



PARLIAMENT OF VICTORIA
Legislative Council
Environment and Planning Committee

**Second report into
rate capping policy**

Parliament of Victoria
Environment and Planning Committee

Ordered to be published

VICTORIAN GOVERNMENT PRINTER
June 2016

PP No 173, **Session** 2014-16
ISBN 978 1 925458 36 7 (print version)
978 1 925458 37 4 (PDF version)

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

Committee membership



Hon David Davis MLC
Chair
Southern Metropolitan



Ms Harriet Shing MLC
Deputy Chair
Eastern Victoria



Ms Melina Bath MLC
Eastern Victoria



Hon Richard Dalla-Riva MLC
Eastern Metropolitan



Ms Samantha Dunn MLC
Eastern Metropolitan



Mr Shaun Leane MLC
Eastern Metropolitan
until 1 May 2016



Hon Adem Somyurek MLC
South-Eastern Metropolitan



Ms Gayle Tierney MLC
Western Victoria
from 2 May 2016



Mr Daniel Young MLC
Northern Victoria

Participating Members



Mr Jeff Bourman MLC
Eastern Victoria



Ms Colleen Hartland MLC
Western Metropolitan



Mr James Purcell MLC
Western Victoria



Mr Simon Ramsay MLC
Western Victoria

Committee staff

Secretariat

Mr Keir Delaney, Secretary

Mr Anthony Walsh, Research and Legislation Officer

Council Committees office

Ms Annemarie Burt, Research Assistant

Ms Kim Martinow de Navarrete, Research Assistant

Ms Esma Poskovic, Research Assistant

Committee contact details

Address Environment and Planning Committee
Parliament of Victoria, Spring Street
EAST MELBOURNE, VIC 3002

Phone 61 3 8682 2869

Email epc@parliament.vic.gov.au

Web www.parliament.vic.gov.au/epc

This report is available at the Committee's website.

Contents

Preliminaries

| | |
|----------------------|-----|
| Committee functions | ii |
| Committee membership | iii |
| Committee staff | iv |
| Chair's foreword | vii |

| | | |
|----------|--|-----------|
| 1 | Overview | 1 |
| 2 | Terms of Reference and Inquiry process | 3 |
| 3 | Overview of rate capping in Victoria | 5 |
| 3.1 | First report into rate capping policy | 5 |
| 3.2 | Government action on rate capping since the first report | 6 |
| 3.2.1 | The Fair Go Rates System in the <i>Local Government Act 1989</i> | 6 |
| 3.2.2 | Minister sets the 2016–17 rate cap | 7 |
| 3.3 | Other developments | 8 |
| 3.3.1 | Councils apply for a rate cap variation | 9 |
| 4 | Key issues in the evidence received to date | 13 |
| 4.1 | Overview | 13 |
| 4.2 | Potential impacts of the rate cap | 13 |
| 4.2.1 | Statutory services | 13 |
| 4.2.2 | Non statutory services and infrastructure | 15 |
| 4.2.3 | State Emergency Service | 17 |
| 4.2.4 | Statutory fees | 21 |
| 4.3 | Council viability | 22 |
| 4.3.1 | Staffing and Enterprise Bargaining Agreements | 22 |
| 4.3.2 | Local government senior executive officers | 24 |
| 4.3.3 | Budget uncertainty | 25 |
| 4.4 | Rate cap variations | 27 |
| 4.4.1 | Timing | 27 |
| 4.4.2 | Application process | 29 |
| 4.4.3 | Local government feedback | 32 |
| 4.5 | Other concerns raised | 32 |
| 4.5.1 | Cost of Fair Go Rates System | 32 |
| 4.5.2 | Revaluation year | 33 |
| 4.5.3 | Local government debt | 34 |
| 4.5.4 | Local government election costs | 35 |
| 5 | Way forward | 37 |

Appendices

| | | |
|---|---|----|
| 1 | Submissions | 39 |
| 2 | Public hearings | 41 |
| 3 | Councils who lodged an intention to apply for a variation | 45 |
| 4 | State Emergency Service funding by local government (with one or more unit) | 47 |
| 5 | State Emergency Service funding by local government (with no units) | 49 |

Chair's foreword

I am pleased to present the Environment and Planning Committee's second report into the impact of the policy to cap local government rates at the CPI. This is an ongoing inquiry and the Committee will report every six months.

The first report was tabled in the Parliament on 8 December 2015. Since then the Government has announced a rate cap for 2016–17 of 2.5 per cent. However, rather than using the historical CPI figure calculated by the Australian Bureau of Statistics, the Minister has used the forward estimate calculated by the Victorian Department of Treasury and Finance (2.5 per cent) released in its December Financial Statement. This figure has since been revised to 2.25 per cent in the May state budget. Also the 2014–15 actual CPI was in fact 1.4 per cent and the 2015–16 Treasury forecast is 2 per cent.

However what is clear is that the inflation rate as reported by the ABS remains much lower than Treasury's forward estimates of future CPI movements. It is also clear that councils point to an impact on services and capital spending. Councils rightly pointed to very significant increases in state government taxes, including property taxes, far above the allowed rate cap. The land tax take, for example, will increase from 1 July this year by more than 28 per cent. Total state taxes have increased by 20.7 per cent over the last two budgets. In evidence some have called this double standard 'hypocritical.'

The Committee heard evidence that the Essential Services Commission (ESC) may be encouraging councils to increase debt, as opposed to raising rates through variation or cutting services and infrastructure. This carries risks for the future. Fiscally responsible councils should be applauded by the community, not encouraged by agencies to increase debt.

This Report also shows that the administrative arrangements for this policy are inconvenient and unnecessarily onerous for local government. Setting the cap annually in December presents challenges for local government. In 2015 the cap was announced three days before Christmas, and the notification to apply for a variation was required to be lodged by 31 January. This was at a time when most local governments did not have any meetings scheduled.

The variation process itself is cumbersome and the Committee heard significant evidence that this process is not working satisfactorily. The timeframe to apply for a variation has proved challenging and, in some cases, financially costly for local government. One council put the cost of preparing and submitting their application for a rate cap variation at \$250,000. The Committee finds in this Report that where councils have a reasonable case for seeking a rate increase above the cap they should not be prevented from doing so simply because the ESC has a costly and overly onerous administrative regime.

A number of country councils indicated that services they believe should be properly funded by the state government such as the State Emergency Service (VICSES) would not receive increased funding. It is clear that historic funding arrangements for the VICSES have varied significantly with ad hoc local arrangements. Many councils provide significant land and maintenance support for many local VICSES branches. It appears that the state government's rate capping policy has shone a light on the uncertain funding base for many local VICSES branches. Capped rates combined with reduced state government funding risks seeing council funding not keeping pace with the cost of providing traditional services to local communities.

The Committee heard that local government was of the view that a variation application would not be considered if they had capacity to borrow. Although the ESC denied this, the Committee has recommended the ESC clarify its advice on the responsible use of debt in a rate capping environment.

The other issue relates to budget uncertainty from year to year. At this stage it is uncertain whether the cap for 2017–18 will be wholly based on CPI, the formula recommended by the ESC, or some other calculation. The Committee heard that this makes it difficult for councils to develop long term financial plans, or enter into negotiations. For example many councils are negotiating enterprise bargaining agreements and they do not know how much money they will have after this year to commit to pay increases in future years.

The Committee heard evidence that the costs charged by the Victorian Electoral Commission to stage local government elections have increased by between 30 and 50 per cent compared to the 2012 elections. Obviously these costs are a significant expense for councils. The Committee will explore this issue further in a forthcoming report.

I want to thank the many submitters to the Committee either in written form or through appearance at hearings. I also wish to thank local government for responding to information requests from the Committee. The Committee itself has worked cooperatively over this reporting period and I place on record my thanks to my fellow Committee members and the Committee staff.



Hon David Davis MLC
Chair

Findings and Recommendations

3 Overview of rate capping in Victoria

FINDING 1: That the rate cap as set by the Minister is calculated on Consumer Price Index estimates from the Victorian Department of Treasury and Finance rather than historical data issued by the Australian Bureau of Statistics. 8

RECOMMENDATION 1: That both the Essential Services Commission’s advice to the Minister in relation to setting the rate cap and the Minister’s decision including reasons for setting the cap at a particular figure be published annually. 8

4 Key issues in the evidence received to date

FINDING 2: That in a rate capping environment, local governments may hold constant, withdraw or reduce funding to the State Emergency Service, with possible impacts on community safety. 21

FINDING 3: That under rate capping local governments lack operational capacity and budget certainty/flexibility to develop and implement long term financial plans or to budget for infrastructure or staff costs. 26

FINDING 4: That the Fair Go Rates System timeline, where the Minister announces the rate cap in December and councils then have until March to apply for a variation, has created administrative and budgetary challenges for local government. 29

RECOMMENDATION 2: That the Minister should announce the rate cap earlier than December. 29

FINDING 5: That local governments have indicated that the process to prepare an application for a variation to the rate cap is a deterrent and a significant financial and administrative challenge. Whilst the reported cost to apply varies, one council put it as high as \$250,000. 31

RECOMMENDATION 3: That the Essential Services Commission give support in particular to smaller rural councils who may wish to apply for a rate cap variation but lack the resources or staff to prepare an application. 31

RECOMMENDATION 4: That the Essential Services Commission consider feedback from councils and refine its guidelines for what is required as part of a rate cap variation application. 31

RECOMMENDATION 5: That the Essential Services Commission investigate the most effective and administratively simple way for rate cap variation applications to be submitted. Where a legitimate case can be made for a variation a council should not be blocked from applying by administrative hurdles. 32

RECOMMENDATION 6: That the Victorian Government provide certainty to local government as to whether the sector will need to cover the cost of the Fair Go Rates System, and if so, when that will occur and what the likely costs will be.33

RECOMMENDATION 7: That the Essential Services Commission clarify its advice to councils regarding the responsible use of debt.35

FINDING 6: That some councils have informed the Committee that the costs charged by the Victorian Electoral Commission to hold local government elections have increased significantly compared to previous elections.36

This is the second of an intended series of reports from the Legislative Council's Environment and Planning Committee on the Inquiry into Rate Capping Policy. The Committee will continue to gather evidence and report again in six months.

During this reporting period (February-May 2016) the Committee received a total of 34 submissions or supplementary submissions from a range of individuals, organisations and stakeholders (see Appendix 1), and conducted hearings with 32 individuals, organisations or stakeholder groups (see Appendix 2).

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-urban¹.

The policy to cap rates was a 2014 election commitment of the Victorian Government, which aimed to stop excessive local government rates increases and ensure decisions to increase rates were undertaken in a transparent and accountable manner.

The Local Government Amendment (Fair Go Rates) Bill 2015 was before Parliament at the time the Committee last reported. The Bill passed the Parliament on 26 November 2015 and received Royal Assent on 1 December 2015.

These amendments to the *Local Government Act 1989* set out: definitions of 'base average rate' and 'capped average rate'; the roles of the Minister and the Essential Services Commission (ESC) in the rate cap approval process; the ability of councils to apply for a variation to the rate cap; periodic review of the rate capping scheme; and a number of other provisions.²

In the Committee's previous report it was noted that the ESC had recommended the rate cap be calculated on the following basis:

| | | |
|--------------------------|--------------|---|
| | | 0.6 x rate of increase in CPI (based on DTF's forecast published in December each year) |
| | plus | 0.4 x rate of increase in WPI (based on DTF's forecast published in December each year) |
| Annual Rate Cap = | minus | efficiency factor (The efficiency factor will initially be set at zero in 2016-17 and increase by 0.05 percent a year. The ESC is to undertake an analysis to assess the appropriate long-term rate) |

Source: www.delwp.vic.gov.au/__data/assets/word_doc/0006/315960/Government-Response-to-ESC-Local-Government-Rates-Cappi

Note: CPI = Consumer Price Index, WPI = Wage Price Index

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

2 *Local Government Act 1989* – Part 8A. The Bill also amended the *Essential Services Commission Act 2001*.

On 22 December 2015 the Minister for Local Government, Hon Natalie Hutchins announced that 2016–17 local government rates increases would be capped at 2.5 per cent,³ which (at that time) was the CPI rate forecast for 2016–17 by the Victorian Department of Treasury and Finance (DTF).⁴

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 highlights the key issues raised in evidence to the Committee during this reporting period.
- Chapter Five highlights some issues that the Committee may explore in future reports.

Further discussion of these issues will be continued in subsequent reports.

3 Note the Department of Treasury and Finance have revised the CPI forecast for 2016–17 and it is now 2.25 per cent (*Victorian Budget 16/17, Budget Paper No. 5, 17*; budgetfiles201617.budget.vic.gov.au/2016-17+State+Budget+-+BP5+Statement+of+Finances.pdf).

4 ‘Council Rate Increases Capped To Inflation’ media release, The Hon Natalie Hutchins MP, Minister for Local Government, 22 December 2015 (www.premier.vic.gov.au/council-rate-increases-capped-to-inflation).

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.

The Committee tabled its first report into rate capping policy on 8 December 2015.

For this second phase of the Inquiry, the Committee once again sought consultation from the community. Advertisements inviting submissions were placed in *The Age* on 2 March 2016 and on the Committee's website. The call for submissions was further publicised through Parliament's Facebook and Twitter accounts. The Committee also wrote to 124 stakeholders inviting submissions or supplementary submissions. In response, the Committee received a total of 34 submissions or supplementary submissions (see Appendix 1).

The Committee conducted hearings with 32 individuals, organisations or stakeholder groups during this reporting period, with hearings held in Melbourne, Frankston, Ballarat and Bendigo (see Appendix 2). Of the 79 local councils, the Committee has now received oral evidence from 44.⁵ It has also received written submissions from 26 councils with a further three written submissions from coalitions of interface, peri-urban and rural councils. 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 notes the Terms of Reference require it to look at the outcome of the policy to cap rates on the viability of local government and its ability to provide services and deliver and/or maintain infrastructure. At the time of preparing this Report, the rate cap for 2016–17 had been announced and some councils had applied for approval for a higher rate increase. The result of these applications was not known. The rate cap does not commence until 1 July 2016. However, a number of stakeholders pointed to possible early impacts of the new rate capping scheme. Others speculated on forthcoming impacts. This Report includes those views on the outcomes, as far as currently apparent, and potential outcomes of the policy. This aspect of the Terms of Reference will be examined in future reports from the Committee, as the Fair Go Rates System is implemented and more evidence comes to light.

⁵ This is an ongoing inquiry which commenced in May 2015.

3

Overview of rate capping in Victoria

3.1 First report into rate capping policy

The Committee's first report (Report 1) was tabled on 8 December 2015. Report 1 contains background information which is not repeated in full in this current Report, including:

- What are council rates and charges
- Arguments for and against rate capping
- A history of rate capping in Victoria
- A brief outline of local government in Victoria: their differing sizes and populations and differing abilities to raise revenue.

Report 1 also sets out the evidence received (to that point) on a number of key issues, including:

- A single cap for all councils versus a variable cap
- Rates and the cost of living
- Capping rates at the Consumer Price Index (CPI)
- The variation application process
- Statutory fees and local government services
- Anticipated impacts of the cap on capital works and asset maintenance
- Community expectations about council services.

The Report made four recommendations to Government. These were:

RECOMMENDATION 1: That the Victorian Government re-establish the country roads and bridges program which provided \$1 million per year to each of the 40 rural councils that qualified.⁶

RECOMMENDATION 2: That detailed data on local government rates by municipality be published annually.⁷

RECOMMENDATION 3: That as part of its monitoring role under the proposed rate capping regime, the Essential Services Commission also monitor and report annually on levels of debt held by local government.⁸

6 Standing Committee on Environment and Planning, *First report into rate capping policy*, December 2015, 10.

7 Standing Committee on Environment and Planning, *First report into rate capping policy*, December 2015, 26.

8 Standing Committee on Environment and Planning, *First report into rate capping policy*, December 2015, 28.

RECOMMENDATION 4: That when the rate capping policy begins, councils provide information to ratepayers explaining what is subject to the cap, what is not subject to the cap and explaining each component on the rates notice including components collected by local government on behalf of the State Government. Some administrative support to implement this recommendation should be provided by the State Government.⁹

Legislative Council Standing Orders require the Government's response to these recommendations to be tabled in Parliament on or before 8 June 2016. It was not available to the Committee at the time of preparing this current Report. The Government response will be published on the Committee's website alongside Report 1 at: www.parliament.vic.gov.au/epc/article/2644

3.2 Government action on rate capping since the first report

As noted in Chapter 1, legislation giving effect to the Fair Go Rates System passed the Legislative Assembly on 12 November 2015, and passed the Legislative Council on 26 November 2015. It received Royal Assent on 1 December 2015, and the Act commenced operation on 2 December 2015. The main aspects of the legislation are outlined below.

3.2.1 The Fair Go Rates System in the *Local Government Act 1989*

The new Part 8A of the *Local Government Act 1989* (hereafter 'the Act') contains the main elements of the rate cap system. The purposes of the system (s. 185A) are given as:

- a. to promote the long term interests of ratepayers and the community in relation to sustainable outcomes in the delivery of services and critical infrastructure; and
- b. to ensure that a Council has the financial capacity to perform its duties and functions and exercise its powers.¹⁰

Section 185D allows the Minister to set the average rate cap by Gazetted Order, and further requires the Minister to request advice from the ESC on the cap and the Minister to have regard to that advice. The Order may be for all councils, a class of councils or a specified council.¹¹ In December 2015, the Minister determined to set a rate cap applicable to all councils (see 3.2.2 below).

Section 185E permits councils to apply for a variation to the rate cap for one or more financial years (up to a maximum of four years) and prescribes the timing and specifications of such an application. The ESC is also given broad powers to specify and make guidelines on the manner, form and content of applications. Section 185E(6) empowers the ESC to approve, by special Order, an application

⁹ Standing Committee on Environment and Planning, *First report into rate capping policy*, December 2015, 39.

¹⁰ *Local Government Act 1989*, s. 185A.

¹¹ *Local Government Act 1989*, s. 185D.

from a council at the requested higher cap or at another cap determined by the ESC (which cannot be higher than the cap applied for by the council). In other words, while the Minister sets the cap, the ESC determines whether a council can exceed it.

Section 185F provides that councils must comply with a general Order and any special Order that applies regarding the rate cap.¹²

Section 185G stipulates that a review of Part 8A must be completed by 31 December 2021 and that further reviews are to occur every four years following the initial review.¹³

3.2.2 Minister sets the 2016–17 rate cap

On 7 December 2015, the ESC presented the Minister with two recommendations for the 2016–17 cap — either 2.5 per cent¹⁴ (being based on CPI only) or 2.8 per cent (calculated using the methodology the ESC recommended in its September 2015 report: *A blueprint for change: Local Government Rate Capping and Variation Review*).¹⁵ The ESC also estimated what the cap would be in 2017–18 and 2018–19 using the methodology it proposed.¹⁶

On 11 December 2015, the Acting Executive Director of Local Government Victoria recommended that the Minister approve the cap for 2016–17 at 2.8 per cent in line with the recommendation from the ESC.¹⁷

On 14 December 2015, the Minister approved the cap at 2.5 per cent, which (at that time) was the CPI forecast for 2016–17 by DTF.¹⁸ The Minister’s reasoning for setting the cap at CPI, rather than using the methodology developed by the ESC, was that this was in accordance with the Government’s election commitment.¹⁹

¹² *Local Government Act 1989*, s. 185F.

¹³ *Local Government Act 1989*, s. 185G.

¹⁴ Note the Department of Treasury and Finance have revised the CPI forecast for 2016–17 and it is now 2.25 per cent (*Victorian Budget 16/17, Budget Paper No. 5, 17*; budgetfiles201617.budget.vic.gov.au/2016-17+State+Budget+-+BP5+Statement+of+Finances.pdf).

¹⁵ Essential Services Commission, *A Blueprint for Change, Local Government Rate Capping & Variation Framework Review — Final Report*, September 2015. (www.esc.vic.gov.au/getattachment/d5564aea-ccf7-4334-b291-195bcc259089/Final-Report-A-blueprint-for-change-local-governme.pdf).

¹⁶ Department of Environment, Land, Water and Planning, March 2016 advice to the Minister for Local Government (www.parliament.vic.gov.au/images/stories/committees/SCEP/Rate_Capping/2nd_Report/Transcripts/Combined_response_QON-signatures_removed.pdf).

¹⁷ Department of Environment, Land, Water and Planning, March 2016 advice to the Minister for Local Government (www.parliament.vic.gov.au/images/stories/committees/SCEP/Rate_Capping/2nd_Report/Transcripts/Combined_response_QON-signatures_removed.pdf).

¹⁸ Department of Environment, Land, Water and Planning, March 2016 advice to the Minister for Local Government (www.parliament.vic.gov.au/images/stories/committees/SCEP/Rate_Capping/2nd_Report/Transcripts/Combined_response_QON-signatures_removed.pdf).

¹⁹ ‘Council Rate Increases Capped To Inflation’, Media Release, The Hon Natalie Hutchins MP, Minister for Local Government, 22 December 2015 (www.premier.vic.gov.au/council-rate-increases-capped-to-inflation/).

On 22 December 2015 the cap was Gazetted²⁰ and the Minister issued a media release advising this decision.²¹ At hearings with the Department of Environment, Land, Water and Planning (DELWP) on 9 March 2016²² and the ESC on 22 March 2016,²³ the Committee requested a copy of the advice given to the Minister in relation to setting the rate cap for 2016–17. On 23 March 2016 the Minister announced that, in the interests of transparency and accountability, the ESC would thereafter publish its rate cap recommendation on an annual basis.²⁴

The Committee notes the Minister has used the CPI forecast of DTF to set the cap, and not the figure produced by the Australian Bureau of Statistics (ABS). The Committee found in Report 1 that a rate capping system based on CPI must involve ABS historical data.²⁵ The Committee notes that for the year 2015–16 (up to the March quarter) the ABS reports that the Melbourne CPI figure was 1.7 per cent.²⁶

FINDING 1: That the rate cap as set by the Minister is calculated on Consumer Price Index estimates from the Victorian Department of Treasury and Finance rather than historical data issued by the Australian Bureau of Statistics.

RECOMMENDATION 1: That both the Essential Services Commission’s advice to the Minister in relation to setting the rate cap and the Minister’s decision including reasons for setting the cap at a particular figure be published annually.

3.3 Other developments

Following the Minister’s announcement of the rate cap in December 2015 the main public developments have related to the process through which councils can apply to the ESC for a variation to the cap. This was a major theme in the evidence received and is discussed in Chapter 4 of this Report.

20 *Victorian Government Gazette*, No. S 429, 22 December 2015 (www.gazette.vic.gov.au/gazette/Gazettes2015/GG2015S429.pdf).

21 ‘Council Rate Increases Capped To Inflation’, Media Release, The Hon Natalie Hutchins MP, Minister for Local Government, 22 December 2015 (www.premier.vic.gov.au/council-rate-increases-capped-to-inflation/).

22 Department of Environment, Land, Water and Planning, *Transcript of Evidence*, 9 March 2016, 18.

23 Essential Services Commission, *Transcript of Evidence*, 22 March 2016, 13.

24 ‘ESC Rate Cap Recommendations to Published Every Year’, Media Release, The Hon Natalie Hutchins MP, Minister for Local Government, 23 March 2016 (www.premier.vic.gov.au/esc-rate-cap-recommendations-to-be-published-every-year/).

25 Standing Committee on Environment and Planning, *First report into rate capping policy*, December 2015, 25.

26 Australian Bureau of Statistics, *Consumer Price Index, March 2016* (www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6401.0Main%20Features3Mar%202016?opendocument&tabname=Summary&prodno=6401.0&issue=Mar%202016&num=&view=).

3.3.1 Councils apply for a rate cap variation

On 11 December 2015, the ESC published guidance material and information requirements for councils on its website. This included further information on how councils should apply for a higher cap, an application cover sheet and an Excel spreadsheet template for councils to fill in if seeking a higher cap.²⁷

The ESC set a deadline of 31 January 2016 for councils to notify of any intention to apply for a higher cap. Notification of intention is not required under the Act, however, as stated above, the Act permits the ESC to specify the form of applications.²⁸ In advice to councils published on its website the ESC stated that early notification would ‘help to ensure that the Commission is adequately resourced to assess each application in a timely manner.’²⁹

On 2 February 2016, the ESC announced that 21 of the 79 councils had notified it of their intention to apply for a rate increase above the cap set by the Minister.³⁰ These councils are listed in Appendix 3. Of these 21, only ten subsequently lodged an application, and as the City of Greater Geelong later withdrew, only nine applications from councils went ahead.³¹

Table 3.1 below identifies those ten councils, the increase above the cap that was sought, and the dollar value of the increase (as calculated by the ESC). In the first year of the system councils could seek a higher rate cap for the 2016–17 financial year only; in future years councils can apply for a maximum of four years.

-
- 27 Essential Services Commission, *The Fair Go Rates System: Guidance for Councils (2016–17)*, December 2015 ([www.esc.vic.gov.au/getattachment/534942c3-6370-461e-b7e1-11e2e4692a96/The-fair-go-rates-system-guidance-for-Councils-\(20.pdf](http://www.esc.vic.gov.au/getattachment/534942c3-6370-461e-b7e1-11e2e4692a96/The-fair-go-rates-system-guidance-for-Councils-(20.pdf)).
- 28 *Local Government Act 1989*, s. 185E(5).
- 29 Essential Services Commission, *Implementing the Fair Go Rates System*, January 2016 (www.esc.vic.gov.au/getattachment/4a85d03e-f18e-4169-9c2f-f9904c30318c/Implementing-the-fair-go-rates-system-newsletter-2.pdf).
- 30 ‘Councils intending to apply for a higher rate cap’, Media Release, Essential Services Commission, 2 February 2016 (www.esc.vic.gov.au/getattachment/d2ab0511-5605-4023-9295-3cf6c580d412/Councils-intending-to-apply-for-a-higher-rate-cap.aspx).
- 31 City of Greater Geelong, letter withdrawing variation application, 4 May 2016 (www.esc.vic.gov.au/getattachment/4470ff7b-46a4-4d00-adfc-2948fb626b18/formal-notification.pdf).

Table 3.1 Councils seeking a higher rate cap in 2016–17

| Council | Higher cap being sought (%) | Increase above the Ministerial cap of 2.5% being sought (%) | Dollar value of increase above the cap (\$) |
|------------------------------|-----------------------------|---|---|
| Ballarat City Council | 3.70 | 1.20 | 1 033 322 |
| Buloke Shire Council | 3.05 | 0.55 | 59 769 |
| Casey City Council | 3.47 | 0.97 | 1 604 756 |
| Greater Geelong City Council | 3.50 | 1.00 | 1 600 000 |
| Horsham Rural City Council | 3.50 | 1.00 | 210 000 |
| Moorabool Shire Council | 3.50 | 1.00 | 259 000 |
| Murrindindi Shire Council | 5.40 | 2.90 | 451 807 |
| Pyrenees Shire Council | 3.83 | 1.33 | 97 970 |
| Towong Shire Council | 6.34 | 3.84 | 242 000 |
| Wyndham City Council | 4.50 | 2.00 | 3 000 000 |

* Current as at time of publication. Note Geelong withdrew its application on 4 May 2016.

Table 3.1 shows that Towong Shire, located in the north-east of the state, sought the largest percentage increase (above the Minister's rate cap) of the ten councils. However, as local government areas differ considerably in terms of population, the increase sought by Towong does not equate to the largest dollar value increase above the cap. If approved, Towong would receive an additional \$242,000 more in rates. In contrast, the rapidly growing interface council of Wyndham City sought an increase of 2 per cent above the Minister's cap which would deliver it an additional \$3 million were the application to be approved.

Table 3.2 below shows that for the nine councils who have proceeded with an application, the need to provide and maintain infrastructure was one of the main reasons given.

The ESC has confirmed it will decide on the applications within two months of receipt. It expects to make all decisions by 31 May 2016. At the time of preparing this Report (May 2016) no decisions had been published. For further discussion of the rate cap variation process see Chapter 4 of this Report.

Table 3.2 Why councils applied for a higher rate cap for 2016–17

| Council | Main reason(s) for seeking higher rate cap |
|----------------------------|---|
| Ballarat City Council | '...there are two parts to the Ballarat City Council's application for a rate cap variation. The first relates to infrastructure funding, second relates to Council Developers Contribution Scheme.' |
| Buloke Shire Council | 'The variation is purely to enable Council to sustain its existing service levels, which are much reduced on the services enjoyed by its community as recently as two years ago. This will continue to deliver Council a surplus in order to repay its borrowings and to provide Council with working capital to remain financially sustainable.' |
| Casey City Council | <p>'To support the provision of much needed infrastructure in Casey's rapidly growing community, without compromising council's ability to continue to provide the current range of services our community has come to rely upon and values highly.'</p> <p>'With a rapid growth forecast, a long list of new and enhanced services and infrastructure is required to meet the growth needs of this large and growing community.'... 'New or expanded services required by the growing community need new community centres, kindergartens, sports fields and playgrounds.'</p> <p>'Council relies upon rates to fund the up-front capital costs of the infrastructure required to service Casey's growing community. The rates available for Capital Works will be insufficient for 2016–17 and beyond if this rate cap variation application is unsuccessful, with current year and future Capital Works Projects no longer able to proceed.'</p> |
| Horsham Rural City Council | <p>'a growing gap between the renewal spending required to maintain our existing assets and the available funding for that purpose.'</p> <p>'Council is of the strong opinion that this strategy is both necessary and successful in dealing with this issue and wishes to continue with this into the future without the need to acquire further debt or to cut other services to meet this need.'</p> |
| Moorabool Shire Council | <p>'The key reasons why Council is seeking a higher cap are:</p> <ol style="list-style-type: none"> 1. To improve its long term financial sustainability, 2. To address its Asset Renewal Gap, 3. To enable additional investment in New and Upgrade Assets for the benefit of the Community.' |
| Murrindindi Shire Council | '[Council] faces a unique set of circumstances arising from the unintended consequences of reconstruction efforts which followed the 2009 Bushfires. In addition to having a reduced rate base following the disaster, the Council was gifted \$33 million worth of new or expanded assets following the reconstruction effort. The ongoing cost to Council of operating, maintaining and renewing these assets is significant, representing an additional \$1.76 million per annum.' |
| Pyrenees Shire Council | 'The basis behind the higher cap submission is to use the additional funds to increase the spending on road infrastructure asset renewal. ... in particular Sealed Surfaces.' |
| Towong Shire Council | 'The purpose of the higher cap is to enable Council to continue to provide day-to-day community services (such as kindergartens, libraries, swimming pools, maternal and child health, etc) and infrastructure maintenance and renewal at the modest levels required by its residents and ratepayers.' |
| Wyndham City Council | 'Wyndham City's decision to apply for a rate cap increase for 2016–17 is in response to clearly articulated community views and expectations requesting that Council manage population growth in an orderly manner and the enormous infrastructure challenge that comes from being Victoria's fastest or second fastest growing municipality for some years.' |

Source: Extracted from council applications to the Essential Services Commission (www.esc.vic.gov.au/local-government/fair-go-rates-system/publications).

4 Key issues in the evidence received to date

4.1 Overview

The Committee again received evidence about the introduction of rate capping from a number of metropolitan, interface, rural/regional and peri-urban councils. Evidence was also taken from a small number of ratepayers groups. The Committee also heard from the State Emergency Service (VICSES) about how the rate cap may affect them.

Many of the issues raised by local government during this reporting period echoed the concerns discussed in Report 1. As the rate cap does not commence until 1 July 2016, there is still uncertainty about how the cap will impact the provision of services and infrastructure by local government. Any issues may not appear immediately, but may become more apparent as the Inquiry progresses and will be covered in future reports.

4.2 Potential impacts of the rate cap

4.2.1 Statutory services

Many services provided by local government are required by law.³² The cost of providing these services is usually shared between state and local governments. However, the Committee heard evidence that over time state government funding has either declined or been ‘frozen’, which means local governments have to contribute more to maintain the service. The Committee heard that in the past this shortfall in state government funding has usually been covered by rates revenue. Given the cap has limited rate increases in the 2016–17 financial year to 2.5 per cent, many councils are concerned they will not be able to maintain funding for services at existing levels without additional financial input from the state government.

Local government noted that it had limited discretion to reduce the number or level of services currently offered, given they are required under law to provide them. Darebin City Council noted that 21 per cent of its net costs relate to such services.

³² Examples include emergency management services under the *Emergency Management Act 1986*, food safety under the *Food Act 1984* and public health planning under the *Public Health and Wellbeing Act 2008*. See Standing Committee on Environment and Planning, *First report into rate capping policy*, December 2015.

... we will need to review the levels of service that we deliver to the community while still meeting our legislative requirements and the mandated services that we are required to deliver. Those legislative responsibilities and mandated services in our case are approximately 21 per cent of our net costs.³³

As noted above, in Report 1 local government advised the Committee that state government funding for these services had not increased at the same rate as the cost of providing them. This effectively shifted responsibility for the service to local government. Local government raised this issue again during this reporting period.

For maternal and child health we are now a year and a half out of whack in terms of the true cost alignments for the delivery of that service. There was no escalator last year. We may get an escalator this year, but getting back to the 50-50 agreement is important. For school crossing supervisors the agreement is 50-50. The current the arrangement is 18 per cent from the state, not 50 per cent. SES is a mess in terms of its funding structures, and I can go on. There are a whole lot of others.³⁴

You have also got the other bits about the lollipop ladies. It used to be a 50 50 deal. The state government said, 'Oh, no. Now we'll only give you 30 per cent'. So now it is 70 30. We have got the libraries: it used to be 50 50; it is now 80 20. You cannot keep imposing things like rate capping on us and not be doing it yourselves. You guys are throwing these things at us. You are saying, 'Here is rate capping. By the way, you also need to be paying 70 per cent of the lollipop ladies. You need to be paying 80 per cent of the libraries'. It just does not balance.³⁵

One written submission suggested that this issue could be resolved if an agreement was in place providing permanent funding, with annual increases, which covered the actual cost of providing the services:

Cost Shifting: from federal and state governments to local governments must stop unless permanent funding is shifted with the responsibility. These funding's must be increased each year by the rate capping limit. It is absolutely not rational to cap rates and yet allow cost shifting to local government without corresponding funding.³⁶

Some councils referred to historical funding agreements, such as state government assistance with building kindergartens. Such assistance is no longer provided, but given increased costs to renew or provide infrastructure, the Committee anticipates that a return to this type of funding arrangement, especially under a rate capping environment, would be welcomed by local government.

If we go back historically, probably before you gentlemen were even in Parliament, when we used to build kinders, it used to be a 50 50 deal. The state government used to put in 50 per cent of the money for the building costs. Back in the days when it was \$60 000 to build a kinder, the state government would put in \$30 000. Now we are

33 Gavin Cator, Darebin City Council, *Transcript of Evidence*, 12 April 2016, 6.

34 Rob Spence, Municipal Association of Victoria, *Transcript of Evidence*, 9 March 2016, 4.

35 Cr Tony Holland, Knox City Council, *Transcript of Evidence*, 5 April 2016, 18.

36 Submission 48, Joe Lenzo.

looking at building these hubs that may cost us close to \$16 million or \$17 million, and we are not getting any help. Not only are we not getting any help but you are putting in this rate capping environment that is actually killing us.³⁷

4.2.2 Non statutory services and infrastructure

Local governments offer a wide range of programs and services, not all of which are required under law. For example, the Committee received a submission from Youth Advisory Council Victoria (YACVic) saying that the rate cap may impact on services provided to young people. Youth services help young people engage in the community, and local government is ideally placed to deliver these services. However, YACVic expressed its concern that in the rate capping environment, local government may reduce funding or withdraw from services that are important to young people but not required under legislation.

Local governments fund, plan, coordinate and deliver a wide range of programs and services for young people and their families. In particular, local government is the backbone of generalist youth service delivery in Victoria. Very few other services have local government's capacity to work with large numbers of young people in a welcoming environment with a focus on preventing problems (or addressing them early) and building young people's skills, leadership and community connections. Local governments also play a vital role in bringing together the diverse services that work with young people, to coordinate service delivery to meet local needs. Many services and schools would struggle to work effectively together without the relationship-building work done by local government youth services.³⁸

Despite the unique nature of local government youth service delivery and its great importance to the community, it might well be deemed a 'non-core' service a time of limited resourcing.³⁹

Some councils advised the Committee they were committed to maintaining existing levels and spread of services, however they were looking for efficiencies.

In the first instance for the City of Port Phillip our commitment is to maintain service outcomes. What that leads to is, first and foremost, reviewing the service model rather than reviewing the service itself. There may, for example, in any service be a more cost effective way of delivering the same or a better outcome to the community, so we have a rolling program of service reviews to go through the array of services that we provide to assess that and make any changes, and community consultation is always a part of that equation. We do not at this point in time envisage completely dropping out of particular lines of service delivery.⁴⁰

In Report 1 the Committee recommended the re-establishment of the country roads and bridges program.⁴¹ During this reporting period the Committee heard that road infrastructure was a significant cost, especially for small rural councils, and that the loss of this program would impact on the ability of local government to renew this infrastructure.

³⁷ Cr Tony Holland, Knox City Council, *Transcript of Evidence*, 5 April 2016, 17-18.

³⁸ Submission 63, Youth Affairs Council Victoria.

³⁹ Submission 63, Youth Affairs Council Victoria.

⁴⁰ Tracey Slatter, City of Port Phillip, *Transcript of Evidence*, 3 May 2016, 11.

⁴¹ Standing Committee on Environment and Planning, *First report into rate capping policy*, December 2015, 10.

The largest part of infrastructure spend of course, particularly for rural councils, is related to roads and bridges particularly.⁴²

Other programs at risk of underinvestment will include the replacement of our bridges. ... The cost per bridge can be between \$250 000 and \$1 million. The loss of the country roads and bridges program that was cut by the state government will further impact on rural councils to be able to provide replacement of their bridges.⁴³

The loss of the country roads and bridges program, which was introduced by the previous state government, was a significant loss to our council. It went quite some way to addressing our infrastructure gap.⁴⁴

As discussed in Report 1, local government suggested that the cap may mean introducing ‘user pays’ for services. The Shire of Campaspe for example noted that swimming pools in larger centres come close to breaking even, while those in smaller towns operate at a loss. Many users of these community facilities may not be able to afford the actual cost, and passing costs to the user may result in a decline in patronage (and in this case, less healthy communities).

We are undergoing an analysis at the moment of our pools, so people may have seen press on that. We know that our larger centres and the pools in the larger centres come close to breaking even in terms of the amount people pay versus the cost per visit. It is the small locations — we have four small towns with outdoor pools — where there is an astronomical difference in terms of what the user pays fee is and the cost per visit. So we actually do have a discussion paper open at the moment with the community to look at options to better service the pools, or what we should do there in terms of user pays.⁴⁵

Both local government and their peak bodies also suggested that the most likely outcome of rate capping will be a decline in infrastructure maintenance and renewal. As discussed in Report 1, this was witnessed the last time rate capping was introduced in Victoria.

... so we will see a replica of what has happened in VicRoads. When VicRoads had significant cuts out of it, it just throttled back on the spend, and it is reflected in the quality of the infrastructure around the state. You will see the same thing happening in local government, I think, as the first step.⁴⁶

Going forward in the capital works, it is the new capital works that will be put off mainly, and we will basically concentrate on renewals to maintain those buildings, to keep them from falling down. We will be trying to maintain what we have got rather than trying to expand.⁴⁷

Although many councils have suggested that rate capping will lead to an infrastructure backlog, one witness cited a PricewaterhouseCoopers (PwC) report from 2006 which suggested local government in all Australian jurisdictions

42 Graeme Emonson, Department of Environment, Land, Water and Planning, *Transcript of Evidence*, 9 March 2016, 19.

43 Lucy Roffey, Mount Alexander Shire, *Transcript of Evidence*, 29 April 2016, 4.

44 Jim Nolan, Pyrenees Shire Council, *Transcript of Evidence*, 28 April 2016, 15.

45 Diane Hood, Shire of Campaspe, *Transcript of Evidence*, 29 April 2016, 18.

46 Rob Spence, Municipal Association of Victoria, *Transcript of Evidence*, 9 March 2016, 11.

47 Cr James Dooley, Frankston City Council, *Transcript of Evidence*, 5 April 2016, 7.

was in a similar position (at that time), regardless of whether rates were capped. The Committee notes that this report is ten years old and the situation may have changed.

The PricewaterhouseCoopers (2006) *National Financial Sustainability Study of Local Government* found that not only was a large number of local councils in all Australian local government jurisdictions financially unsustainable in the long run, but that most councils confronted a massive local infrastructure backlog, regardless of the rate-setting regime in each state. Moreover, Byrnes, Dollery, Crase and Simmons (2008), Dollery, Byrnes and Crase (2007), and others, have demonstrated that the magnitude of this backlog is so substantial that it is now beyond the present capacity of any Australian local government system to remedy without outside financial intervention.⁴⁸

4.2.3 State Emergency Service

Victoria's State Emergency Service (VICSES) is a volunteer based emergency service. It has a wide range of roles including planning for and responding to floods, severe storms, earthquakes, and tsunamis.

It also has a role in search and rescue (including road rescue), and provides support and advice to local government in relation to the *Emergency Management Act 1986*.

In 2014–15 VICSES:

- responded to a total of 22,673 incidents across the State
- had about 5000 volunteers and 150 paid members⁴⁹
- consisted of 142 VICSES units across Victoria, located in 72 municipalities and one unincorporated area (Falls Creek).⁵⁰

VICSES units are categorised as small, medium and large based on the number of members and the number of anticipated incidents they will respond to. These categories are then used to allocate funding, with funding increasing as the unit size increases.⁵¹ Given there are 142 VICSES units, and only 79 municipalities, many councils have multiple units within their boundaries. VICSES advised the Committee that following the local government amalgamation in the 1990s, units remained where they were established and were not redistributed. This means that some units service other municipalities and these municipalities may not contribute to VICSES's funding.

There are units that reside in a municipality but service other municipalities. That is a historic fact of where the units were established and, of course, when amalgamations occurred in some cases that just did not sit equally with a unit in each municipality. Some of those municipalities that are serviced by our units, there are

⁴⁸ Submission 48, Joe Lenzo.

⁴⁹ Stephen Griffin, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 2.

⁵⁰ Note as the rate cap does not apply to unincorporated areas, the unit in Falls Creek will not be included in future discussion or statistics in this Report.

⁵¹ Stephen Griffin, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 6.

no contributions from some, and in some cases there are contributions back into the unit. So it is not a uniform approach. Of the 142 units, I would have to say there are 142 ways of funding the SES units. That is why this review needs to occur; to get some consistency and continuity over the way this service actually is funded to support the service that we require as a community.⁵²

In evidence to the Committee VICSES advised that their funding was complex and composed of funds received from state and local governments, corporate sponsors and private donations. Currently funding is based on a proposed agreement between state and local governments that dates back to 1988. This proposed agreement, which was never signed, stated that in addition to matching state funding, local government would also supply and maintain land and buildings.

Our funding is quite complex, in that it has an appropriation from the state government but also has a contribution made by various local governments. The local governments have traditionally made a contribution. It goes back to 1988 when an agreement, which was not signed, between local government and the state government projected that local government would supply land, buildings and maintain that land and those buildings, and at the time would also match the state government contribution that was made directly to the units.⁵³

VICSES provided the Committee with a copy of this proposed agreement. The Committee notes that this dates back to before the council amalgamations in the 1990s, at a time when there was predominantly one unit per municipality. Since the local government amalgamations, some councils have up to eight units while others may not have any. This means that although the entire state receives the benefit of VICSES, the funding burden does not fall evenly across local government (see Appendices 4 and 5 for the current state and local government funding provided to VICSES). There are currently eight municipalities without a unit, which means they would be serviced by a unit from a neighbouring municipality. Although they do not have a unit, these councils generally provide assistance to a neighbouring VICSES unit (see Appendix 5). The Committee notes that as the agreement was never formalised, it is unclear whether local government agreed with the funding arrangement proposed. Further investigation of this point is required.

In this Inquiry to date, one of the themes coming out of evidence from local government is that they do not consider funding the ongoing operation of VICSES to be a core council function. As such, there has been speculation that if local government were to withdraw from non-core services as a cost saving measure under rate capping, this may be an area that they cease to fund. The state government would then come under pressure to increase its support for VICSES.

There is a lot of talk about cutting school crossing programs, stopping funding SES — Wellington are out on SES. There are a few councils who have pulled out on SES. Campaspe is out on SES.⁵⁴

52 Stephen Griffin, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 10. Mr Griffin was referring to a service review currently being undertaken into the structure and operations of VICSES.

53 Stephen Griffin, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 2.

54 Rob Spence, Municipal Association of Victoria, *Transcript of Evidence*, 4 August 2015, 4.

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.⁵⁵

... in the last four years because of responses to royal commissions et cetera we have increased our expenditure in emergency management by \$200 000 a year — that is around fire breaks and a whole range of things. So we wanted to have a discussion in the context of rate capping around the SES as we funded six of them. We immediately received some significant push back in relation to that issue, but it is a discussion that needs to be had ...⁵⁶

Even though the proposed funding agreement was never signed, VICSES advised the Committee that it uses this to predict its annual revenue. It advised the Committee that even before the introduction of rate capping, contributions from local government were not matching the levels it had anticipated (based on state government funding). Further, some local governments were expecting VICSES units to fund the maintenance and repair of their facilities themselves.

... local government now saying to us quite clearly that they are going to pull back from the matching funding, but also the fact that they are not going to maintain or repair or in fact contribute to the renewal of the various units around the state.⁵⁷

There are various ways to look at state and local government funding of VICSES. There is some evidence that local government support for VICSES is already declining regardless of the Fair Go Rates System. For example in 2012–13 total funds from local governments (with a VICSES unit) to VICSES comprised 84 per cent of funds received from the state government. In 2014–15 it was 75 per cent.⁵⁸ In addition some councils are leaving maintenance and repair of buildings to VICSES units. This means VICSES units have to pay for maintenance as well as electricity, gas, outgoings and utilities and contribute to the equipment they require.

Although funding for VICSES is allocated by unit and unit size, it is useful for the purposes of this discussion to compare funding on an average per council basis. Based on data provided by VICSES,⁵⁹ the state government gave a total of

⁵⁵ Rob Spence, Municipal Association of Victoria, *Transcripts of Evidence*, 9 March 2016, 18.

⁵⁶ David Morcom, Wellington Shire Council, *Transcript of Evidence*, 30 June 2015, 7.

⁵⁷ Stephen Griffin, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 2.

⁵⁸ Stephen Griffin, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 5.

⁵⁹ This data related to financial assistance only, and did not factor in a value for other assistance provided by local government such as rent or maintenance.

\$1,777,402⁶⁰ to VICSES in 2014–15,⁶¹ an average of \$22,498 per local government area.⁶² For this same period local government contributed \$1,443,104⁶³ in total, which is an average of \$18,267 per local government area.

The Committee notes local government funding of VICSES is not even across the sector. For example the largest contribution from a local government in 2014–15 was over \$50,000, and at the other end of the spectrum the smallest contribution was \$2,500. Although these contributions are significant to VICSES, they can be put into the context of local government revenue ranging from \$11.5 million to \$629.2 million, with an average of \$110.3 million per council.

Table 4.1 Local government funding to VICSES

| Local government funding as a percentage of state government funding | Number of councils with one or more VICSES units |
|--|--|
| 0 | 8 |
| 1-19 | 2 |
| 20-39 | 4 |
| 40-59 | 8 |
| 60-79 | 8 |
| 80-99 | 11 |
| 100 | 26 |
| 100+ | 4 |

Table 4.1 shows that 30 councils (with VICSES units) currently match or exceed state government funding to VICSES when compared on a dollar-for-dollar basis. The Committee again notes that many local governments give support to VICSES in other forms, such as providing buildings and undertaking maintenance. On a comparison of the financial data, this means VICSES units are not equally supported or funded, yet they are expected to perform the same functions. In the absence of another revenue stream, or increased fundraising, the shortfall in funding may translate into specific units not having all the equipment they require, which potentially puts community safety at risk.

VICSES has had to look for alternative income streams as a consequence of local government reviewing its funding arrangement. The Committee heard that one option is fundraising, but this takes a huge amount of volunteers' time, which means less time training or with their families.⁶⁴ VICSES argued that the community appreciates VICSES and wants it supported.⁶⁵ The Committee notes

⁶⁰ Total state government funding to VICSES, excluding Falls Creek.

⁶¹ Excluding Falls Creek, which received \$12,853 in state government funding and \$10,053.19 from the Falls Creek Resort Management.

⁶² Note average expenditure per local government includes all 79 local government areas and excludes Falls Creek. This is provided for comparative purposes only as funding is no allocated in this way.

⁶³ Total local government funding to VICSES, excluding Falls Creek.

⁶⁴ Mark Cattell, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 3.

⁶⁵ Stephen Griffin, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 7.

VICSES is currently undergoing a review of its operations and does not have a preferred funding model going forward.⁶⁶ The Committee believes it would be useful if VICSES and the state government annually collated and published full information on the funding arrangements for VICSES, taking into account contributions made in all forms.

FINDING 2: That in a rate capping environment, local governments may hold constant, withdraw or reduce funding to the State Emergency Service, with possible impacts on community safety.

4.2.4 Statutory fees

The Committee's previous report noted the concerns of councils in relation to planning fees. The Planning and Environment (Fees) Regulations were originally set in 2000. If the fees had been expressed as 'fee units' rather than a fixed dollar amount, the cost would automatically increase to account for inflation. The Municipal Association of Victoria (MAV) has noted that since the enactment of these regulations there have been several years without an indexation.⁶⁷ This means that these fees no longer accurately reflect the cost to local government of providing planning services. The MAV has estimated the 'freeze' in planning fees has resulted in an accumulated shortfall for local government of \$17.6 million.⁶⁸ This means these planning functions are currently subsidised by rate income. Under a capped system, local government has suggested to the Committee that this will not be sustainable and that planning fees will need to increase.⁶⁹

Local government again raised this issue during this inquiry period, with Moreland City Council noting it has foregone \$9 million in income from planning fees in the past four years, which means rates revenue has been used to fund the planning scheme.

The first is planning fees, which are set by the state, which have been frozen for over 14 years. Note that the number of rateable properties in Moreland has increased by almost 13 000 over those 14 years, which has meant that more than one fifth of Moreland was built in that time. In that time clearly the planning fees, being kept low, have been subsidised by rates. We estimate that the revenue forgone by council for the past four years is over \$9 million, and the review of the planning fees announced in October 2015 is welcomed as an opportunity to demonstrate the extent to which council subsidises the private development market in this area. However, council questions why it has taken so long for a review to happen.⁷⁰

The Planning and Environment (Fees) Regulations were scheduled for review in 2010 when they expired. This review however was postponed, and interim regulations have been made annually since that time. The review was scheduled

⁶⁶ Stephen Griffin, State Emergency Service, *Transcript of Evidence*, 29 April 2016, 10.

⁶⁷ Municipal Association of Victoria, *Review of planning fees with the Minister*, 30 March 2015 (www.mav.asn.au/news/Pages/review-planning-fees-with-minister-30mar15.aspx).

⁶⁸ The MAV did not specify what time period this applies to (www.mav.asn.au/news/Pages/review-planning-fees-with-minister-30mar15.aspx).

⁶⁹ See Standing Committee on Environment and Planning, *First report into rate capping policy*, December 2015.

⁷⁰ James Scott, Moreland City Council, *Transcript of Evidence*, 12 April 2016, 3.

to begin in October 2015, and the Committee anticipates this review will result in new regulations. The Committee believes the review should take into account the evidence it has received during this Inquiry regarding the subsidisation of planning services by rate income.

4.3 Council viability

4.3.1 Staffing and Enterprise Bargaining Agreements

As discussed in Report 1, local government is a major employer, especially in smaller rural municipalities. The Committee heard that comparing staff numbers without examining the services provided by a council could be deceptive because some councils may provide services in-house, while others contract them out, which impacts on staffing levels.

Some councils' or organisations' proportion of spend on employee costs might be lower, but they might have a higher outsourced cost or contracting cost. What is really important is what are the services that are being delivered, and can you undertake benchmarking to ascertain the value for money for those services? I think over the decades actually local government have actually improved their ability to demonstrate that. They are probably one of the most transparent levels of government in terms of what services are provided at what cost and what the rate increases are.⁷¹

Evidence to the Committee during this Report indicated that many local governments had either just completed a new staff enterprise bargaining agreement (EBA), were currently in negotiations, or were about to commence negotiations. Some councils reported that uncertainty over the rate cap's impact on future revenue increased the difficulty of negotiating pay increases for staff. One council advised that wages accounted for about 50 per cent of its expenses.⁷²

The current enterprise bargaining agreement is running out, and we are currently in negotiations for the next one, and of course there is a range of uncertainties in terms of our revenue post year 1, which creates some complexity in negotiating a fair and reasonable outcome with our staff.⁷³

Some councils suggested that if revenue was restricted by the cap, there may need to be a reduction in services in order to meet obligations under an EBA.

Just to also mention, many councils are going into EB negotiations this year, so obviously the rate cap has an impact on the capacity around negotiations and the number of staff that we might continue to employ, as a number of us are considering which services we can really afford to keep and which we cannot.⁷⁴

71 Tracey Slatter, City of Port Phillip, *Transcript of Evidence*, 3 May 2016, 12.

72 Stephen Wall, Maribyrnong City Council, *Transcript of Evidence*, 12 April 2016, 3.

73 Chris Eddy, Hobsons Bay City Council, *Transcript of Evidence*, 3 May 2016, 3.

74 Celia Haddock, LGPro, *Transcript of Evidence*, 9 March 2016, 2.

If there were a significantly higher EBA, then it stands to reason that the council has to look at its budget. It stands to reason that the council has to look at the services it provides, and it stands to reason that if through rate capping you reduce the capacity for income to either pay for services or for staff, something has to give. ... You cannot have everything. If you cap council rates, if you reduce income, something has to give.⁷⁵

Councils that had just completed a new EBA indicated that pay increases ranged between 2.5 and 6 per cent, taking into account bracket creep. The Committee notes that these EBA increases do not fall within the rate cap. One council noted they had negotiated the EBA on the basis that the Minister would accept the ESC's recommendation in relation to the calculation of the 2016–17 cap. Using DTF's CPI and Wage Price Index (WPI) forecasts at the time, the council calculated the cap would be 3.05 per cent. These forecasts were later reviewed by DTF, meaning the cap based on the ESC's formula would have been 2.8 percent.⁷⁶ Given the Minister decided to set the cap at 2.5 per cent, this may impact on future budgets.

In particular, last year council negotiated a three year enterprise bargaining agreement that was based on setting employee costs to fit within the rate cap based on the 3.05 rate ... That was the recommended one prepared by the ESC. The later selection of the 2.5 per cent set by the Minister for Local Government has significantly impacted our 2016–17 budget, reducing planned income by \$640 000 and potentially more over the full three years of the EBA. We cannot give you what that longer term impact is, because without a methodology, we are not sure what the future rate rises might be that we should be planning for. So not having a methodology stifles our capacity to undertake long term planning and orderly business transformation, because we do not know that future rate income. It is worth bearing in mind that rate income makes up 74 per cent of Moreland's total revenue.⁷⁷

We have agreed on this EBA at effectively 3.2 per cent, where rate capping is at 2.5 this year. Where I see the problem is that if next year CPI comes in at 1.1 per cent, we are already committed to 3.2 for the wages, and that represents 45 per cent of our costs. That is where I see a major problem. If it comes in at 3, that is different, but if it comes in at a lower amount, we will be even further behind the eight ball. What do we do — remove staff, get rid of services?⁷⁸

We have been running at about 4 per cent in terms of EBA commitments. I suppose in terms of just a broad figure in relation to your overall ongoing calculations, taking into account what we would call increment increases — so moving up through bandings — you are probably looking just at a salary level at, in our case, around about that 6 per cent increase. But obviously there is a whole range of other factors that go into that with on costs and those sorts of things.⁷⁹

Councils about to negotiate an EBA questioned if they would be able to negotiate a pay rise that fell within the 2.5 per cent cap, and even if they were able to do this, bracket creep would push these costs over the cap. Councils also expressed doubt about their ability to offer limited increases given other council and state

75 Dennis Hovendon, Frankston City Council, *Transcript of Evidence*, 5 April 2016, 12-13.

76 Dr Ron Ben-David, Essential Services Commission, *Transcript of Evidence*, 22 March 2016, 10.

77 James Scott, Moreland City Council, *Transcript of Evidence*, 12 April 2016, 2.

78 Cr Tony Holland, Knox City Council, *Transcript of Evidence*, 5 April 2016, 24.

79 Andrew Day, City of Yarra, *Transcript of Evidence*, 3 May 2016, 4.

government agreements were known to offer significantly higher pay. Local governments argued that under the cap they may not be able to match pay increases offered by other sectors.⁸⁰

If you start talking about the EBA agreement, we have recently done ours and it is 2.5 per cent, but when you factor in bandwidths, where employees have been there longer or have gone into different areas, it actually works out to about 3.2 per cent. The balance sheet does not work at 2.5 per cent.⁸¹

... Maribyrnong City Council is in the last year of its current EBA, and EBA negotiations are currently underway for a new agreement that will come into effect from 1 July 2016. The last enterprise bargaining agreement we had at Maribyrnong City Council had three annual increments of 3.4 per cent. We understand the bracket creep, if you like, is about 0.6 per cent in Maribyrnong City Council's example. So, based on the similar proportions that Moreland mentioned, about 60 per cent of council's revenue comes from rates and about 50 per cent of council's expense is wages. So when you look at a 2.5 per cent rate increase with a 0.6 per cent bracket creep, if you like, this will be a particularly challenging EB negotiation process.⁸²

... just on the EBA issue, even if we are able to negotiate a 2.5 per cent salary increase, and I note the state government increase, I believe that has been publicised, is 3 or more. For us a 2.5 per cent increase actually means a 3 per cent increase, because we have, if you like, band creep, so for all the banded offices, which is the majority of staff, they move up bands as well as getting their increase, so really for most councils we will need to try to negotiate a 2.2 or below increase, which is quite difficult when the state government increase is considerably higher.⁸³

4.3.2 Local government senior executive officers

The Committee resolved to request information on the salary bands of senior officers for Victoria's 79 local governments.⁸⁴ (The definition of 'senior officer' in the *Local Government Act 1989* was used for this request.) The Committee received information from all councils and appreciates their cooperation with this request.

The Committee notes that the s. 11(b) of the Local Government (General) Regulations 2004 required councils to maintain and allow public inspection of the details of the total salaries for senior officers.⁸⁵ Although these regulations are no longer in force, having been replaced by the Local Government (General) Regulations 2015, the Committee's request for information for the 2014–15 financial year relates to the period covered by these regulations.

80 The Committee notes that ABS reports WPI for the year to the end of the March quarter 2016 was 2 per cent, and the seasonally adjusted figure was 2.1 per cent. Australian Bureau of Statistics, *Wage Price Index, Australia, March 2016* (www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0).

81 Cr Tony Holland, Knox City Council, *Transcript of Evidence*, 5 April 2016, 18.

82 Stephen Wall, Maribyrnong City Council, *Transcript of Evidence*, 12 April 2016, 3.

83 Celia Haddock, LGPro, *Transcript of Evidence*, 9 March 2016, 6. Ms Haddock was speaking in relation to Maribyrnong City Council.

84 The Committee has obtained data from local government on the number of senior officers, but is concerned the data is inconsistent. The Committee will verify this data and publish it at a future time.

85 This provision is now contained in the Local Government (Planning and Reporting) Regulations 2014.

According to the preliminary data, the majority of councils have between one and ten senior executive positions paid in excess of \$120,000 per annum, with three councils having more than 40 such positions (see Table 4.2). The Committee also notes that, on average each council has 17 senior officers. Further, the salaries for 46 per cent of the senior officers fell within the \$140,000-\$169,999 range. The Committee notes a large divergence in the salaries for Chief Executive Officers ranging from \$180,000-\$189,999 for smaller regional councils to \$460,000-\$469,999 for larger metropolitan councils.

Table 4.2 Number of senior officers by council

| Number of senior officers | Number of councils |
|---------------------------|--------------------|
| 1-10 | 37 |
| 11-20 | 13 |
| 21-30 | 18 |
| 31-40 | 8 |
| 41-50 | 2 |
| 50+ | 1 |

4.3.3 Budget uncertainty

Local government expressed concern in relation to how the cap will impact on council budgeting and long term financial plans. Prior to the introduction of the cap many councils had set policies in relation to future rate rises to assist with future planning. Under rate capping, unless a council applies for a multi-year rate cap variation, local government will not know its future rate rise until it is Gazetted, which must occur by 31 December each year.

Dandenong has its own long term financial strategy. We had forecast rate increases at 5.5 per cent going forward over the next five years. Similarly, we have now adjusted our rate expectations back to 2.5 per cent over the next five years. That will create the funding shortfall that will make those other projects more difficult to achieve without other state or federal funding.⁸⁶

Our position prior to the imposition of the rate cap legislation was that a 5 per cent rate increase was forecast in our long term financial strategy over the 10 year period, ... Obviously with that capacity gone that does change all of those sorts of things. It is fair to say that having government set a rate cap on an annual basis in December of each year during the budget preparation process makes it incredibly difficult to develop effective long term budget planning.⁸⁷

... of course there is no certainty about what that rate would be in year 2 and beyond. So we do our best to estimate the revenue and the expenditure that we need to commit to to deliver on our council plan, but to some extent we are not in control of our destiny in that respect.⁸⁸

⁸⁶ Mick Jaensch, Greater Dandenong City Council, *Transcript of Evidence*, 5 April 2016, 8.

⁸⁷ Joanne Truman, Knox City Council, *Transcript of Evidence*, 5 April 2016, 23.

⁸⁸ Chris Eddy, Hobsons Bay City Council, *Transcript of Evidence*, 3 May 2016, 3.

If the rate cap is to drive business transformation rather than knee jerk cost cutting, Local Governments needs some certainty to enable good planning. ... at a minimum, a four-year cap methodology would make sense, allowing for adjustment to accommodate any unforeseen circumstance.⁸⁹

The Committee notes that councils who apply for a multi-year variation will have budget certainty. One option to give councils who do not apply for a variation greater budget certainty and assist with long term planning, would be for the Minister to set the rate cap for a four year period. DTF currently project what CPI will be at least four years in advance.⁹⁰ The Public Accounts and Estimates Committee (PAEC) reviewed DTF's ability to forecast CPI during the 2015–16 Budget Estimates, and noted that over a seven year period (2007-08 to 2013-14) DTF underestimated the rate of inflation by an average of 0.19 per year using the budget year estimate (this changed to 0.23 using the four year estimate).⁹¹ As such, the Committee considers that Victorian ratepayers would not be unfairly disadvantaged if these projections were used to calculate rate caps over a four year period but additional pressure would be placed on council budgets. DTF also forecasts the WPI. As such, if the Minister determined that future caps should be calculated in accordance with the methodology proposed by the ESC or capped at CPI, it would be possible to calculate rate caps for a four year period.

Finding a way to provide budget certainty to councils should be considered as part of any review of the operation of the Fair Go Rates System. The Committee notes that the CPI figure used by the Minister to cap local government rates in 2016–17 is the mid-year estimate rather than the budget-year estimate.

Table 4.3 Consumer price index – comparison of estimate and actual

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Budget year estimate | 2.50 | 3.00 | 2.00 | 2.25 | 2.75 | 2.75 | 2.50 | 2.25 |
| Actual | 3.60 | 2.80 | 2.10 | 3.30 | 2.30 | 2.20 | 2.80 | 1.4 |
| Variation between budget year estimate and actual | -1.10 | +0.20 | -0.10 | -1.05 | +0.45 | +0.55 | -0.30 | +0.85 |

Source: Public Accounts and Estimates Committee Report on the 2015–16 Budget Estimates

FINDING 3: That under rate capping local governments lack operational capacity and budget certainty/flexibility to develop and implement long term financial plans or to budget for infrastructure or staff costs.

⁸⁹ Submission 16a, Moreland City Council.

⁹⁰ Department of Treasury and Finance, *2015-16 Budget Macroeconomic Indicators* (www.dtf.vic.gov.au/files/21b5c7d7-9743-4be8-b9e0-a48f00c6be68/2015-16-Budget-MacroeconomicIndicators.xlsx).

⁹¹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates*.

4.4 Rate cap variations

4.4.1 Timing

The Committee notes that each year the Minister is required under s. 185D(5) of the Act to Gazette the next year's cap by 31 December (or by a date fixed by the Minister). The ESC then gives councils until the end of January to lodge an intention to apply for a variation. The formal application for a variation is due by the end of March. In the first year the ESC sought to have all decisions completed by the end of May 2016.

Local government advised that in the first year of rate capping this has proven to be a difficult timeline, especially as the cap was announced on 22 December 2015,⁹² after the last council meeting of the year for most. Many councils also tend not to have meetings in January.

Many councils are also worried about the short time frame. They were advised about the rate cap before Christmas. Most councils do not meet during the course of January. How the heck do you pull together a good application when you are still trying to learn the rules from the Essential Services Commission about what a variation process looks like, let alone have a proper, full, comprehensive conversation with your communities and, by the way, have the time to debate it in council and, by the way, have something written of good quality ready to go in — what was it? — two weeks, two and a half weeks? It is a problem.⁹³

The timeline also proves problematic for local government in relation to the preparation of a budget. Under the *Local Government Act 1989* councils must have a budget in place by 30 June. Prior to this they must exhibit their draft budget for 28 days and receive public submissions on it. The Committee heard that this means if a council were to apply for a variation to the cap, they would essentially need to prepare two budgets — one factoring in the approved variation and one without — otherwise they advised they would not have enough time to amend their budget, advertise and adopt it. Local government suggested that the short timeframe to make an application for a variation and adopt a budget may make long term financial planning difficult.

There is a lot of work that would need to go into an application, as I am sure you can appreciate. We also had some grave concerns around meeting the deadlines around finalising a budget while an application process would need to be assessed and a response received from the Essential Services Commission, because we do have requirements under the Local Government Act to exhibit draft budgets for 28 days, receive public submissions, which generally take a couple of weeks to hear, and then to have a budget in place by 30 June. We felt that it was going to be challenging for an application from Maribyrnong to be successful in the first instance and we did not believe we had the resources or the time to do an application justice.⁹⁴

⁹² 'Council Rate Increases Capped To Inflation' media release, The Hon Natalie Hutchins MP, Minister for Local Government, 22 December 2015 (www.premier.vic.gov.au/council-rate-increases-capped-to-inflation).

⁹³ Dr Andrew Hollows, Victorian Local Governance Association, *Transcript of Evidence*, 9 March 2016, 3.

⁹⁴ Stephen Wall, Maribyrnong City Council, *Transcript of Evidence*, 12 April 2016, 5.

Our concern in some cases, and I agree, relating to the timing of the announcement for the cap was right before Christmas. Most councils' — and I am sure colleagues are the same — budgets are well in preparation by that date. To actually then apply for a variation, it is the amount of work required with a variation, but effectively you would be preparing two budgets and having one budget with a variation and one budget without a variation.⁹⁵

It is fair to say that having government set a rate cap on an annual basis in December of each year during the budget preparation process makes it incredibly difficult to develop effective long term budget planning.⁹⁶

As 2016 is a local government election year this further complicates matters for local government. The election of a new council may result in different policies and priorities, which can impact on a council's budget.

... if it is a different council, they may have different issues, ideas, services that may have been decided to be closed or changed. The new council may have different decisions. So it is not so much the election itself but the impact in terms of having an outgoing council making decisions for an incoming council, which may be a different council with different views.⁹⁷

An incoming council is required to develop a long term financial plan. Given elections will be held in October, this means incoming councils will have approximately six weeks to consider and adopt this plan and determine whether they will submit an intention to apply for a variation to the cap for the following year.

Current time frames in terms of council being elected on the last Saturday in October and needing to have in place a four-year council plan and a long-term financial plan and a four-year budgetary cycle and consultation following that which deals with rate levels required to make a determination whether a rate cap exemption is to be applied for and so on — effectively our sense is that most of this work needs to happen in the first six weeks of a council getting in place, and that is certainly very challenging. The thoughts are if there is going to be this type of regime maybe there needs to be a process of allowing a good 12 months for a new council to undertake that comprehensive engagement with its community before it addresses these significance strategic challenges.⁹⁸

As you would appreciate, elections are every four years, so the councils currently will make decisions on their budget and their services and what they can deliver. The budget year starts on 1 July and at the end of October there may be a new council, so really that new council has to develop a council plan for the next four years.⁹⁹

Local government advised the Committee that more time would assist them in determining whether to apply for a variation and then make the application.

95 Gavin Cator, Darebin City Council, *Transcript of Evidence*, 12 April 2016, 5.

96 Joanne Truman, Knox City Council, *Transcript of Evidence*, 5 April 2016, 23.

97 Celia Haddock, LGPro, *Transcript of Evidence*, 9 March 2016, 7-8.

98 Frank Dixon, Ballarat City Council, *Transcript of Evidence*, 28 April 2016, 3.

99 Celia Haddock, LGPro, *Transcript of Evidence*, 9 March 2016, 7.

... certainly more time would have been helpful. I think time was something that stopped a lot of councils from being able to comply with the process. The guidelines were clear but the goalposts keep moving and so we think there should be more of a standard procedure that is used.¹⁰⁰

FINDING 4: That the Fair Go Rates System timeline, where the Minister announces the rate cap in December and councils then have until March to apply for a variation, has created administrative and budgetary challenges for local government.

RECOMMENDATION 2: That the Minister should announce the rate cap earlier than December.

4.4.2 Application process

Evidence to the Committee places the cost of applying for a variation at between \$10,000 and \$250,000. The MAV estimates that the cost is up to \$40,000.

What they say to me is that because they have no idea about the complexity or the process that the ESC is running, they are cautious about making an application, because making an application would probably cost them, in their view, maybe up to \$40 000 in terms of putting the effort together, and a loss in that application means they are in serious strife.¹⁰¹

We have prepared the variation application at a cost of around \$250 000 to date. This was necessary to ensure that we have fully responded to all six legislated criteria upon which the ESC must make their decision.¹⁰²

To date we actually have not had any direct feedback on the cost to councils of submitting and preparing an application. I suspect the figure would vary. It depends on the state in which the council has its processes and systems in place. To the extent that they have good policies, systems and processes in place, we would think that the additional effort would be marginal, and this is actually confirmed with some of the meetings we had with the councils who are seeking to apply. In fact this came out in this morning's Ballarat Courier whereby the Pyrenees shire was actually reported to have spent over \$10 000 putting together an application — so this was reported by the media. We have not had any direct feedback yet from councils regarding the cost of submitting an application.¹⁰³

Rural councils did not necessarily have the ability to employ a consultant to assist with an application, and if they were to use existing staff it would mean taking them away from their current duties, or diverting resources in order to charge residents higher rates. Further they noted the Minister had not provided any financial assistance to support councils in complying with this new framework.

You know, you talk to Yarriambiack — to get someone to sit down to write a submission they need to take a customer service officer off the front desk. That is not good.¹⁰⁴

¹⁰⁰ Mike Tyler, Casey City Council, *Transcript of Evidence*, 5 April 2016, 20.

¹⁰¹ Rob Spence, Municipal Association of Victoria, *Transcript of Evidence*, 9 March 2016, 4.

¹⁰² Mike Tyler, Casey City Council, *Transcript of Evidence*, 5 April 2016, 16.

¹⁰³ Andrew Chow, Essential Services Commission, *Transcript of Evidence*, 22 March 2016, 5.

¹⁰⁴ Dr Andrew Hollows, Victorian Local Governance Association, *Transcript of Evidence*, 9 March 2016, 6.

... the Minister has not made any resources available for Councils to prepare a submission, and anecdotally Council has heard from other small rural Councils that initially indicated that they may seek a variation, that the lack of resources was the reason that they did not ultimately lodge an application.¹⁰⁵

Murrindindi Shire Council was not able to devote any resources, other than officer time, to the preparation of its application. Whilst we are aware that some Councils have engaged communications consultants to carry out communications and engagement projects, or write a submission to the ESC on their behalf, we believe that the Murrindindi community would not enjoy the irony of council spending tens of thousands of dollars on a communications cap about a rate cap variation which seeks to increase their rates above the cap. ... so, officers have needed to prioritise the preparation of the application above their day to day designated roles.¹⁰⁶

Councils are required to show they have consulted with ratepayers as part of a variation application. The Committee received a submission from a consortium of ratepayer groups who suggested applications should not be refused due to a lack of community support if there were strong economic grounds for the variation application.

Councils should not be paralysed because they are unable to get strong community support for their variations. They should be more focused at the best value justification and quality of their variations' business cases and commit resolve to regularly report measurable implementation and benefit achievements of the proposed variation-outcomes, according to the information specified in their variations' business cases. It is a no brainer when business cases do not exist or are of poor quality that they create barriers in variations seeking, which together with tokenistic community engagement, also result in poor community support. Strong quality in community engagement and business cases will likely prevent poor community support for variations.¹⁰⁷

The lack of understanding as to what is required in a variation application may explain why the cost of preparing an application is so large at this stage, and this should change as the system matures.

Uncertainty in relation to the standard required of the ESC to approve a proposed variation to the rates cap is likely to act as an additional barrier to making prudent decisions on appropriate rate increases, at least in the short-term.¹⁰⁸

At the completion of the current variation application process the ESC has advised it will review the applications and update guidance material to provide local government with a better understanding of what is required in an application.

Certainly after this first round of somewhere between 5 and 12 applications we will go back, we will review how those councils found making an application and we will use that to update the guidance material.¹⁰⁹

105 Submission 24a, Murrindindi Shire Council.

106 Submission 24a, Murrindindi Shire Council.

107 Submission 56, Consortium of Ratepayer Groups.

108 Submission 42a, Municipal Association of Victoria.

109 Dr Ron Ben-David, Essential Services Commission, *Transcript of Evidence*, 22 March 2016, 4.

Although it has been suggested that the ESC does not require councils to provide information they do not already possess,¹¹⁰ the Committee received evidence contradicting this. The Committee also heard that in response to its variation application one council received a request for further information that was 17 pages long.

The expectation that I have heard from the ESC is that where there is good practice in councils which have those key elements, which are sound governance and financial management, they essentially will not be looking for much beyond that.¹¹¹

... each council has been invited and basically told by the Essential Services Commission, 'You need to tell your unique story'. It is, 'Tell us your story'. It is not a tick the box template as they do in New South Wales. We actually have a formal process: 'Tell us your particular circumstances; tell us your unique story'. The problem is that there was an opportunity for that story to be told in December and for it to be reflected in a revised annual rate cap, and that did not happen. Now the onus is back on those councils to do the hard yards and to say, 'Yes, within the criteria these are our particular circumstances and these are our particular features'. Are there commonalities? Of course there are; there is no doubt about that as well, but the ESC has made it very clear to us that it will be assessing each individual application on its merits and the story that it tells.¹¹²

On this, the ESC and Local Government Victoria say that the requirements should be easily accommodated by the local government sector and are things that we should already be doing. However, councils did not already need to complete a 50 page spreadsheet, with over 9000 cells requiring individual data. This alone was about 30 days work that had to be diverted from other tasks.¹¹³

Yes, there was a request for further information that was about 17 pages. We provided fairly straightforward answers to most of them.¹¹⁴

FINDING 5: That local governments have indicated that the process to prepare an application for a variation to the rate cap is a deterrent and a significant financial and administrative challenge. Whilst the reported cost to apply varies, one council put it as high as \$250,000.

RECOMMENDATION 3: That the Essential Services Commission give support in particular to smaller rural councils who may wish to apply for a rate cap variation but lack the resources or staff to prepare an application.

RECOMMENDATION 4: That the Essential Services Commission consider feedback from councils and refine its guidelines for what is required as part of a rate cap variation application.

¹¹⁰ Dr Ron Ben-David, Essential Services Commission, *Transcript of Evidence*, 20 October 2015, 8-9.

¹¹¹ Graeme Emonson, Department of Environment, Land, Water and Planning, *Transcript of Evidence*, 9 March 2016, 23.

¹¹² Dr Andrew Hollows, Victorian Local Governance Association, *Transcript of Evidence*, 9 March 2016, 10.

¹¹³ Mike Tyler, Casey City Council, *Transcript of Evidence*, 5 April 2016, 16.

¹¹⁴ Jim Nolan, Pyrenees Shire Council, *Transcript of Evidence*, 28 April 2016, 25.

4.4.3 Local government feedback

Councils who appeared before the Committee during this period and who had submitted a variation application advised that the required paperwork was extensive and that the process itself was cumbersome. The City of Casey provided the Committee with a copy of its application for a variation which was over 400 pages long. Local government advised the Committee that lodging these documents electronically proved difficult, especially given the ESC did not offer a “dropbox” or similar solution, where documents could be uploaded by the council and downloaded by the ESC.

Given the size of lodging the application Council staff confirmed with officers of the ESC that if we should email it to them, both theirs and our computer systems would probably fall over. We enquired as to whether there would be a Dropbox or similar solution where we could download our application and its supporting information. Council was advised two days prior to the lodging of the submission that the ESC did not have a Dropbox account. It was however suggested that a folder be set up that could be shared with the ESC so that the ESC could download the documents Council placed into it. ... Fortunately this was successful as the only alternative would have been for a staff member to make the 5 hour return journey to Melbourne to physically lodge our application with the ESC. ... Council believes that the ESC should be better prepared to electronically accept large documents such as these applications. It should also provide organisations much earlier advice on how to do so than two days before the application is due to be lodged.¹¹⁵

However the Committee also notes the initial application from Buloke Shire which was only two pages in total (not including the required excel spreadsheet). The Committee notes that this is the first year the rate capping system has operated, and understands there will be teething problems. As part of its review of the system the ESC should consider the procedure for lodging documents and make it as simple as possible for councils to meet their application requirements.

RECOMMENDATION 5: That the Essential Services Commission investigate the most effective and administratively simple way for rate cap variation applications to be submitted. Where a legitimate case can be made for a variation a council should not be blocked from applying by administrative hurdles.

4.5 Other concerns raised

4.5.1 Cost of Fair Go Rates System

In Report 1 the Committee noted that the state government had committed to covering the cost of operating the Fair Go Rates System for its first year. Local government expressed concern to the Committee that it would be required to fund this system in future years. Local government repeated these concerns during this inquiry period.

¹¹⁵ Submission 24a, Murrindindi Shire Council.

We are concerned that there is no commitment beyond the first 12 months, that the sector will not have to bear the costs of administering rate capping, and it would be important to ensure that rigorous periodic review is undertaken on the impact of rate capping on councils — on our financial stability, community wellbeing indicators, community satisfaction and asset maintenance.¹¹⁶

The Committee notes that the Victorian Government has yet to determine who will cover the cost of this scheme next year. This issue should be resolved as part of the review of the first year of operation of this scheme, ensuring greater certainty for local government.

RECOMMENDATION 6: That the Victorian Government provide certainty to local government as to whether the sector will need to cover the cost of the Fair Go Rates System, and if so, when that will occur and what the likely costs will be.

4

4.5.2 Revaluation year

Victorian councils are required to carry out a revaluation of all properties every two years. This does not increase the revenue raised by local government. The revaluation changes the distribution of the rate burden. This occurs because after a council determines its budget, it divides this by the total value of all properties in the municipality to get the ‘rate in the dollar’. The ‘rate in the dollar’ is then multiplied by the net annual value of each individual property (see Report 1 for a more detailed discussion). Consequently if the values of properties in a local government area change in relation to each other, it will mean individual property owners may experience a significant increase in their rates.

Local government suggested that commencing the cap in a revaluation year would confuse ratepayers who are expecting rates to only increase by 2.5 per cent. A ratepayer may in fact see their rates increase by more than 2.5 per cent. For example, it was reported in *The Age* that property owners in the City of Melbourne (which has not applied for a rate cap variation) will see annual rates rise by more than 30 per cent and, for some, by more than 100 per cent.¹¹⁷

It is a revaluation year. We have something like an average — again, do not quote me on the numbers — of 15–17 per cent increase in value across our residential sector, which of course is going to impact as we redistribute the rate burden. So while our proposed budget, which is currently on exhibition, is predicated on 2.33 per cent total increase in rates, the reality is that most people will not see a corresponding increase to their rates notices; for some it will be considerably more than that. I think that presents a challenge for us all across the sector in terms of our messaging, ...¹¹⁸

¹¹⁶ Celia Haddock, LGPro, *Transcript of Evidence*, 9 March 2016, 2.

¹¹⁷ Aisha Dow ‘Spencer Street could be closed to tackle “dangerous” intersection’, *The Age*, 5 May 2016 (www.theage.com.au/victoria/spencer-street-could-be-closed-to-tackle-dangerous-intersection-20160505-gomyhq.html).

¹¹⁸ Chris Eddy, Hobsons Bay City Council, *Transcript of Evidence*, 3 May 2016, 8; Hobsons Bay City Council subsequently advised the average residential rate charge increase for 2016–17 would be 4.83 per cent.

As discussed in Report 1, the cap only applies to the general rates and municipal charge components. Rates notices can also include service charges, special charges and the fire services levy.

The introduction of a rate cap in a valuation year will cause confusion for ratepayers in understanding their rates notices and increases. This will be further compounded by increases in the Fire Services Levy which isn't capped. The additional media and ratepayer enquiries will be another cost burden to councils.¹¹⁹

4.5.3 Local government debt

In its report on establishing a rate capping system, the ESC recommended that the Government provide local government with guidance on the responsible use of debt to deliver long-lived infrastructure and other intergenerational assets.¹²⁰ The Government accepted this recommendation.¹²¹

Many councils suggested they were reluctant to take on debt because it shifted the cost to a future generation and may not result in an intergenerational asset.

We have what we feel is a modest but reasonable level of debt and it is funding major capital projects but not recurrent expenditure, because we would believe that in some ways is having the future pay for the services to the present¹²²

Ratepayers were also averse to local government taking on more debt, questioning where funds would come from if a council defaulted.

Our council in particular is carrying a large amount of debt, who bails the council out if they get into trouble?¹²³

Evidence to the Committee suggested there is a widely held perception across local government that an application for a variation to the cap would be unsuccessful if the council had the capacity to borrow.

Maribyrnong City Council did lodge an initial expression of interest proposing that we would be seeking a variation to the cap. Following lodgement of that initial expression of interest we received advice from the Essential Services Commission around how an application would be assessed and it would be based on a council's levels of debt. Maribyrnong City Council has worked very hard and is quite proud of the fact that it is basically debt free. It would be assessed against a council's other sources of revenue — council does receive a small portion of revenue from parking

119 Submission 41a, Mount Alexander Shire Council.

120 Essential Services Commission, *A Blueprint for Change, Local Government Rate Capping & Variation Framework Review — Final Report*, September 2015, 122 (www.esc.vic.gov.au/getattachment/d5564aea-ccf7-4334-b291-195bcc259089/Final-Report-A-blueprint-for-change-local-governme.pdf).

121 Department of Environment, Land, Water and Planning, *Fair Go Rates System: Victorian Government Response to Essential Services Commission Final Report*, October 2015, 12 (www.delwp.vic.gov.au/__data/assets/word_doc/0006/315960/Government-Response-to-ESC-Local-Government-Rates-Capping-and-Variation-Framework-Review-Report-21-Oct-15A.docx).

122 Diane Hood, Shire of Campaspe, *Transcript of Evidence*, 29 April 2016, 7.

123 Submission 47, Daniel Goodwin.

and user charges — and also council’s capital works delivery effort over the recent past would be another mechanism that would assess whether an application for a variation would be successful.¹²⁴

Certainly the indication that was given to me is that if council had the capacity to borrow to provide infrastructure, that would be a desired course of action ahead of a rate cap variation.¹²⁵

... it has been very clear to me from the outset that there is an expectation that council will use all of the avenues available to them to fund their activities, and a certain level of debt would be expected, particularly in the event of council seeking rate variations. I have certainly taken the view, as has my council, that unless we were prepared to seriously change our debt policy, which is very much maintaining a low ... that that would count against us if we were not prepared to do that in terms of seeking a rate variation.¹²⁶

I think where the comments are coming from is in one of the Essential Services Commission’s documents that they put out in the lead-up to the introduction of rate capping it was suggested that councils are very debt and risk averse and they really should look at using the cash reserves that they have, and borrowings, before looking at rate cap variations.¹²⁷

However, in evidence to the Committee the ESC advised that if a council decided not to increase debt it would not overturn that decision and would give variation applications due consideration.

If a council, though, turns to us and says, ‘We need a rate increase because we are not prepared to borrow’ that is completely the prerogative of that council. We are not going to override that prerogative. What we would be looking for, though, is where does that statement come from — that we are not prepared to borrow? Do they have an internal policy, have they consulted with their own communities, have they done their own financial modelling et cetera to support that position?¹²⁸

RECOMMENDATION 7: That the Essential Services Commission clarify its advice to councils regarding the responsible use of debt.

4.5.4 Local government election costs

Local government advised the Committee that as this is a local government election year there would be increased costs for councils. This could prove problematic given the rate cap also applies this year.

When questioned about how local government could accommodate these costs, the ESC suggested that councils should be spreading the cost of elections over four years, rather than seeking to cover the entire cost in a single year.

¹²⁴ Stephen Wall, Maribyrnong City Council, *Transcript of Evidence*, 12 April 2016, 5.

¹²⁵ Stephen Wall, Maribyrnong City Council, *Transcript of Evidence*, 12 April 2016, 7.

¹²⁶ Chris Eddy, Hobsons Bay City Council, *Transcript of Evidence*, 3 May 2016, 5.

¹²⁷ Jude Holt, Shire of Loddon, *Transcript of Evidence*, 29 April 2016, 8.

¹²⁸ Dr Ron Ben-David, Essential Services Commission, *Transcript of Evidence*, 22 March 2016, 8-9.

... certainly that is clearly a cost on councils. But I think it is worth remembering that while those costs are incurred in the one year, they do relate to effectively a four-year period. A good council should be spreading those costs over at least four years. ... I am just saying that as a general accounting principle you would smooth the cost out over the four-year period.¹²⁹

The Committee heard evidence suggesting the cost to local government of having the election run by the Victorian Electoral Commission (VEC) has substantially increased from the previous election four years ago. A number of councils at public hearings for this Inquiry provided information on the cost of the 2012 and 2016 elections; however it was not received in time to be discussed in this Report. The Committee notes that Central Goldfields Shire indicated its election costs had increased by 32 per cent,¹³⁰ while Loddon Shire advised the Committee that its election costs had increased by 50 per cent.¹³¹ The Committee is concerned by this significant increase in costs and plans to explore this issue further in its next report, at which time the costs of staging local government elections will have been finalised. This will involve seeking evidence from both local government and the VEC.

FINDING 6: That some councils have informed the Committee that the costs charged by the Victorian Electoral Commission to hold local government elections have increased significantly compared to previous elections.

129 Dr Ron Ben-David, Essential Services Commission, *Transcript of Evidence*, 22 March 2016, 8.

130 Submission 62, Central Goldfields Shire.

131 Loddon Shire, *Transcript of Evidence*, 29 April 2016, 17.

5 Way forward

The Committee will present its next report in December 2016. The policy to cap rates will have been in operation for approximately six months by this time. The Committee will endeavour to identify the consequences of the policy, however any benefits or issues may not be apparent at this early stage. This will become part of the Committee's ongoing remit.

Future reports are due every six months until 2018. These reports will examine the implementation of this policy and its impact on local government, particularly the services it provides and the infrastructure it is responsible for maintaining.

The Committee anticipates the future reports will provide further information and analysis of the rate cap variation process, an evaluation of local government election costs, EBA costs, and include information from New South Wales councils on the rate pegging system there. The Committee will also examine where councils have successfully constrained their costs and thereby limited rate increases.

Committee Room, 25 May 2016

Appendix 1

Submissions

| | |
|--------------|---|
| 1a. | Dr Carol Glover (supplementary) |
| 2a. and b. | Bill Bayliss (supplementary) |
| 16a. | Moreland City Council (supplementary) |
| 24a. | Murrindindi Shire Council (supplementary) |
| 32a. | City of Casey (supplementary) |
| 41a. | Mount Alexander Shire Council (supplementary) |
| 42a. | Municipal Association of Victoria (supplementary) |
| 47. | Daniel Goodwin |
| 48. | Joe Lenzo |
| 49. | Barry Hill |
| 50. | Mohan de Run |
| 51. | G. H. Schorel-Hlavka |
| 52. | Don Baker |
| 53. | Mornington Peninsula Ratepayers' and Residents' Association Inc and McCrae Action Group |
| 54. | William Buckingham |
| 55. | Vicki Cook |
| 56. | Consortium of Ratepayer Groups |
| 57. | William Twycross |
| 58. | Angela James |
| 59. | Don Watson |
| 60. | Graham Jolly |
| 61. | Kevin Griffin |
| 62. and 62a. | Central Goldfields Shire Council |
| 63. | Youth Affairs Council Victoria |
| 64. | Zachary Casper |
| 65. | Moyne Residents and Ratepayers Action Group |
| 66. | Lou Baxter |
| 67. | Shire of Campaspe |
| 68. | Darebin City Council |
| 69. and 69a. | Bayside Ratepayers Association |
| 70. | Borough of Queenscliffe |

Note: The Committee received a total of 34 submissions and supplementary submissions during this phase of the inquiry.

Appendix 2

Public hearings

Wednesday 9 March 2016, Legislative Council Committee Room, Parliament House, Spring Street, Melbourne

| Name | Title | Organisation |
|-------------------|--|---|
| Mr Rob Spence | Chief Executive Officer | Municipal Association of Victoria |
| Dr Andrew Hollows | Chief Executive Officer | Victorian Local Governance Association |
| Mr Justin Kann | Communications Coordinator | |
| Mr David Preiss | Chief Executive Officer | LG Pro |
| Ms Celia Haddock | Board Member | |
| Mr Terry Garwood | Deputy Secretary, Local Infrastructure | Department of Environment, Land, Water and Planning |
| Mr Graeme Emonson | Executive Director, Local Government Victoria | |
| Mr Mark Curry | Executive Director, Local Infrastructure Policy and Partnerships | |

Tuesday 22 March 2016, Legislative Council Committee Room, Parliament House, Spring Street, Melbourne

| Name | Title | Organisation |
|------------------|-------------------------|-------------------------------|
| Dr Ron Ben-David | Chairperson | Essential Services Commission |
| Dr John Hamill | Chief Executive Officer | |
| Mr Andrew Chow | Director, Regulation | |

Tuesday 5 April 2016, Council Chambers, Frankston Civic Centre, Cnr Young and Davey Sts, Frankston

| Name | Title | Organisation |
|--------------------|---|------------------------------------|
| Cr James Dooley | Mayor | Frankston City Council |
| Mr Dennis Hovendon | Chief Executive Officer | |
| Mr Tim Frederico | Director, Corporate Development | |
| Mrs Kim Jaensch | Manager Financial Service | Kingston City Council |
| Mr John Nevins | Chief Executive Officer | |
| Mr Mick Jaensch | Director, Corporate Services and Acting Chief Executive Officer | Greater Dandenong City Council |
| Mr Matthew Hubbard | Chief Financial Officer | Mornington Peninsula Shire Council |

| Name | Title | Organisation |
|--------------------|-----------------------------------|--|
| Mr Mike Tyler | Chief Executive Officer | |
| Mr Andrew Davis | Chief Financial Officer | Casey City Council |
| Ms Kathryn Seirlis | Rate Capping Strategy Coordinator | |
| Cr Tony Holland | Mayor | Knox City Council |
| Ms Joanne Truman | Acting Chief Executive Officer | |
| Dr Alan Nelsen | President | Mornington Peninsula Ratepayers' and Residents Association |
| Mr Joe Lenzo | | |

Tuesday 12 April 2016, Knight Kerr Room, Parliament House, Spring Street, Melbourne

| Name | Title | Organisation |
|------------------|------------------------------|--------------------------|
| Mr Stephen Wall | Chief Executive Officer | Maribyrnong City Council |
| Ms Celia Haddock | Director, Corporate Services | |
| Mr James Scott | Director, Corporate Services | Moreland City Council |
| Mr Gavin Cator | Director, Corporate Services | Darebin City Council |

Thursday 28 April 2016, Trench Room, Ballarat Town Hall, Sturt Street, Ballarat

| Name | Title | Organisation |
|----------------------|-------------------------------------|---|
| Cr Des Hudson | Mayor | |
| Mr Frank Dixon | Interim Chief Executive Officer | Ballarat City Council |
| Mr Glenn Kallio | Chief Financial Officer | |
| Mr Aaron van Egmond | Chief Executive Officer | Hepburn Shire Council |
| Mr Grant Schuster | General Manager, Corporate Services | |
| Mr Jim Nolan | Chief Executive Officer | Pyrenees Shire Council |
| Mr Andrew Evans | Chief Executive Officer | Ararat Rural City Council |
| Mr Alistair Rowe | Manager, Corporate Support | |
| Cr Murray Emerson | Mayor | |
| Ms Justine Linley | Chief Executive Officer | Northern Grampians Shire Council |
| Mr Vaughan Williams | Director, Corporate Services | |
| Mr Paul Gordon-Smith | Vice President | Ballarat Residents and Ratepayers Association |
| Mr John Barnes | Secretary | |
| Mr Zachary Casper | | |
| Mr Garry Fitzgerald | | |

Friday 29 April 2016, Reception Room, Bendigo Town Hall, Lyttleton Terrace, Bendigo

| Name | Title | Organisation |
|--------------------|-------------------------------------|-------------------------------|
| Mr Stephen Griffin | Chief Executive Officer | State Emergency Service |
| Mr Mark Cattell | Acting Regional Manager, North West | |
| Mr Craig Niemann | Chief Executive Officer | Greater Bendigo City Council |
| Ms Kerryn Ellis | Director, Organisation Support | |
| Ms Lucy Roffey | Director, Corporate Support | Mount Alexander Shire Council |
| Ms Diane Hood | General Manager, Corporate Services | Campaspe Shire Council |
| Ms Marg Allan | Acting Chief Executive Officer | Loddon Shire Council |
| Ms Jude Holt | Director, Corporate Services | |

Tuesday 3 May 2016, Legislative Council Committee Room, Parliament House, Spring Street, Melbourne

| Name | Title | Organisation |
|-------------------|---|---------------------------|
| Mr Chris Eddy | Chief Executive Officer | Hobsons Bay City Council |
| Mr Andrew Day | Director, Corporate, Business and Finance | Yarra City Council |
| Ms Tracey Slatter | Chief Executive Officer | Port Phillip City Council |

Appendix 3

Councils who lodged an intention to apply for a variation

| |
|------------------------------|
| Bass Coast Shire Council |
| Buloke Shire Council |
| Ballarat City Council |
| Casey City Council |
| Darebin City Council |
| Greater Geelong City Council |
| Melbourne City Council |
| Glen Eira City Council |
| Hepburn Shire Council |
| Hindmarsh Shire Council |
| Horsham Rural City Council |
| Latrobe City Council |
| Maribyrnong City Council |
| Mitchell Shire Council |
| Moorabool Shire Council |
| Murrindindi Shire Council |
| Pyrenees Shire Council |
| Towong Shire Council |
| Yarra City Council |
| Yarriambiack Shire Council |
| Wyndham City Council |

Appendix 4

State Emergency Service funding by local government (with one or more unit)

A4

| Council | Number of Units | State Government Funding (\$) | Local Government Funding (\$) | 2014–15 Total Cash Received by Unit (\$) |
|--------------------|-----------------|-------------------------------|-------------------------------|--|
| Alpine | 2 | 25,706 | 25,706 | 51,412 |
| Ararat | 1 | 13,253 | 15,024 | 28,277 |
| Ballarat | 1 | 16,215 | 15,808 | 32,023 |
| Bass Coast | 4 | 51,412 | 51,412 | 102,824 |
| Baw Baw | 2 | 22,449 | 0 | 22,449 |
| Benalla | 1 | 13,253 | 13,253 | 26,506 |
| Brimbank | 1 | 16,215 | 8,000 | 24,215 |
| Buloke | 2 | 13,668 | 13,268 | 26,936 |
| Campaspe | 4 | 45,193 | 23,564 | 68,757 |
| Cardinia | 2 | 32,030 | 6,000 | 38,030 |
| Casey | 1 | 15,815 | 15,815 | 31,630 |
| Central Goldfields | 2 | 25,706 | 25,566 | 51,272 |
| Colac Otway | 2 | 19,487 | 19,487 | 38,974 |
| Corangamite | 5 | 51,827 | 51,827 | 103,654 |
| Darebin | 1 | 15,815 | 6,200 | 22,015 |
| East Gippsland | 8 | 90,786 | 49,416 | 140,202 |
| Frankston | 1 | 16,215 | 15,815 | 32,030 |
| Gannawarra | 1 | 12,853 | 12,853 | 25,706 |
| Glen Eira | 1 | 16,215 | 0 | 16,215 |
| Glenelg | 3 | 26,121 | 16,379 | 42,500 |
| Golden Plains | 1 | 12,853 | 12,853 | 25,706 |
| Greater Bendigo | 3 | 35,702 | 35,732 | 71,434 |
| Greater Dandenong | 1 | 12,853 | 12,853 | 25,706 |
| Greater Geelong | 4 | 55,174 | 21,500 | 76,674 |
| Greater Shepparton | 2 | 26,106 | 26,106 | 52,212 |
| Hepburn | 1 | 13,253 | 15,000 | 28,253 |
| Hindmarsh | 2 | 25,706 | 12,000 | 37,706 |
| Hobsons Bay | 1 | 12,853 | 8,500 | 21,353 |
| Horsham | 1 | 12,853 | 0 | 12,853 |
| Hume | 3 | 47,845 | 47,445 | 95,290 |
| Indigo | 4 | 39,374 | 39,374 | 78,748 |
| Kingston | 2 | 31,630 | 31,628 | 63,258 |
| Knox | 1 | 16,215 | 15,815 | 32,030 |

Appendix 4 State Emergency Service funding by local government (with one or more unit)

| Council | Number of Units | State Government Funding (\$) | Local Government Funding (\$) | 2014–15 Total Cash Received by Unit (\$) |
|----------------------|------------------------|--------------------------------------|--------------------------------------|---|
| La Trobe | 2 | 32,030 | 32,030 | 64,060 |
| Loddon | 1 | 12,853 | 2,500 | 15,353 |
| Macedon Ranges | 2 | 28,668 | 28,668 | 57,336 |
| Manningham | 1 | 15,815 | 0 | 15,815 |
| Mansfield | 1 | 12,853 | 6,000 | 18,853 |
| Maribyrnong | 1 | 15,815 | 0 | 15,815 |
| Maroondah | 1 | 15,815 | 0 | 15,815 |
| Melton | 1 | 15,815 | 0 | 15,815 |
| Mildura | 3 | 29,483 | 29,083 | 58,566 |
| Mitchell | 2 | 28,668 | 28,668 | 57,336 |
| Moira | 3 | 38,959 | 38,959 | 77,918 |
| Monash | 1 | 15,815 | 7,500 | 23,315 |
| Moonee Valley | 1 | 16,215 | 12,500 | 28,715 |
| Moorabool | 1 | 15,815 | 6,000 | 21,815 |
| Mornington Peninsula | 2 | 25,706 | 16,848 | 42,554 |
| Mount Alexander | 1 | 12,853 | 12,853 | 25,706 |
| Moyne | 2 | 19,487 | 19,487 | 38,974 |
| Murrindindi | 3 | 38,559 | 25,707 | 64,266 |
| Nillumbik | 1 | 15,815 | 15,815 | 31,630 |
| Northern Grampians | 2 | 22,849 | 11,000 | 33,849 |
| Port Phillip | 1 | 15,815 | 0 | 15,815 |
| South Gippsland | 2 | 25,706 | 25,706 | 51,412 |
| Southern Grampians | 3 | 32,340 | 31,171 | 63,511 |
| Stonnington | 1 | 15,815 | 14,500 | 30,315 |
| Strathbogie | 1 | 13,253 | 12,853 | 26,106 |
| Surf Coast | 3 | 32,340 | 27,660 | 60,000 |
| Swan Hill | 2 | 19,887 | 26,350 | 46,237 |
| Towong | 3 | 32,340 | 32,340 | 64,680 |
| Wangaratta | 1 | 12,853 | 12,853 | 25,706 |
| Warrnambool | 1 | 16,215 | 12,853 | 29,068 |
| Wellington | 6 | 74,661 | 44,050 | 118,711 |
| West Wimmera | 3 | 19,902 | 6,098 | 26,000 |
| Whitehorse | 1 | 15,815 | 21,815 | 37,630 |
| Whittlesea | 1 | 15,815 | 10,000 | 25,815 |
| Wodonga | 1 | 16,215 | 16,215 | 32,430 |
| Wyndham | 2 | 29,068 | 18,500 | 47,568 |
| Yarra Ranges | 3 | 44,483 | 44,483 | 88,966 |
| Yarriambiack | 3 | 32,340 | 32,340 | 64,680 |

Note: Funding is rounded to the nearest dollar.

Source: Data provided by VICSES, www.parliament.vic.gov.au/images/stories/committees/SCEP/Rate_Capping/2nd_Report/Other/SES_Data-response_to_QoN_030516.pdf.

Appendix 5

State Emergency Service funding by local government (with no units)

| Council | Funding |
|--------------------------------|---|
| Banyule City Council | Total funding provided \$7,200 (\$3,600 each to Northcote and Nillumbik units) |
| Bayside City Council | Contribute 52% of funds for the rental of the warehouse for Moorabbin Unit which is around \$40,000 contribution per year by the council. No other funds or support is given. |
| Boroondara City Council | Total funding provided \$12,000 (\$6,000 each to Whitehorse and Stonnington (Malvern) units) |
| Melbourne City Council | Total funding provided \$12,000 (\$6,000 each to Port Phillip and Footscray units) |
| Moreland City Council | Total funding provided \$17,800 (CPI'd yearly) to Broadmeadows unit |
| Pyrenees Shire Council | Does not regularly contribute funding, offers grant funding on application |
| Borough of Queenscliffe | Does not regularly contribute funding, offers grant funding on application |
| Yarra City Council | Total funding provided \$6,500 across Malvern and Northcote |

Source: Data provided by VICSES.

