

# TRANSCRIPTS

## STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

### Inquiry into rate capping policy

Melbourne — 4 August 2015

#### Members

Mr David Davis — Chair	Ms Samantha Dunn
Ms Harriet Shing — Deputy Chair	Mr Shaun Leane
Ms Melina Bath	Ms Gayle Tierney
Mr Richard Dalla-Riva	Mr Daniel Young

#### Participating Members

Mr Jeff Bourman	Mr James Purcell
Ms Colleen Hartland	Mr Simon Ramsay

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Research assistants: Ms Annemarie Burt and Ms Kim Martinow

#### Witnesses

Mr Rob Spence (affirmed), Chief Executive Officer, and  
Mr Owen Harvey-Beavis (affirmed), Manager Research and Strategy, Municipal Association of Victoria; and  
Dr Andrew Hollows (affirmed), Chief Executive Officer, Victorian Local Governance Association.

**Necessary corrections to be notified to  
executive officer of committee**

**The CHAIR** — I open today's hearing and welcome the witnesses, Rob Spence, Owen Harvey-Beavis and Dr Andrew Hollows. I indicate the committee is hearing evidence today in relation to its inquiry into the rate capping policy and evidence is being recorded by Hansard.

I welcome the witnesses to the public hearings of the environment and planning committee. All evidence taken at this hearing is protected by parliamentary privilege, therefore you are protected against any action for anything you say here today, but if you go outside and repeat the same things, those comments may not be protected by privilege.

I begin by indicating that we thank the MAV and the VLGA for the earlier assistance they gave us on that Wednesday night, just a little while ago, and thank both organisations for their submissions, which have already been accepted as submissions for the inquiry. We might start with a brief presentation from both the MAV and the VLGA and then follow with questions.

**Mr SPENCE** — I am happy to start. You would understand that the scene in relation to this issue has changed significantly since Friday, when the ESC brought out volume 1 of their two-part report on the rate capping environment for local government in Victoria. I just make the point that we only received volume 2 of that report this morning, and we are still digesting the detail of it and would prefer not to make too much comment about it until, particularly, we have had a chance to talk to the ESC and tell them what we think of it before we talk more broadly.

In relation to the issues around rate capping and the proposal that is part of government policy, with the ESC material it does, to an extent, clarify where the government may be going with this, although we do continue to see a rub point between what is government policy and what this model looks like. The government policy and rhetoric have been clearly around the issue of, effectively, a CPI-driven model, and the model that the ESC are talking about has got other drivers in it that deliver the outcome. So from a local government viewpoint we would hope that soon we would see clarity in the area of the way a model can effectively work for our sector.

I suppose the other issues that are really fundamental to us and that we expressed in our submission to you are that the challenge of this to the autonomy of the local government sector is obviously a primary issue for us. The fact that this is going to affect the flexibility of local government in the way they operate is again a significant issue for the sector and a challenge across 79 councils with really no two councils operating off a common operating profile or funding model. I think it is important when we look at rate capping to look at what the experience in Victoria has been, over time. The first rate cap occurred in Victoria under Kennett in I think 1994, where there was a requirement for councils to cut 20 per cent off their rates. A piece of work the MAV has completed in the last couple of days shows that the rates in real dollar terms in 1993, per head of population, were at \$532 per head of population, and in real terms the average over the last 20 years, from that date to now, excluding the defined benefits calls of \$1 billion, is at \$531.

What that tells us is that the impact of rate capping in the Kennett era has now sort of equalised, as at 2014. Across that time we have averaged an equivalent of the amount that was being raised in real terms in 1993–94, and that does not take into account the issue of the infrastructure backlog that is in the sector and in the state, so it is not just a local government issue. I want to emphasise the point that when you look at the evidence about rate capping, the impact it has on local communities and the impact it has over time are significant, and what we saw in the Kennett era was the absolute decline in infrastructure maintenance that has taken until 2014 to partly catch up with.

Other issues that we would be concerned about in consideration of a rate cap are about the long-term community impacts. Clearly councils need to take a leadership position in terms of thinking forward 10 or 20 years about what community needs, and a constrained environment at the front end of that is quite challenging. A cursory look at the ESC material indicates that the model potentially, if accepted by government, is going to be incredibly onerous for councils to go outside what are the benchmarks provided by the ESC. That is really all I want to say at this stage, and I look forward to your questions.

**Dr HOLLOWES** — Our submission was based on the materials previously provided to the committee at the earlier briefing. I guess the elements of them are twofold. One is an emphasis on what we call a light touch regulatory approach, if rate capping is to proceed, and we do take on board the comments from the MAV around those matters. But it is also informed by a number of principles which the VLGA has worked up and agreed upon. For us as an association it is, I guess, that issue of where you get the balance and the trade-offs

right. How do you actually achieve an outcome from the state government's perspective without imposing a heavy-handed regulatory burden? That would be our sense of a first reading of the ESC report: we would be concerned about this regulatory emphasis or what we would call 'regulation on steroids'. That is our first reaction to the report. It is there to achieve certain outcomes, but we would caution by asking: where are the trade-offs and where is the balance, so that you are not actually going crazily in one direction but actually achieving some of the policy outcomes?

We also would be keen to ensure that the balance is right here. When you talk about rates and local government, it is not a water industry. Local government is a level government with elected councillors which is there to preserve a degree of autonomy. Yes, it provides services, and yes, it provides functions and infrastructure, but not to the same breadth as the electricity or the water industry. Yes, some of the fiscal disciplines apply — there is no doubt about that — and certainly in the principles in our submission we actually nominate areas where there should be better work done around productivity, efficiency and value for money. There is no doubt about that at all. But our first reaction to the two reports and the Essential Services Commission is that we would take a deep breath and wonder whether the model being proposed is slightly on the heavy-handed side in achieving any of those outcomes. We share the concern of the MAV about preserving the autonomy of local government and realising that, like all levels of government, warts and all with the democratic process, it still has elected councillors, it still has links back to the community and it still engages with its community, so it is an important part of the democratic process.

Local government shares the burden in providing services to the community alongside the state government, but it is not state government, and we think what could be easily lost in this discussion is a focus purely on the mechanics of running a business as opposed to local government, in the same breath, with this other really important democratic element to it as well. As I said in our materials put forward to the community and elsewhere, we think there are a number of principles that would need to be subscribed to. If a rate capping is to occur, is it easy? Is it light touch? Does it impose unnecessary cost burden onto councils and ratepayers? Does it actually achieve the outcome?

I am reminded of that lovely moment, for those who may recall, in *The Hitchhiker's Guide to the Galaxy* where you get an amazing story that came up with an answer of 42. The answer in part 2 of the report of the ESC is actually 43. They actually backtracked for eight years and worked out that if you have rates at this level, as opposed to what they did arise at, how they got to the new ESC rate capping level, the cost saving to the average ratepayer per day was 43 cents. If you are going to save 43 cents a day, what level of regulatory compliance and oversight do you require?

**The CHAIR** — Thank you. I have a couple of questions. Noting the earlier discussion and understanding that a harsh application of a CPI rate cap would lead to reduced services and infrastructure, I might ask you as the first question to outline a number of those areas where services or infrastructure across the state are likely to be impacted by a rate cap that sticks to CPI. My second, but related, question relates to a specific program, and that is the country roads and bridges program, that I certainly think was very important for country Victoria, and the impact of the loss of that program, when combined with the rate cap, on country councils.

**Mr SPENCE** — In relation to the first question, I think that if we end up with a hard cap at something like 3 per cent, then I think what you — —

**The CHAIR** — To be clear, the most recent CPI is 1.1 per cent.

**Mr SPENCE** — That is right, 1.1; the ESC are talking about a number at something like just over 3, using forward projections of Treasury plus a component of wage cost index mixed in with it.

If we go to that as the way forward, my view is that we are going to see significant structural adjustment in, particularly, rural Victoria. There is a lot of pressure in rural Victoria at the moment about home and community care and the cost of maintaining that service.

We accept that there is going to be a model; what that model looks like, given it is government policy, we would expect that there will be something in place. But in terms of a hard model without a level of flexibility and administrative efficiency in it, in our view you will see rural councils in particular step out of services that they do not have an obligation to provide but have been providing because there is a community need, but the

fact that they can hand it to the state and the commonwealth to deal with in a different way I think is a likely outcome.

**The CHAIR** — That would include HACC, as one.

**Mr SPENCE** — HACC.

**The CHAIR** — What other services?

**Mr SPENCE** — I think the issues that are discussed at the moment are around the SES and funding of the SES. The state has basically taken control of the SES. The funding model is based on the historical position that came out of the Second World War, where councils basically took over and were providing the funding for the SES which came out of civil defence. Councils are still major funders, provide the facilities and so on. We have already got councils in rural Victoria saying, 'We are intending to move out of this space', and that is a debate we are having with the SES and the relevant departments at the moment.

I think what you will see is that in those areas where councils have gone in on a discretionary basis over time, they will pick the targets to trim and move out of them, because if the administrative side of any rate cap is complex — and we have been debating, coming up here, whether we chuck in the job at the MAV and start a consultancy business to service councils in preparing material for the ESC to pass the exemption; I think we would do pretty well, based on what we have seen in a quick look at the ESC report — and if the capacity to get exemptions is so onerous, my view is you will get probably on average 78 councils per year asking for an exemption, and then it will force councils to make other decisions which will affect the community services.

**Mr HARVEY-BEAVIS** — I think it is probably worth noting as well, just in relation to the proposed ESC cap number, that the methodology they have suggested using is 60 per cent CPI — the state estimate CPI — which is a trimmed mean CPI, so it is a little bit more stable than the headline ABS CPI, and also the state's wage price index. The big missing component within that of course is the capital expenses of councils, which is something in the vicinity of about 20 per cent of the overall expenditure of the sector and quite a bit higher in rural and regional councils. In those councils, if they are up around 30 to 35 per cent, and in times of very high construction cost increases as well, we are talking about a significant drag on their financial position, which will at least force them into going to the ESC to seek an exemption as well.

**Mr SPENCE** — But the model as it is proposed — let us call it 3 per cent — is to deal with basically recovered cost, but any capital is on an application basis. It is pretty clear that there is a misunderstanding in this. Eighty per cent of Victorian roads are controlled by local government and maintained by local government. Just about all the drainage — —

**The CHAIR** — Hence my question about country roads and bridges.

**Mr SPENCE** — That is right. With the country roads and bridges program, that has hurt local government in Victoria — knocked around the rural councils significantly. There should be an understanding that a particular government will have a view on how it funds. The impact of the loss of that program in rural Victoria has been significant and will, I think, put more pressure on this model, as proposed.

**Dr HOLLOWS** — Certainly from our perspective there is no doubt that a rate cap, be it 1.1 or 3 per cent or whatever the government's final decision will be, will certainly over time put most councils in a position where they would be making those hard decisions around what you keep, what you do not keep and who else should be doing it. We would argue strongly that the ability to do that obviously needs to be done in consultation with the communities. But an important caveat is this: the lesson here and elsewhere comes back to the fundamental point that a cap which is too tight and a variation process which is too convoluted and imposes a heavy compliance burden will put all the disincentives in place for variations to be sought and will over time lead to reductions of services. There is no doubt about that. As I repeated to the committee previously, we have to learn from the experience of New South Wales and other jurisdictions overseas that have been in this position.

Let us be very clear about these comments, however. This is not code language for 'Let it rip — no pursuit of value for money, efficiency and the like'. I think those agendas around how you do your service reviews, how you consult with your communities and how you achieve the productivity peaks are things that should always be pursued anyway, regardless of a rate cap. Our concern is that the model on the table at the moment — we

know it is only a model suggested by the ESC, but nonetheless for a regulator it is, 'If it looks like a nail, you use a hammer'; you just regulate and regulate and regulate. I am not convinced by the material to date that the model will adequately provide those levels of outcomes.

The other element here, picking up the comment from Rob, is that the proposed model on the table — and I know the committee is probably at a disadvantage because this is all new and out there in the sector — puts a lot of 'We don't know' on the other side of the ledger of the variation process. It has been put to me by the Essential Services Commission, 'We'll see how it goes', 'It'll be case by case', 'We'll work it out as we go forward'. I am not saying that you tie it down to the nth degree, but to the same extent you need to have some degree of certainty. You need to know the rules of the game as a council to make an informed business decision around whether you seek a variation, under what circumstances and the like. If part of the variation process means scooping in a range of expenditure items which are not captured in the proposed cap by the Essential Services Commission, I think it raises at least the risk of some unintended consequences. I am not saying it is there deliberately, but if you put ambiguity into the terms of the model, it will lead to some unintended consequences there as well.

**Ms SHING** — Thank you, gentlemen, and my apologies for arriving a little late. I have noted from what you have said today, Andrew, that you have referred to the policy as 'regulation on steroids'. You have also said, 'We don't know the variation process', and, 'We need to strike a balance between the interests of ratepayers on the one hand and councils on the other whilst also allowing councils to retain a degree of autonomy'. One of the things that has emerged from what you have talked about this afternoon is the question of whether or not an unnecessary burden is imposed upon ratepayers and councils as a consequence of the introduction of this particular policy. Given that we do not know the variation process, to take words out of your mouth, how is it that you can say that the variation process proposed by the policy is regulation on steroids, when the act and the regulations already prescribe best value requirements and there are community concerns about the way in which rates have been set and the way in which services and programs have been delivered by councils to date?

If you could turn your mind to that — I note that it is a multifaceted question, but I would like some observations from you as to how it is that you are so sure that this will lead to a reduction in services and decisions being taken by councils to dispense with — I think HACC was referred to, Rob, in your contribution, and the presentation also refers to other areas where services will probably be or are at risk of being reduced or removed altogether — when you do not know the variation process, when there are exemptions available and when this policy is, for all intents and purposes, at least in terms of what is on the record, designed to achieve a look-through approach around the way in which rates are set.

**Dr HOLLOWS** — My comments around the heavy-handed regulatory approach is based on an initial reading of the documentation from the Essential Services Commission which would tend to suggest that a whole swathe of activities in local government will come under the remit of the Essential Services Commission and a reading of certainly their first report would suggest that there may be other facets of local government business in which they may reserve the right to step in and have a role at some stage as well. So I guess we are just reading the intent and the language of the report as we see it.

My comments also come from the position that the position held and the submission by the VLGA was very much that there are many tools in place in local government to put in place service reviews, community consultation, development of community plans, strategic resource planning and the like as well. We would argue that if there was going to be a rate cap and regulatory approach that they will support, there be sector development and support provided to the local government sector as well as a regulatory approach which will be light touch and will see how all those things hang together.

Our sense is that what is being proposed on the table at the moment — and I understand it is not policy of government but is a proposal by the Essential Services Commission, so that is a very important caveat — seems to be, 'No, let's not just work with and support the existing process; let's just go in boots and all'. That is our initial reaction, and those are certainly some of the commentary and reactions that I have been receiving from some of our councillor members to date.

Yes, your assumption is correct: we will not know how the variation process pans out until it actually happens. We would take some guidance, and hope the Essential Services Commission would likewise, as it took New South Wales 40 years at least to get to a situation where if a council was able to demonstrate, 'Have you done

your community consultation? Have you got your financial plans in place?', it was pretty much a very light touch: 'Yes, you're adhering to the process'.

What is being proposed by the Essential Services Commission is a very extensive submission-based process. Certainly from speaking to colleagues — and I was in New South Wales, where I lived and breathed the New South Wales experience, and they are astounded by the fact that the proposal around a very full-on submission-based process is being proposed. New South Wales has been there. They have gone past that in terms of a model of achieving those outcomes.

My final comment is that again I need to emphasise quite strongly here that there is a number of elements on the table in terms of reforms in the local government sector which we as an association would be fully supportive of. Our view is that we support local democracy, but local democracy needs to be effective, and it needs to be able to demonstrate, as I said, trust with the community and value for money. We do have some concern, however, to the extent that some of those policy objectives will be achieved with what is on the table at the moment from the Essential Services Commission.

**Ms SHING** — Sorry; just to pick you up there, you said local democracy needs to be effective; for whom?

**Dr HOLLOWS** — Not just ratepayers — residents. Again, our view on this is that when we talk about the accountability of councils, it is not just to ratepayers; it is to residents more broadly. Residents also, on the whole, are local citizens; they exercise their democratic right to vote, and they have a democratic right to stand for local government as well. Again, it comes back to my earlier point around understanding the business and make-up of local government, because there are different layers and veneers to it. It is not just a business; it is not a water industry. It has a democratic element there as well. It is about wise expenditure of ratepayers money. It is about meeting residents' and the community's needs, and it is about representing and engaging locals and citizens. There are a number of overlapping factors here, which I think just need to be held in play.

**Mr SPENCE** — You passed some comments and asked for a response from me, as I understood.

**Ms SHING** — Yes.

**Mr SPENCE** — The point I was trying to get across, and maybe not that clearly, was that getting the right balance between where the cap sits and what the administrative arrangement is that sits behind it in relation to exemptions is really critical in whether, in my view — this is my view — there are going to be service impacts in the community. There has been a view articulated by some to our sector that we were going to end up with a tiered model where rural councils would be dealt with in a different way to interface councils, regional cities and so on, because it is not a homogeneous sector, as you know. And I think the model that has come out of the ESC is one size fits all, unless they have a very sensitive and fine-tuned back end in relation to the exemption process.

What I am saying is that if there is an appropriate model to deal with the starting point of the cap, where the starting point is then for the variations, then it will be less onerous on those more at-risk councils than we see out of our quick look at the ESC model that is proposed. That is a point I was trying to make. And there are services at risk out of this, because some of these rural councils in particular are struggling to deal with what they have got now, on the current funding model.

**Ms SHING** — At risk because of this, though? In terms of the link of causality — —

**Mr SPENCE** — No, this just adds another dimension to it.

**Ms SHING** — Right; so it is not determinative — —

**Mr SPENCE** — No, it is not determinative at all. The issues that have affected rural councils have been the rate cap that occurred in 1994, 95, 96, 97. The 97 work that was done by the then government that determined what the infrastructure backlog was, and then the drive to fill that infrastructure backlog; we think it is in excess of 300 million at the moment. The fact that in 94, 95, 96, 97 the councils were effectively given awards for not having debt, so it took us away from a profile where you had debt and equity operating — any rational business would use debt and equity. The impact of those reforms at that time have had a long-tail effect on the sector, so we now have a situation where the sector has incredibly low debt — I think the total is under \$1 billion for a sector that is as big as our sector — has been in catch-up mode and is still trailing on infrastructure backlog. I

know the state has got a much bigger problem than the local government sector has, and my tip is in infrastructure backlog, but our sector is trying to get to a point of equilibrium where it takes pressure off the citizen in terms of rates.

**Ms SHING** — Thank you for that explanation.

**Mr DALLA-RIVA** — Following on from that, what I am hearing is that the ESC have indicated a one-cap-fits-all approach. I say that without having knowledge of it. I just want to know, and I know we have gone onto smaller rural councils, interface councils, peri-urban councils and obviously metropolitan councils — so there are four that sort of spring to mind off the top of my head — I am trying to get an understanding. I guess the first parameter of your concerns is that there should not be a cap, and again I am not putting words in your mouth. I am just writing to get a feel. But if there was, you would be looking for something that would be less of a one size fits all?

Following on from that, if it was to be a variety of different caps subject to the different areas, would you then think that there should be some services that should be excluded from the cap — that is, waste and garbage charges, for example? It is a long question, and you may need to take it on notice and get back to us, given you have only just seen the ESC report as well, but it goes to the nub, from my understanding, of caps. If you disagree with it — but if you were to agree to it — you understand?

**Mr SPENCE** — I would say that the sector does not like the notion of a cap at all; right? That is the starting point, but there is an acceptance generally, I think, that there is going to be a cap. What the sector is saying is that we want a cap that works, and this is a multifaceted sector. In regional cities, for example, we have got significant growth occurring. The current government has been attempting to deal with them with assistance to allow that growth to occur, but the capacity to raise rates locally to achieve long-term outcomes — you know, when you have got growth occurring, your capital costs at the front end are high, and you recover it over time.

You have got the issue in regional cities. You have got exactly the same issue in the interface councils, and I keep going back to my favourite number, which is: when you have got a council like Wyndham or Casey or Melton with between 80 and 90 babies born a week that is a childcare centre, effectively, every week, and that is a kindergarten every week. The council has to have the capacity to raise revenue to provide that if the state and the commonwealth are not tipping the money in to do it, and at the moment they are not. To build the infrastructure so we have got strong communities, councils need the capacity to be able to raise revenue to provide the services when there is growth or their revenue streams from other sources are not strong enough to help them.

**Dr HOLLOWS** — I might just add that, yes, the general view would be: no, you do not do it. Our colleagues across the border think we are mad, and they should know after 40 years when they see the costs of what it means particularly for infrastructure. But if you are going to do it, our strong position has always been to do it in a way which is sensible and based on some of the principles that we outlined in our submission. Do it in a way that still preserves and supports the integrity and autonomy of councils to do it in terms of a level of government. Do it in a way which allows councils, say, in the case of a Wyndham or Melton, to be able to invest wisely in terms of community needs — because they are pressing community needs as well; and do it in a way which encourages and supports councils to do the job they do now better.

As I said, we are being quite honest here. There is always room for improvement, and it applies to every industry, every sector of government, every organisation. We would strongly put a premium on how well, how definitely could councils be engaging with their communities, for example. That is something near and dear to our association both in terms of community engagement and broader forms of deliberative practice. Should there be an option to explore a productivity or efficiency dividend in local government? Of course; it goes without saying. Good democratic governance always applies good, sound financial governance as well. But our caution here is if you are going to introduce a policy and a regulatory regime, do it in a way which does not, as I said, undermine the very character, the very ability of councils in terms of what they do well in, and put supports in place where they are required to ensure that you are getting the right training for councillors — something near and dear to us.

Next year there will be elections for local government, so how would you encourage and provide advice to prospective candidates? How would you support the transition in terms of the financial, I guess, sophistication, of councillors around cost attribution, et cetera? So we think there are a number of elements there more broadly

which we would subscribe to as general policy principles. But our comment is we are not quite sure that what is on the table from the Essential Services Commission in terms of its regulatory approach may necessarily achieve that, and that if it does achieve that, it is in a very heavy-handed, oversight sort of way. And it does risk, as I said, the integrity of councils as a tier of government. Like it or not, they are. I do not care what people say about what is in the state constitution. In practice on the ground councils are a level of government, and they have democratic representatives, so in terms of the reality let us put in place a regime which supports and does not detract from those key characteristics.

**Ms TIERNEY** — I would like to come at it from a different perspective, and that is in relation to community expectations and community sentiment. I think you would be aware that there is a significant amount of community sentiment that essentially says that rates have just been going up too much and it has been a burden on households and families. There is also a sentiment out there that there are certain things that councils spend ratepayers money on that they do not necessarily agree with. You will always have one-off situations where not everyone is playing by the rules, but I think there is more of a sense within the community that it is not just the odd council here and there, and that there is a bit more to it. In fact quite a few of the submissions that we have received also substantiate what we hear from people when we go around the traps.

I am interested in hearing from you, picking up on your point about continuous improvement and there always being areas to improve; and noting the points you have made about process, but leaving process to one side if I can for this question. What sort of line items in a council budget would you see as areas that do probably need more attention in terms of efficiencies? Of course it has been put to us — and again of course it is a populist thing — about the skyrocketing CEO salaries that have come to the fore, and I think there has been a fair bit in the media in relation to that particular issue. If you could, make a comment about that and any other line items in a practical sense that could be looked at.

**Dr HOLLOWS** — The CEO salaries is a curious one, because I think most would support the idea that there is a market when it comes to senior administrators, be it in local government, the health sector and elsewhere. Whilst I appreciate — and I have got my ratepayer's hat on — the fact that for an outsider some of the salaries may or may not seem excessive, you have to realise the quantum of the business which is being managed by the CEO of a typical metropolitan council: \$1 billion or whatever the figure is. It is pretty well a 24/7 job. You operate in a really interesting political environment where you do not have a government and opposition; you have got people of different political persuasions who may not be pulling together in the council chamber. And you have got a large organisation which is heavily orientated to staff. It is not for me to say yea or nay that those salaries are warranted, but in terms of what a market will dictate I would suggest that, you know, it probably does reflect, I guess, the multifaceted skills and capacities generally required of CEOs. If your question is leading to the performance of particular CEOs, that is a question for a multicouncillor group in terms of their delegated authority to, I guess, hire and fire a CEO and be consequential I suppose around performance.

In terms of what line items councils should and should not retain, I have the dubious — maybe a good honour —

I live in Whitehorse, where we have the highest rate increase across the state, and you know what, I am actually pleased because it has been spelt out to me quite clearly what is being provided with that rate increase. As I have may have mentioned to the committee previously, in terms of the provision made in that rate increase, which is around about 7.5 per cent to 7.6 per cent, for me personally it is well spent in terms of the facilities and the services provided. Again I am not in a position to put individual councils in the spotlight and to say, 'Oh, well, maybe they shouldn't do the environmental piece, maybe they shouldn't have a diversity officer, maybe they shouldn't be providing that service'. I think in all honesty that is a discussion the council needs to have with its community, and it comes back to my essential point about preserving and supporting the autonomy role of councils to make those decisions.

I draw to the point before. The data provided by the Essential Services Commission today states very clearly that over an eight-year period, based on the increase in rates from 2008 to 2014, if the proposed rate cut by the Essential Services Commission was put in place, it would have saved the ratepayer over eight years just over \$1200, or 43 cents a day. I put it to anyone in the community: are you prepared to pay that 43 cents a day or not? It comes essentially down to that. If the council and the community decides yes or no, that is fine; that is part of the democratic process. But I think it has to be put into perspective about what is really on the table here in terms of the so-called escalation in rates. Dare I say it — and I know I will be shouted down on this point, but



I will put it out there — rates, as indicated in the recent federal government's taxation review, are the most efficient and effective form of property taxation, as opposed to land tax and stamp duty, which has probably been increasing, I would imagine, at least twice the rate of municipal rates over the same period. From our perspective, you need to actually look at the whole picture fully in terms of the impost more broadly on those who pay property tax, not just municipal rates.

**The CHAIR** — I am conscious of the time period. We are on time. Daniel, do you have a question?

**Mr YOUNG** — I will if I may just ask one. I am interested in creating some dialogue around the difference between metro and regional councils. It is understood that you sort of want to go for a tiered system, where, as I understand it, it would have less of an impact on regional councils with their rates in raising that revenue. How do you balance or counter that argument with the fact that there are a lot of examples of regional people already paying more for rates than in metro areas? And how do you bring that down at the same time? You are sort of going in opposite directions with those two arguments.

**Dr HOLLOWS** — It is a complex issue to deal with. The challenge is that the way the federal model works in Australia is that financial assistance grants are meant to be the top-up to allow a rural council to provide a standardised level of service. That financial assistance grants model does not work effectively really, and the freeze that has occurred in the last couple of years has had a significant impact in rural Victoria. We understand some of the tensions in rural Victoria are about level of rating, but what we are talking about is a level of flexibility that is not provided with the model. I am not saying it is the government model; I am saying this is the ESC report to the government, and the government could decide on any model.

The requirement for flexibility in rural Victoria in terms of the way they rate, because their other sources of revenue are low — parking fines, zero; parking meters, zero. Any of those things that a City of Melbourne or Port Phillip or Yarra and so on have got — access to other fees and so on — are relatively limited, and it requires a sort of different mix in terms of their sources of revenue to achieve the outcomes. But what I would say is that in any model if you are too onerous with the administrative burden on rural councils to actually achieve, above a cap, approval from an ESC or whoever, then it is going to be a great challenge in terms of loss of service I think. That was the point I was really trying to make.

**Mr LEANE** — I take on board what you say about the history of some areas where councils have entered into areas that — your words are 'probably do not have the obligation to provide'. But I am going to put something to you, that some of your members cannot help themselves in buying into, even to this day, areas that they have no obligation to provide. If I can give you one example. One council has recently put on what they call a 'level crossing removing officer'. Now I appreciate that councils are very important stakeholders in the level crossing process, but, take my word for it, the level crossing authority has put on all sorts of expertise, and VicRoads has done this before as you know, PTV. I put it to you: would you be advising them? I do not begrudge anyone a job — I am the last — but I think that in this environment if councils are seriously looking at getting out of areas that obviously they do not have an obligation, would you advise not to start jumping into other areas?

**Mr SPENCE** — What I would say is that they need to be very clear in the priorities where they are putting their effort, and so that is an assessment of what community need is and then applying the resources to community need. I like to go back into history, but we do lose sight of the fact that home and community care came out of the City of South Melbourne. Maternal and child health came out of the City of Richmond and —

**Mr LEANE** — And they are all wonderful things.

**Mr SPENCE** — They are all wonderful things, but the point I make is that — and I am not saying that with the rail crossing issue — what we do not want to get with any model like this is driving the innovation out of a sector that has been very innovative. There is a balance in this, and applying resources to where need is is really the critical issue I think.

**Mr LEANE** — I agree with what you are saying. You do not have to agree, but I just put it to you that I think that sometimes your members just cannot help themselves.

**Mr SPENCE** — We are all a bit the same. The MAV, where I work, gets involved in all sorts of things because people would like us to help with it and they chew up resources. We try to manage the priorities of that, and it is not easy to do, and your constituency are looking for action on something. It is a hard ask.

**Dr HOLLOWS** — I just draw the committee's attention to the fact that sitting around this of course — and we only touch on it briefly — is the shared effort from both state and local government. Some would call it cost shifting, but I would like to see it more as there is a shared effort here. Both levels of government have a shared interest in the wellbeing of their community, but it is also about how that is supported, what is a fair division there. There is some interesting data tucked away in the Essential Services Commission report. But more importantly I know for the committee's attention that in the last fortnight Bass Coast shire — and Maribyrnong, but particularly Bass Coast shire — has provided on their public website through council some quite detailed costings in that space, because it will vary from council to council. The Essential Services Commission in a way say, 'Well, we can't quantify this'. I would beg to differ. I think there is enough data out there to suggest that individual councillors are able to quantify some of those factors there. Again, it is not code language that councils will necessarily not opt out unless the circumstances warrant that. But again, we need to take a balanced and informed approach here. Ultimately we are here in terms of preserving good use of money, public money, and getting good outcomes for community, and I think we need to at least provide for the situation where you set up a regulatory environment which supports that game plan.

**Ms DUNN** — I am interested in infrastructure quite specifically. I know that VAGO has performance measures that they audit local government on in relation to maintaining infrastructure and renewing infrastructure. Today we have heard a lot of commentary around the impact potentially on services, but I am interested in whether those likely impacts may lead to infrastructure as well, and whether perhaps as an adjunct to that we might see more councils looking towards their fees and charges as a way to make up a bit of the shortness in the pie.

**Mr SPENCE** — History will say that the first thing you cut when your revenue stream is constrained is infrastructure maintenance and renewal. That is what occurred in 1994, 1995, 1996. That is why the Kennett government did the report in 1997–98 to identify what had happened and what the gap was.

**Mr HARVEY-BEAVIS** — That is also well established in New South Wales, that that is really the easiest way.

**Mr SPENCE** — It is exactly the same thing. You can fall down the cracks in the footpath.

**Ms DUNN** — I have been on those roads.

**Mr SPENCE** — Which has a whole lot of unintended consequences, which are insurance costs go through the roof, accidents, issues grow. Infrastructure is an obvious knock-on. I would say in those councils that do have the capacity to raise fees and charges there will be I would suggest much more rigour in the way they approach that, much more cost recovery for services. There are about seven councils I think that still have their waste charges wrapped up in their rates, not as a separate charge. You are likely to see that moved out as a separate charge. It takes the pressure off the rate side. When I have talked about some structural adjustment, I think that is what you are likely to see: infrastructure down, fees and charges up, then a long-term look at services and what you want to be in.

**Mr HARVEY-BEAVIS** — It is probably fair to say that you would expect that in terms of those fees and charges there will be a bit of pressure coming back to the state government in relation to its constraints around those fees and charges as well. We are thinking about both statutory constraints, such as planning fees, but also, going back to HACC services for instance, the output funding price may be called into question or the allowable fees and charges in the HACC program may well need to be revisited as well.

**Mr SPENCE** — Under a model that we are likely to have, the concept as happened this year, where the state has basically given a little bit of an indexation but there is not the three-yearly adjustment to maternal and child health, that cannot happen. The state needs to meet its commitments in terms of its contribution to agreements it has with local government.

Can I just make one last comment. It is important to understand too what labour rate movements are doing nationally. The data that has just come out of the Department of Employment federally says that the average

enterprise agreements are currently for the private sector at 3 per cent at the moment and for the public sector at 3.7 per cent. If we assume that the councils are going to be at the average, you load that into a model where councils are major employers. In rural Victoria it could be 60 per cent of the budget. If the EBA is at 3.7 per cent, then the consequences of a 3 per cent cap is a disaster.

**Dr HOLLOWS** — The add-on there, if I can, Chair, on the data, again referring to the Essential Services Commission, the 3.05 per cent cap suggested by the Essential Services Commission is the high water mark, and the projection into the out years would suggest it will probably settle in about four or five years at around about 2.5 per cent.

**Mr RAMSAY** — Was there any government consultation on this political thought bubble when it was announced with you and your organisations?

**Mr SPENCE** — Only the phone call I got to tell me it was happening.

**The CHAIR** — I thank the three of you for your presentation. The secretariat will almost certainly be in touch on a whole range of things. This will not be the last discussion on this matter, because it is obviously a complex evolving area.

**Witnesses withdrew.**