the MAV indicated that anecdotally, some councils were beginning to experience financial pressure as a result of rate capping and that some councils were considering a reduction in the services they provide.

The Committee also heard that some small rural and regional councils and some growing interface councils were experiencing financial challenges that were heightened by the rate capping policy.

The MAV identified the following areas where some councils were beginning to consider service reduction:

- road maintenance and construction
- the school crossings program
- the State Emergency Service (SES)
- Home and community care
- Maternal and child health, and
- Roadside weeds and pests.

³⁸ Municipal Association of Victoria, 'About us', viewed 11 May 2017, <www.mav.asn.au/about-us/Pages/default.aspx>

4.1 Emerging financial pressures on councils

The MAV told the Committee that there were emerging risks to the financial sustainability of small rural and regional councils as a result of the Fair Go Rates System, and additional pressures faced by growing interface councils. The Committee heard previously in the submission from the MAV that it expected the ‘full consequences of rate capping will not become apparent until the system has been in place for several years.’³⁹ The submission added that ‘the long-term consequences of the framework will be a reduction in the quality of the sector’s infrastructure, a narrowing of its service responsibilities and a reduction of its innovation to fill community needs.’⁴⁰ The MAV confirmed in its public hearing that because the policy was still in its first year, data was not yet available to illustrate the financial impacts.⁴¹ Mr Spence said however, that they had received anecdotal advice from some councils about consideration of cuts to programs and services:

As a sort of snapshot view, I think in rural Victoria and particularly in some of the smaller councils, we are getting advice that it is beginning to affect service capacity, particularly in road maintenance and construction, but we are also seeing the smaller councils giving consideration to service reduction — so what they will stay in and what they will not stay in.⁴²

4.1.1 Small rural and regional councils

The Auditor General identified emerging financial sustainability risks in rural and regional councils. In the *Local Government: 2015-16 Audit Snapshot* report, the latest in an annual series of reports examining the financial and audit performance of local government, the Auditor General noted:

Overall, small shire councils are facing additional pressures due to smaller year-on-year revenue increases, and steady increases in expenditure. This has a direct impact on the level of funds these councils have available for capital expenditure. This could potentially have an adverse impact on the services and infrastructure that councils are able to offer to their communities.⁴³

The report found that small shire councils faced a small fall in revenue in the 2015-16 financial year and an increase in expenditure over the same period.⁴⁴ The Auditor General specifically noted that some councils under financial pressure were postponing renewal and maintenance of existing infrastructure assets:

³⁹ Municipal Association of Victoria, Submission 42B, p.1

⁴⁰ Municipal Association of Victoria, Submission 42B, p.1

⁴¹ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.2

⁴² Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.2

⁴³ Victorian Auditor General, *Local Government: 2015-16 Audit Snapshot*, 2016, p.12

⁴⁴ Victorian Auditor General, *Local Government: 2015-16 Audit Snapshot*, 2016, p.13

Spending on capital renewal is reducing, therefore spending will not be focused on replacing existing assets. Although building new assets and infrastructure is important for the local community, councils need to ensure that existing assets can continue to be used as required. Councils need to find the right balance between new and replacement asset expenditure to offer the best outcomes for their community.

The ESC, in their evidence to the Committee also acknowledged the risks to financial sustainability faced by small rural and regional councils:

It is quite important for us to have regard to the differences between the metro councils and the smaller regional councils, and there are clear differences between them. The metro councils have a greater flexibility in terms of alternative sources of income, whereas the rural councils do not. The rural councils are highly dependent on grants, whereas grants make up a smaller proportion of the mix of revenue that the metros collect. The rural councils too are subject to huge infrastructure, many roads...

...that they have to maintain and operate. They also, as we mentioned before, have a rate base that is either small or shrinking.⁴⁵

The MAV identified Buloke Shire council as an example of a rural council with ongoing financial sustainability challenges. Buloke Shire Council, in the Loddon-Mallee region of central Victoria, has a large road network and a relatively small ratepayer base. Mr Rob Spence, CEO of the MAV told the Committee:

You do not have to be Einstein to know who needs the capacity on rate increases or needs greater grant funding or support from the commonwealth or the state. The likes of Buloke and so on. Buloke stands out as the flashing night-light of the council in need.⁴⁶

The Committee remains concerned about the financial sustainability of some rural and regional councils, particularly in relation to infrastructure and asset renewal. The Committee re-iterates its support for the country roads and bridges program in this regard and calls on the government for its re-instatement.

4.1.2 Growing, interface and outer suburban councils

The MAV also identified the City of Casey, an interface council with a fast-growing population and significant infrastructure requirements as a municipality with financial needs that are difficult to meet under the Fair Go Rates System:

You get to the City of Casey — a much more complex environment. They are collecting a lot of developer contributions and so on, so their accounts look incredibly strong, but that money is hypothecated to particular tasks. When you strip all that out, how strong does the business look and what do they need to actually service a community that is in growth mode — like massive growth — and high need?⁴⁷

⁴⁵ Andrew Chow, Director, Local Government, Essential Services Commission, Transcript of Evidence 24 May 2017, p.7

⁴⁶ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.10

⁴⁷ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.10

The City of Casey applied to the ESC for a rate cap variation of 0.97 per cent above the cap of 2.5 per cent in 2016-17. In its application it told the Commission:

The effect of unvaried rate capping means that over just 10 years \$168 million less rate revenue would be available for the essential community facilities needed for Casey's rapidly growing community. That's why Casey has applied for a rate cap variation of 0.97% for next year, or \$14 per household - to stave off the impending infrastructure black hole which rate capping would otherwise create...

...It is the upfront capital cost of infrastructure that a Growth Area Council requires to run the services, programs and activities that the community needs and expects, and which cannot be adequately accommodated in a Rate Capped environment.⁴⁸

The City of Casey had its application for a rate cap variation in 2016-17 refused. The ESC said in its decision that the City of Casey had a strong overall financial position⁴⁹ and that the city had been granted \$2.5 million as part of the government's interface growth fund. The Committee notes that the interface growth fund, now known as the growing suburbs fund, has had its funding reduced in the 2017 state budget. The growing suburbs fund is discussed further in section 4.9.1 of this report.

The *Independent Review Of The 2016-17 Higher Cap Application Process* (the Brown Review), recommended that a review be undertaken into any special financial issues associated with growth area councils. As discussed in Chapter 3, the ESC committed to a study of this issue and is due to release a report in 2017.

The Committee is aware of the challenges faced by growing interface councils to provide the upfront capital costs to ensure their communities have adequate infrastructure. The Committee looks forward to the release of the ESC's report into special financial issues associated with growth area councils and hopes to examine its findings in the next reporting period.

4.2 Re-indexation of Commonwealth financial assistance grants

The Commonwealth government provides general purpose grants to all local councils in Australia. These grants, known as financial assistance grants, are intended to ensure equality of local government services across the country. Financial assistance grants are a core revenue stream for local councils, and account for the second largest source of council income after rates in most Victorian municipalities.⁵⁰ The program is usually indexed annually in line with inflation and population growth, however, since the 2014 Commonwealth budget

48 City of Casey, 'City of Casey 2016/17 Rate Variation Application', viewed 12 May, <www.esc.vic.gov.au/wp-content/uploads/2016/03/City-of-Casey-Higher-rate-cap-application-20160321.html>

49 Essential Services Commission, *City of Casey: Decision on application for a higher cap for 2016-17*, 2016, p.3

50 Department of Environment, Land, Water and Planning, Know Your Council, 'council funding', viewed 12 May 2017, <knowyourcouncil.vic.gov.au/guide-to-councils/finance-and-planning/council-funding>

the indexation has been paused. The Victorian Grants Commission estimates that Victorian councils have missed out on approximately \$200 million of funding between 2014 and 2017.⁵¹

The Commonwealth government announced the restoration of the indexation of financial assistance grants in its 2017 budget.⁵² The Committee welcomes the re-indexation of the Commonwealth's financial assistance grants, and notes their importance for small rural councils who have a smaller ratepayer base and a larger reliance on grants as a proportion of their income. The Committee notes however that according to the MAV, when the indexation resumes, it will be from a base that is 12.5% lower than if the indexation pause had not been implemented.⁵³

4.3 Road maintenance

Councils in Victoria are responsible for the maintenance of smaller, non-arterial roads which VicRoads refers to as municipal roads. These roads make up 129,735 kilometres of Victoria's road network and represent 85 per cent of Victoria's roads.⁵⁴ VicRoads has responsibility for the majority of the rest of Victoria's roads, including freeways and arterial roads, with the exception of private freeways such as the Melbourne CityLink.⁵⁵

The Committee heard that factors influencing the amount of road maintenance required by councils included poor quality VicRoads administered roads leading to increased traffic on municipal roads, and damage caused by wet conditions.⁵⁶ The Committee was also told about the financial factors influencing the ability of councils to carry out maintenance, these include the impact of the rate capping policy and the indexation pause of Commonwealth financial assistance grants.⁵⁷

Mr Spence outlined the deterioration of roads administered by VicRoads, and the flow-on effect of more traffic on municipal roads, which are not designed to carry heavy traffic. He said this was an emerging problem in south west of the state:

One of the challenging issues, I think, for the councils to deal with is in the road maintenance area — what is considered to be a reduction. I think it is an actual reduction in funding over time to VicRoads, and then the VicRoads road infrastructure deteriorates, pushing more vehicles onto local roads, and then as a consequence we are seeing rapid deterioration of local roads...⁵⁸

51 Victoria Grants Commission, Annual Report 2016, 2016, p.7

52 Municipal Association of Victoria, 'Federal Budget Restores Vital Grants Indexation' (media release), 10 May 2017

53 Municipal Association of Victoria, 'Federal Budget Restores Vital Grants Indexation' (media release) 10 May 2017

54 Municipal Association of Victoria, Submission to the Environment, Natural Resources and Regional Development Committee's inquiry into the sustainability and operational challenges of Victoria's rural and regional councils, *Submission 46*, p.38

55 VicRoads, 'Victoria's Road Network', viewed 15 May 2017, <www.vicroads.vic.gov.au/traffic-and-road-use/road-network-and-performance/types-of-roads/victorias-road-network>

56 Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.2

57 Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, pp.2-3

58 Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.2

...they were never intended to carry the sort of loads that they are having to carry. We were in the south-west for a meeting at Warrnambool a week ago, and clearly in that area road infrastructure is a major problem for them. So the ongoing capacity of councils — I think for the small ones we will see the impact of rate capping really start to bite in the next 12 months, in my view.⁵⁹

This shortfall in maintenance by VicRoads is also recognised by the RACV who note that in Corangamite shire, 18 per cent of VicRoads maintained roads are classed as ‘distressed’.⁶⁰ The RACV estimates that 15 per cent of the VicRoads road network in the south west are in a distressed condition.⁶¹ VicRoads in their 2015-16 annual report classified 8.1 per cent of metropolitan roads and 7.4 per cent of regional roads as distressed.⁶²

The Committee also heard that rainfall is a factor that can cause damage to roads:

We had a dream period for both the state and local government during the drought in terms of roads; we did not have it in other areas, but we had it on roads. We did not have it with crops or anything, but with roads we had a really good run when there was no rain. But we are back to normalised rainfall, and the roads have been biffed around big-time.⁶³

The state government announced upgrades to a number of regional VicRoads managed roads in the May state budget, including 75 million for restoration and road surface replacement.⁶⁴ The Committee hopes that this will go some way to reducing the amount of traffic diverted to municipal roads.

In relation to council managed municipal roads, the Committee notes recent increases in roads to recovery funding from the Commonwealth government⁶⁵ as well as the re-indexation of Commonwealth financial assistance grants. This may provide some assistance to councils to maintain their municipal roads. However, the Committee is aware that the long-term effect of rate-capping on Victoria’s municipal roads is yet to be seen. The MAV warns that the experience from New South Wales, which has had rate capping for several decades, ‘produced the unintended consequence of councils not having the ability to maintain the local government road network.’⁶⁶

59 Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.2

60 RACV, ‘Regional Roads Distressed and Unsafe’, viewed 15 May 2017, <www.racv.com.au/membership/member-benefits/royalauto/motoring/information-and-advice/regional-roads-distressed-and-unsafe.html>

61 RACV, ‘Regional Roads Distressed and Unsafe’, viewed 15 May 2017, <www.racv.com.au/membership/member-benefits/royalauto/motoring/information-and-advice/regional-roads-distressed-and-unsafe.html>

62 VicRoads, Annual Report 2015-16, 2016, p.9

63 Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

64 Victorian Budget 2017-18, Budget Paper No.4, State Capital Program, p.26

65 Municipal Association of Victoria, ‘Roads to Recovery Funding Doubled, Financial Assistance Grants Indexation Remains Frozen’ (media release), 13 May 2015

66 Municipal Association of Victoria, Submission to the Environment, Natural Resources and Regional Development Committee’s inquiry into the sustainability and operational challenges of Victoria’s rural and regional councils, Submission 46, p.41

4.4 The school crossing supervisor program

The school crossing supervisor program assists children to travel safely to school by providing supervisors to help children cross busy roads near schools. The program has been running since 1975 and is funded by VicRoads and local councils.⁶⁷ According to the MAV, when the program began the funding ratio was 66 per cent council funding and 33 percent state government (VicRoads) funding.⁶⁸ The MAV argue that due to factors such as increased labour costs and a shortfall in state government funding, that the ratio is now approximately 80 per cent council and 20 per cent state government funded.⁶⁹

The MAV told the Committee that because of the financial constraints caused by rate capping, some councils have been assessing their ability to continue to fund school crossing supervisors.⁷⁰ Northern Grampians Shire Council is the only council to stop funding school crossing supervisors so far.⁷¹ In a statement about their decision to discontinue funding the council said that:

This move is local government pushing state government responsibilities back to them to fund. With the rate cap set at 2% for the upcoming financial year all Council services will be under greater strain than ever and something has got to give.⁷²

The MAV told the Committee that they have been in discussion with the state government regarding funding for school crossing supervisors and that a more equitable funding agreement has been reached.⁷³ The Committee notes that from July 2017 the state government and local councils will each fund 50 per cent of the cost of the program.⁷⁴

4.5 The State Emergency Service

The MAV identified funding of the State Emergency Service (SES) as another area where some councils were assessing their ability to continue funding because of the rate capping policy. Many SES units are accommodated in council owned facilities and councils provide funding for operational costs such as vehicle and building maintenance.⁷⁵ The responsibility of SES funding varies from council to council and some play a greater role in SES unit management than others.⁷⁶

⁶⁷ Municipal Association of Victoria, Children's Crossing Supervisor Subsidy Discussion Paper, 2015, p.5

⁶⁸ Municipal Association of Victoria, Children's Crossing Supervisor Subsidy Discussion Paper, 2015, p.5

⁶⁹ Municipal Association of Victoria, Children's Crossing Supervisor Subsidy Discussion Paper, 2015, p.5

⁷⁰ Municipal Association of Victoria, *Submission 42B*, p.1

⁷¹ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

⁷² Northern Grampians Shire Council, 'Council not satisfied with decision on school crossings', viewed 16 May 2017, <www.ngshire.vic.gov.au/News-Directory/Council-not-satisfied-with-decision-on-school-crossings>

⁷³ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.6

⁷⁴ The Hon. Luke Donnellan MP, Minister for Road Safety, 'Better School Crossings to Keep Kids Safe' (media release), 16 December 2016

⁷⁵ Municipal Association of Victoria, *The Future of Local Government's Relationship with VICSES*, 2011, p.4

⁷⁶ Municipal Association of Victoria, *The Future of Local Government's Relationship with VICSES*, 2011, p.4

Until recently, local councils had an agreement whereby they would match funding provided by the state government to SES units in their municipality.⁷⁷ The MAV told the Committee at their public hearing that they were working on an agreement for the state government to assume a larger role in the management of the SES:

SES — I can give you the list; there is a number of them who have actually stopped funding SES. So we are trying to negotiate with the state an agreement where the state will pay for SES and we will have leases in place for the land.⁷⁸

An agreement between the SES, local councils and the state government was announced as part of the 2017 state budget. The Committee notes the increased funding provided by the state government for SES units to pay a lease to councils where they are stationed on council property and extra funds and grants provided for facilities operational costs.⁷⁹

4.6 Home and community care

The home and community care program provides assistance for older people, carers and people with a disability. This assistance includes nursing, domestic assistance, delivered meals, allied health and social support.⁸⁰ The program is currently in a transition period. The funding and management of the service has changed so that the Commonwealth government is responsible for the funding and management of services for people aged 65 and over. The Victorian Department of Health and Human Services continues to manage and fund services for people under 65 and some services for health and community care clients are to be transferred to the management of the National Disability Insurance Scheme.⁸¹ The Commonwealth and state government have agreed that services will be managed on this basis until 30 June 2019.⁸²

While these services are funded and managed by the Commonwealth and state government, local councils are the largest providers of home and community care services in Victoria. The services are charged to the Commonwealth and state governments on a per-unit basis. For example, the state government sets a price for each domestic assistance visit, and councils charge the government for each visit undertaken. The MAV have expressed concerns that in the past, the payment given to local councils for this work has not met the cost of delivery. In

77 Municipal Association of Victoria, *The Future of Local Government's Relationship with VICSES*, 2011, p.4

78 Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

79 Victoria State Emergency Service, 'State Budget delivers increased funding for VICSES' (media release), 2 May 2017, viewed 17 May, < www.ses.vic.gov.au/-/state-budget-delivers-increased-funding-for-vicses?inheritRedirect=true>

80 Municipal Association of Victoria, 'Home and Community Care', viewed 17 May 2017, <www.mav.asn.au/policy-services/social-community/ageing-disability/home-community-care/Pages/default.aspx>

81 Commonwealth Department of Health, Home and Community Care (HACC) in Transition, Bulletin for HACC Service Providers, 2016, p.1

82 Commonwealth Department of Health, Home and Community Care (HACC) in Transition, Bulletin for HACC Service Providers, 2016, p.1

its submission to the Environment, Natural Resources and Regional Development Committee's inquiry into the financial sustainability and operational challenges of Victoria's rural and regional councils, the MAV said:

MAV analysis from 2013-14 data has shown output prices for domestic assistance, personal care, respite and property maintenance do not cover the labour and related on-costs of the direct care workers involved, let alone travel allowances, other direct costs, overheads, administration, coordination and management costs. The subsidy for delivered meals also continues to be less than meals delivery costs, which the State claims is its purpose and, in terms of the cost of a delivered meal, is minimal.⁸³

The MAV told the Committee that some councils were considering moving the provision of home and community care services to private or not-for profit providers, but that so far Wodonga was the only council which had done so.⁸⁴ Mr Spence said this was because Wodonga Council's view 'is that the funding model is not strong enough to allow them to stay in it.'⁸⁵ Mr Spence mentioned the increasing costs for councils to provide these services: 'it is an indexation issue where the indexation does not really match the cost growth of councils.'⁸⁶

The Committee notes that the process for councils to move the provision of home and community care services to other providers is complex and some councils do not have organisations in their municipality with the capability to take on such a large range of services. Mr Spence told the Committee that Wodonga had worked with a local not-for-profit organisation for 'eight or nine years to establish a local provider network that could provide the service.'⁸⁷ He added 'the slack [was taken up] in Wodonga. If it were Edenhope, nobody is going to take up the slack.'⁸⁸

The MAV is eager to ensure that the indexation shortfall does not continue as the Commonwealth government assumes responsibility for the funding of home and community care services into the future. The MAV told the Committee that it is working to negotiate an agreement with the Commonwealth after the current arrangement ends in 2019:

HACC is complicated. The agreement with the commonwealth finishes in June 2019, so the structure for HACC in Victoria stays the way it is until June 2019. We have a tripartite agreement between commonwealth, state and MAV representing local government. We are commencing work with the commonwealth to negotiate through what the model will look like post 2019. I would expect we will need to have that settled by first quarter 2018⁸⁹

⁸³ Municipal Association of Victoria, Submission to the Environment, Natural Resources and Regional Development Committee's inquiry into the financial sustainability and operational challenges of Victoria's rural and regional councils, *Submission 46*, p.18

⁸⁴ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

⁸⁵ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

⁸⁶ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

⁸⁷ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.6

⁸⁸ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.6

⁸⁹ Rob Spence, CEO, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

4.7 Maternal and child health

The maternal and child health service is a program for new parents that provides contact with health services from the birth of a child and through the early stages of childhood. The service includes a schedule of regular health check-ups for babies and young children as well as access to a 24 hour help line for parents.

The service is a partnership between local government and the state government. The funding arrangement is such that councils and the state government contribute equally (50:50) to the hourly price of service delivery.⁹⁰ The MAV have expressed concerns that in the past the price paid to local councils by the state government did not reflect the cost of delivery. These concerns are similar to the issues raised by councils about the cost of the provision of the home and community care program. The MAV said in its submission to the In its submission to the Environment, Natural Resources and Regional Development Committee's inquiry into the Financial Sustainability of Rural and Regional Councils that:

The State price continues to be deficient when compared with the sector's delivery costs despite significant catch-up being made in State funding. While over the past four years this equates to an average annual increase of 5.2% and over the last five years 5.8%, and on face value these increases look quite large, they need to be seen in context – between 2013-14 and 2015-16 the average annual increase in funding rate was just under 2%.⁹¹

Mr Owen Harvey-Beavis, Manager, Insurance, Research and Strategy at the MAV, told the Committee at the public hearing that some councils had indicated a desire to cease provision of maternal and child health services,⁹² although he added 'we doubt that that will come to pass'.⁹³

Local councils, (represented by the MAV) and the state government have recently signed an updated Memorandum of Understanding (MOU) that will govern the provision of maternal and child health services between 2017 and 2020. The state government and local councils will continue to contribute equally to the hourly cost of service delivery, and the unit prices of services will be indexed each year.

The Committee notes the state government also provided extra funding for maternal and child health in the 2017 state budget which included \$81.1 million for improved services.

⁹⁰ Memorandum Of Understanding between Department of Education and Training and Municipal Association of Victoria in relation to the Maternal and Child Health Service 2017- 2020, (2017), p.6

⁹¹ Municipal Association of Victoria, Submission to the Environment, Natural Resources and Regional Development Committee's inquiry into the sustainability and operational challenges of Victoria's rural and regional councils, *Submission 46*, p.14

⁹² Mr Owen Harvey-Beavis, Manager, Insurance, Research and Strategy, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

⁹³ Mr Owen Harvey-Beavis, Manager, Insurance, Research and Strategy, Municipal Association of Victoria, *Transcript of Evidence*, 22 March 2017, p.4

4.8 Other policy updates

4.8.1 The growing suburbs fund

The growing suburbs fund, formerly known as the interface growth fund, is a program to assist interface councils in Melbourne's fast-growing outer suburbs with the up-front capital costs of providing infrastructure. Between 2009 and 2014, interface councils accommodated almost 50 per cent of the state's population growth⁹⁴ and this is expected to continue with more than 1 million additional residents predicted to move to Melbourne's interface councils by 2031.⁹⁵

Melbourne's ten interface councils: Cardinia, Casey, Hume, Melton, Mitchell, Mornington Peninsula, Nillumbik, Whittlesea, Wyndham and Yarra Ranges are eligible to receive funding under the program. A total of 34 projects received funding in the 2015-16 financial year, including community centres, sports facilities, children's play centres and upgrades to parks.⁹⁶

The growing suburbs had its funding reduced in the May 2017 budget from \$100 million over two years to \$50 million over two years.⁹⁷

The Committee regrets the reduction of funding for this program. It believes that the ability of growth councils to raise capital for infrastructure is constrained by the rate capping policy. As noted in section 4.1.2 the City of Casey, an interface council, had its application for a rate cap variation turned down in the 2016-17 financial year partly because the ESC said it had been granted a share of the growing suburbs fund. The Committee hopes that the ESC may choose to pay regard to the reduction in the growing suburbs fund when assessing the any applications for rate cap variations from interface councils in the next financial year.

4.8.2 Planning fees

Planning and subdivision fees were updated in 2016 to more accurately reflect the cost to councils for processing planning applications. The previous planning and subdivision regulations were set in 2000, and some councils argued that the planning system had grown in complexity in that time and the costs to councils

⁹⁴ Interface Councils, *Interface Councils Submission into Infrastructure Victoria's 30-Year Strategy*, (2016), p.2

⁹⁵ Department of Environment, Land, Water and Planning, 'Growing Suburbs Fund', viewed 19 May 2017, <www.localgovernment.vic.gov.au/council-funding-and-grants/growing-suburbs-fund>

⁹⁶ Department of Environment, Land, Water and Planning, 'Growing Suburbs Fund', viewed 19 May 2017, <www.localgovernment.vic.gov.au/council-funding-and-grants/growing-suburbs-fund>

⁹⁷ Hon. Natalie Hutchins, Minister for Local Government and the Hon. Lily D'Ambrosio, Minister for Suburban Development, 'Supporting our Growing Suburbs' (media release), 2 May 2017

to process planning applications has grown significantly.⁹⁸ According to the MAV, planning fees charged by councils to process applications only recovered 20 to 30 per cent of the costs and that the rest was subsidised by ratepayers.⁹⁹

According to the MAV, the new fee structure means that applicant fees now cover an estimated 60-70 per cent of planning costs¹⁰⁰ and could generate an additional \$40 million extra in fees collected by councils each year.¹⁰¹ The Committee hopes these new regulations will assist in reducing the financial burden faced by councils.

It is important that planning and other fees and charges are recognised as revenue sources for councils and that these are taken into account with setting the cap. Local Government Victoria should report on council collection of fees and charges, in particular planning fees in 2015-16, 2016-17 and 2017-18. This is important in light of the Minister for Planning's decision to increase fees in 2016.

4.8.3 Changes in valuation policy

The government announced changes to the way property valuations to assess council rates are administered in the state budget. Currently a revaluation is completed in each council every two years to assist with the calculation of property-based council rates, land tax assessments and the fire services property levy.¹⁰² These revaluations are administered by either councils or the Valuer-General (if a council has opted to transfer its revaluation responsibility to the Valuer-General).

The government has introduced a policy to move the responsibility for these property valuations entirely to the Valuer-General and to hold valuations every year instead of every two years. The Committee notes concerns that valuers employed by councils and associated staff could be made redundant as a result of this policy change, and that the redundancy payments could cause financial pressure for councils. The Committee understands that the detail of the program is yet to be provided¹⁰³ and will continue to monitor this policy in the next reporting period.

RECOMMENDATION 1: The Committee seeks a statement from the government that places in the public domain how many valuers employed by councils in Victoria will be made redundant and what the cost will be to each council for any such redundancies.

⁹⁸ The Herald Sun, *Outdated Planning Fee Sees Councils Paying to Process Development Applications*, 11 July 2016, viewed 19 May 2017, <www.heraldsun.com.au/leader/news/outdated-planning-fee-sees-councils-paying-to-process-development-applications/news-story/5ff0c07aaf4c0f0c597038b8f1e20a02>

⁹⁹ Municipal Association of Victoria, 'New Fees Deliver Greater Equity and Fairness to Planning System' (media release), 28 September 2016

¹⁰⁰ Municipal Association of Victoria, 'New Fees Deliver Greater Equity and Fairness to Planning System' (media release), 28 September 2016

¹⁰¹ Municipal Association of Victoria, 'New Fees Deliver Greater Equity and Fairness to Planning System' (media release), 28 September 2016

¹⁰² Municipal Association of Victoria, 'Valuation Reforms Could Lead to Job Losses and Extra Costs' (media release), 22 May 2017

¹⁰³ Municipal Association of Victoria, 'Valuation Reforms Could Lead to Job Losses and Extra Costs' (media release), 22 May 2017

Appendix 1

Submissions

Submission no.	Name
1	Essential Services Commission
2	Bayside Ratepayers Association

Appendix 2

Public hearings

Wednesday 22 March 2017, Melbourne

Name	Position	Organisation
Mr Rob Spence	Chief Executive Officer	Municipal Association of Victoria
Mr Owen Harvey-Beavis	Manager, Insurance, Research and Strategy	
Mr George Reynolds		Bayside Ratepayers Association

Wednesday 24 March 2017, Melbourne

Name	Position	Organisation
Dr John Hamill	Chief Executive Officer	Essential Services Commission
Dr Ron Ben-David	Chairperson	
Mr Andrew Chow	Director, Local Government	

