

TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Frankston — 5 April 2016

Members

Mr David Davis — Chair

Mr Adem Somyurek

Mr Richard Dalla-Riva

Mr Daniel Young

Mr Shaun Leane

Staff

Secretary: Mr Keir Delaney

Research assistants: Ms Annemarie Burt and Ms Kim Martinow

Witnesses

Cr James Dooley (affirmed), Mayor,

Mr Dennis Hovendon (affirmed), Chief Executive Officer,

Mr Tim Frederico (affirmed), Director, Corporate Development, and

Mrs Kim Jaensch (affirmed), Manager, Financial Services, Frankston City Council;

Mr John Nevins (affirmed), Chief Executive Officer, Kingston City Council; and

Mr Mick Jaensch (affirmed), Director of Corporate Services and Acting Chief Executive Officer, Greater Dandenong City Council.

The CHAIR — I begin by declaring open this hearing of the environment and planning committee with respect to its public inquiry into the impact of rate capping.

Evidence given here today is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Therefore information given here today is protected by parliamentary privilege; however, any comment that you repeat outside may not be protected. All evidence is being recorded by Hansard and you will be provided with proof copies of the transcript in the next couple of days. We have allowed sufficient time for the session, and I will ask people to give an introductory statement.

The Honourable Adem Somyurek is here with me in this subcommittee today and a further member or two will attend through this process. Finally, we have two inquiry submissions here — one from Frankston and one from Dandenong — that we accept as evidence in the first instance. We might start with a short presentation from each of the municipalities.

Cr DOOLEY — Thank you, and welcome to Frankston. Let me start by saying I completely understand the sentiment behind the state government's introduction of rate capping. As a community member I am continually confronted by ever-increasing bills but never do I have more to show for my increased expenditures. In particular I am horrified by the increases I receive from banking and insurance companies, gas and electricity companies and telecommunications companies. But as a representative of local council I feel that I am perhaps being made a scapegoat for the excesses of these kinds of companies, over which the state government and commonwealth government seem powerless in their oversight.

The state government is right to take action, but I believe that the first step in this action should have been to take into account the local circumstances of a community, the maturity and establishment of local infrastructure and the past financial performances of each municipality. At Frankston council we indicated quite early in the piece that we would not be applying for a rate cap variation. The fundamental reason behind this decision is because over the last four years Frankston council has put its operational budget under the microscope. We did, with some initial discomfort for our staff, scrutinise the budgets through a line-by-line analysis of our expenditures. Further to this we have restructured our organisation to ensure that our services were neither overstaffed nor understaffed. Along the way we have withdrawn from some services, such as family day care, and we have brought other services in house, such as graffiti management, street sweeping and parking services.

We have scrutinised and reduced our insurance costs, our WorkCover costs, our purchase of fuel for our transport fleet. We have improved the handling of payroll, we have formalised our human resources department, we have tightened our commercial contracts management and we have put in place an asset management system to ensure the more timely maintenance of the community's assets. Along the way we have gained the trust of our employees in that we have their interests and interests of the city at heart.

As a result of these actions we have been rewarded through an accumulated \$20 million in savings to our operational budget. We have then reinvested these savings into our new capital works and capital works renewal program. We have also, I should add, won the national Keep Australia Beautiful Award for Sustainable City of the Year for 2015. We believe that we have a good news story to tell — that is, by attending to the very basics of local government functions there is a carrot to be obtained and that this is a far more positive approach than the use of a stick, where unintended and unwelcome outcomes are likely to occur.

With regard to local circumstances, I believe that it is disingenuous to compare local government areas in a like-for-like manner. Frankston, for example, is classed as a metropolitan council and as such it is treated in the same way as inner-urban councils such as Port Phillip, Glen Eira and Bayside. But these councils have an advantage over Frankston in that their assets were built many years ago and as such their capital works requirements are not as urgent as they are in Frankston. They also have a more lucrative and larger rate base and they operate in a considerably smaller footprint, which means fewer parks, fewer reserves, fewer sporting clubs, fewer creeks, fewer roads and fewer footpaths.

Please note that the cities of Port Phillip, Glen Eira and Bayside would all fit within the City of Frankston's boundaries. We have a one-third of their populations and cover three times the area of any of them. As such we have expenses that they could not imagine, and they have access to alternative income streams that we could only dream off. I understand the City of Port Phillip receives some \$30 million per annum in income from parking. Compare that to Frankston's \$1 million in revenue from parking income. This access to additional

funds from parking revenue also gives those councils an added advantage when applying for grants from the state and commonwealth governments in that many of these grants require matched funding. At Frankston we really do not have the excess cash to apply for many of these grants, and as such, going forward, we will remain at a comparative disadvantage to many of these other metropolitan councils.

We have trimmed our operational costs to the bone. In the coming financial year we will be meeting the challenge of rate capping by reducing our capital works program by some \$10 million.

I also have with me here, and I submit this for the inquiry's evidence, the New South Wales Independent Pricing and Regulatory Tribunal's report *Assessment of Council Fit for the Future Proposals*. It is an inquiry into rate capping, and it talks about the fundamental crisis that New South Wales councils are in financially. Thank you.

The CHAIR — I thank you, and we will come back with some detailed questions in a moment, but we might just accept that document as a further submission. It is obviously of interest from New South Wales and their experience of rate capping.

Mr HOVENDEN — Firstly, I welcome both yourself and the other member of the parliamentary committee to Frankston. I suspect that this, perhaps — —

The CHAIR — Thank you for your hospitality too, Mayor and CEO.

Mr HOVENDEN — I suspect that this will probably be the most easiest meeting that you will undertake during the course of your terms of reference. I understand the terms of reference have been set up to actually look at the impact of rate capping. With the emergence of rate capping, the impacts at this point in time are unknown, but I suspect they actually will come in time.

As outlined by the mayor, the council has undertaken an extensive amount of work over the period of time the current council has held been elected. The fear is that work may be brought undone. The mayor has indicated that in the next five years, when the impacts of rate capping do start to emerge, this council, like many other councils across Victoria, will be faced with the challenge of looking to replace possible revenue streams of \$43 million. That is going to be no mean feat, no mean challenge, but I think local government, as always, will stand up on behalf of its community and try to adhere to that.

I think the committee, during the course of its travels, will have to look at the unintended consequences of rate capping, possibly not thought about. I reflect on Frankston City Council's journey in protecting its local business community through its capital works program. The mayor has indicated that we would not have actually probably built some of the things that we did do. I highlight our aquatic centre, a flagship project for this region, a \$50 million build, of which \$20 million was actually reinvested back into local business. If you ponder and if you reflect, right across this state if councils start reducing their capital works, what is the flow-on effect to local businesses, to people who need jobs? We sit in a council, a municipality, whose unemployment rate is significantly higher than the state's unemployment rate, and particularly in the youth area the council is always to the forefront of job creation. At jeopardy could be the capital works program and the flow-on impacts.

During my time in local government I have had the opportunity to work in New South Wales. The mayor has highlighted the Fit for the Future report which has recently been commissioned. It looks at the impacts of rate capping in New South Wales. They have had it now for a number of decades. Sixty-three per cent of councils were considered not fit for the future, and the remaining councils certainly were looking at how they could maintain their financial situation. I have worked in that environment. I understand the rate capping environment of New South Wales, and I think the report is reflective of the impact in part of rate capping over many years. How do we maintain assets with reduced income? How do we actually build capital works? How do we continue to provide the services? These are the questions that councils right across the state are going to be contemplating now and into the future, and I suspect that this committee will certainly be looking at these questions alongside local government.

I pose the question: did state government and local government do enough in looking at the issue of shared services? The previous government certainly had in place a working party, a working committee, that involved the peak bodies — the MAV, the VLGA, LGPro, CEOs from councils across the state and indeed the state government. We were looking at, finding and actioning opportunities for shared services, which was delivering

not only services to the community in a more efficient and smarter way but was delivering a financial saving to those communities, so I am left to ponder whether we should have continued that work.

Indeed the state government and local government perhaps should sit at the table and have a mature conversation and have a look at the opportunities and what things we are doing. There is a lot of duplication. There is a lot of confusion, not only in the minds of state and local government but also in the community, on who is responsible for what. The passage of time, for example, has seen a 50-50 shared funding arrangement in library services blow out to 80 per cent local government and 20 per cent state government. Perhaps the time has come for a conversation where we might have to with local government go all the way to 100 per cent, but in return the state government agree to actually take on responsibility for something that council is funding. That is a mature conversation and perhaps it should be teased out.

There is an enormous amount that councils right across this state do acting as committees of management for state government assets. Perhaps we need a conversation along the lines of whether that is a sustainable model. Perhaps the state government could actually look at the responsibilities and reshape them. Is it a carrot, is it a stick? Perhaps a better outcome would be an incentive to local government right across the state to continue the path to financial sustainability, more efficient services, more effective services, with inducement from state government and the balance in the expenses incurred.

Rate capping is here. We understand it. Local government fought the campaign and did not win. We will live and learn to live within rate capping, but I suggest that the community's expectations, Mr Chairman, will never be capped, and they have expectations of what the council can actually achieve. Right across this state that expectation grows, but we now find ourselves in an environment of a reduced income and likely to have to face challenges never thought of before in our state. Thank you, Mr Chair.

The CHAIR — I will ask Greater Dandenong to speak. Is it Mick?

Mr JAENSCH — Yes, it is. Firstly, I would like to place on record to the committee that I am attending this committee on behalf of John Bennie, our council CEO, who is presently unwell. John would have liked to have been here to present this presentation.

It is noted at the outset that the role of the committee is to inquire into the impacts of rate capping on the local communities. Given the City of Greater Dandenong has elected not to apply for rate variation in 2016–17, the committee may quickly conclude that there will be little adverse outcomes on this council. Our presentation today does, however, highlight that while this might be the case in 2016–17, it will certainly not be the case in the following years to come.

Why did the City of Greater Dandenong not apply for a rate variation in 2016–17? In essence council had three reasons it did not apply. Like all councils with rate capping, it has gone through a rigorous review of all of its expenditure, and in 2016–17 council is confident that it can accommodate the shortfall in revenue that will occur through rate capping in that year. Secondly, council did not genuinely believe that the ESC would consider rate capping applications for metropolitan councils in Melbourne. Finally, council also believes that the timing of applications, combined with the expected level of community engagement, was unrealistic for council to actually achieve.

What will be the impact on the City of Greater Dandenong in years to come? Where will the pressures be felt? It is not unreasonable to assume that most metropolitan councils, if they are simply in 'maintenance' mode with no major new infrastructure requirements, may well be able to cope with the outcomes of rate capping for a number of years. This is certainly not the case with the City of Greater Dandenong. Over the past seven years there has been major investment in Dandenong involving over \$100 million. We do, however, have much unmet demand from the community for new infrastructure.

Moving forward we have key projects in Springvale — to build the Springvale community and civic hub, including a new library. We have no community facilities currently in Keysborough South and we need to build a community facility there. We have the Dandenong Oasis aquatic centre, which is nearly 50 years of life and needs replacing, and we are looking at a Dandenong community hub. Again these projects total well over \$100 million. These projects are all likely to face either delays or indefinite deferral under a rate-capped environment if council is unable to achieve any future relief from the rate cap.

The committee may well ask, 'Why can't council simply borrow funds?'. In the presentation I have provided the committee you will see a table where I have included our total indebtedness to rate revenue. This council has heavily invested in debt funding over the past seven years to achieve its outcomes to date. You will note that we have high levels of indebtedness which are more than double what the average metropolitan council has in Melbourne.

So what has council done to prepare our organisation for rate capping? It would be fair to say that the committee would expect all councils to react to this new environment. Like all councils, we have embarked on a range of cost-cutting initiatives. All staff vacancies are reviewed by the executive management team, and several in 2015–16 have not been replaced, with some redundancies already occurring. Management positions are being combined; positions such as the IT manager and finance manager are being rolled together. Discretionary budgets, such as for professional development, have also been reviewed. All of these decisions have risks, and whilst they may have short-term benefits to the community and ratepayers, they will come with long-term consequences for council. Council has also recently finalised its new enterprise agreement, which was based on 2.9 per cent for 15–16, 2.7 per cent for 16–17, and 2.6 per cent for 17–18. It was a very difficult enterprise agreement negotiation process, and council has certainly driven as hard a bargain as it can in that environment.

What are our forecast shortfalls moving forward in a rate-capped environment? At present our modelling shows that we will be \$16 million short over the next five years if we are to try to meet our capital works targets that we currently have and our long-term financial strategy. What service decisions will council soon face? Whilst council has dealt with the impacts of the rate cap in year one, it will become progressively harder in each successive year, and those decisions will become more difficult. The choice for council is to simply cut investment in capital works or, alternatively, to reduce its service provision. By way of example, this council currently funds nine school crossings which do not meet the warrant requirements of VicRoads, and currently funds those crossings to 100 per cent. These types of services will be under immediate threat. Council will also consider its position in a range of community services, and to this end it notes the HACC reforms and also notes the recent cuts to family day care funding.

What outcomes is council looking to achieve from the state government? Whilst council does not support rate capping, it realistically acknowledges it is likely to be here to stay. I think as one member of Parliament recently said to my CEO, 'The genie is out of the bottle and is unlikely to be returned'. Council is actually looking to see the variation framework that the ESC is currently applying changed. It is unrealistic to expect councils to achieve a 'popular vote' to increase rates above the cap. Council readily acknowledges that it should be required to submit a compelling financial argument to achieve a variation and potentially demonstrate community support for key infrastructure projects, but not support for a rate increase per se. Council would note that that is a hurdle that is not applied to any other level of government in Australia. Thank you.

The CHAIR — Thank you for that submission. We will come back with some questions on that. I might ask John to present Kingston's perspective.

Mr NEVINS — Thank you, Mr Chairman. The City of Kingston accepts that the state government has been elected with a mandate to implement rate capping, and the Kingston council is fully committed to complying with the state government's rate capping guidelines. Prior to rate capping Kingston was projecting rate increases of around 4 per cent per annum. We have now readjusted our financial plan to meet the rate capping guidelines. However, I would like to make a few comments on the actual rate capping guidelines themselves.

The cost rise due to an acceptable level of inflation is considered a good thing, as opposed to the global experiences and the known consequences of deflation. The RBA has a mandate to control inflation, on behalf of successive federal governments, to between a range of 2 and 3 per cent. However, the use of the ABS consumer price index as a guide to capping rates for local government I think raises a couple of questions. The CPI — the consumer price index — as compiled by the ABS measures a household basket of goods. In recent times we have had a number of high-profile examples of cost increases by particular sectors that are well outside the CPI guidelines, the most recent example being the health insurers, where the federal government has approved increases of agreed numbers of 6 per cent, 8 per cent, 10 per cent depending on who your insurer is and your category of private health insurance. But those cost increases are considered reasonable because of the cost drivers applicable to the health sector — the cost of medicines, the hospitals et cetera. If we were meeting with a group of logistics businesses, they would be talking about fuel indexes as a suitable measure of the cost driver. In the construction sector we talk about building material cost indexes.

I think where there is an opportunity to refine and further develop the rate capping guidelines is to look at a suitable cost index for local government, because the CPI is not a suitable cost index for local government. Local government does not spend its money in the way that a typical household would spend its money. We spend huge volumes on energy and on building materials, asphalt and direct services driven by labour costs.

The CHAIR — Thank you. I am going to start back with Frankston with the first question and then come to Adem after that, and then I will come back to each of the councils with some further questions. With respect to Frankston's early work, if I can describe it that way, in terms of cost containment you have described a microscope, Mayor, and going through line by line a very significant spending — you might want to detail that or have your CEO detail that at some length — and that predated the rate capping regime. Essentially, as I understand it, Frankston did a lot of detailed cost control work ahead of the rate capping introduction, and it seems to me that in fact the rate capping regime penalises councils that have done that work ahead of time and leaves them at a disadvantage because they start at a lower base when the rate capping regime comes in but they have also lost many of the easy and laudable steps of cost control that others will institute early on.

Mr DOOLEY — Thank you, Mr Chair. We found ourselves in a rather awkward position when we came into council three and a half years ago. We had taken on the building of the PARC aquatic centre, which added 24 million to our bottom line. We then had the Stevensons Road landfill cost that we had to deal with, which was another 10 million, and we had a call on defined benefits superannuation, which was another 6 million. So the incoming council found that there was a — we thought we were financially in trouble, so we basically had to take some fairly drastic action, and in the first budget coming in we did exactly that, line by line. We opened up all the accounts and we looked at all the expenditures — postage, telephones. The process took weeks and weeks and weeks to do, many nights and Saturdays and so forth, going through and scrutinising all of those matters. That first year I think we saved 2.4 million. The following year we did the same again; we got 1.5 — —

Mrs JAENSCH — It was 1 million the following year and then about three and a half.

Cr DOOLEY — But on top of those, in between the budgetary periods the council and council staff, the senior management, took some fairly aggressive actions in looking for any savings that they could possibly get. Parking, for example. It was looked after by an external contractor. We brought it in house. And what was the saving we got there, a million dollars per annum?

Mrs JAENSCH — Yes, about that.

Cr DOOLEY — What else? All along the line. Fuel — we have changed our fuel provider now. We get an additional 4 cents a litre in savings on fuel. We put in a telephone system internally, which basically saved us a lot of money.

The CHAIR — So all that added up to just shy of \$20 million over that period ahead of the rate capping?

Cr DOOLEY — We have invested that money, and we believe we have invested that money wisely. We have put it into things such as our waste transfer station. Going forward, once the landfills at Hallam and so forth close, we will basically have need of that waste transfer station to consolidate loads to further sort matters out. The community wanted this but it was also a prudent financial decision for us to basically have a waste transfer station. With a lot of our investments we have done some pretty things, such as investing in a yacht club locally. But that was more about trying to change the conversation about Frankston and basically capitalise on our strengths, such as the cleanest beach in Victoria, the most popular beach in Victoria.

The CHAIR — The rate capping, as you indicate here in your submission, will reduce the income over the next five years by about 43 million?

Cr DOOLEY — Compounded, yes.

The CHAIR — So that is a very significant impact and on a series of services — HACC, capital maintenance. You have outlined some of those and the impacts on the local economy.

Cr DOOLEY — Certainly with HACC we may have been perhaps overservicing or topping up in some areas. We have had to cut back to go straight to the guidelines on HACC. I have had a young mother sitting there crying in front of me — why can't we do more? The fact is that when the screws are coming in on all sides we have to stick to the guidelines and to what is there.

The CHAIR — In terms of the impacts on the community, the cost and other impacts, a large number of capital projects will not proceed is what you are saying too.

Cr DOOLEY — Delayed into the future, certainly the sporting clubs. This council traditionally was behind in its renewal program. It was lagging behind terribly. In the last couple of years the renewal program and the new capital works program had been increased. 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. In Mornington, they do not have footpaths or drains; they might have a ditch by the road. They quite often do not have sealed roads. When we look at footpath maintenance in the future, it might be the case that we actually rip up a footpath rather than fix it, and leave people to mow their own lawns, such as they do in Mornington. So there are all these things we basically have to look at. As my CEO said, how do you cap the expectations of your local community? Where you live, you have a different expectation. If you go a few kilometres that way, you will find that they are okay not having footpaths, but people choose to live here in Frankston because they have footpaths. Quite often they are frail; we have a very elderly population. They need footpaths to get down the road.

Mr SOMYUREK — If I can just stick with Cr Dooley. You mentioned the cost savings. You were very creative in what you did. Congratulations to you, especially with the reverse outsourcings, which are good, too saving a million dollars there. Was that done in the expectation that the rates cap would be coming in?

Cr DOOLEY — No. It was done long before the rates cap came in. Ultimately we were after a better service. That was our initial impetus, certainly with graffiti management, for example. It was done by a subcontractor. The subcontractor would basically get a phone call, he would go to an address, paint over the graffiti — remove the graffiti, whatever — and drive on to the next address. He would drive past 10 graffitied fences on the way. We said, ‘No, we want better’. When we realised that we could basically do better by bringing it in house at a cheaper cost — and I think it was a \$40 000 in saving on that one, per annum?

Mrs JAENSCH — Yes.

Cr DOOLEY — And so on — the same with parking, street sweeping and so forth. Initially it was about getting a better service for the locals. If you drive around Frankston at the moment, you will not see graffiti. The change from four years ago is quite astonishing. It is worth looking at.

Rate capping was way back there. We have had to act on things like our utility costs, these things — telephone, gas, electricity. We have been in the process. For example, a good one is green energy. This council used to buy green energy, which is a more expensive form of energy. We made the decision to think global, act local. We started putting solar panels on a lot of our buildings and investing back in basics like plumbing — we were losing a fortune in water — electricity and gas. We put in cogeneration systems at the aquatic centre and trigeneration over here at the arts centre, all with the aim of basically getting down those costs long term. We invested back into all of these things for the long term. It really had nothing to do with rate capping. There was a variety of motives. One, we had our back to the wall; and two, we wanted better services. Rate capping was completely off.

On what we were saying before about utilities, we budgeted last year for a 15 per cent increase in electricity. We are doing the same again this year; I believe we have budgeted for a 15 per cent increase in electricity. We reduce our costs and the next thing you know they just put them up again. If we had followed through, I think we would have saved — how much? The savings on electricity, with the solar panels and so forth, if we had maintained our usage, which we actually reduced, what was the saving on that one?

Mrs JAENSCH — I would have to take that on notice.

Cr DOOLEY — It was significant, anyway.

The CHAIR — I am just conscious — I want to come to the other councils too. I particularly want to talk to Dandenong, if I can, and just come back over. As I understand it — and I am just coming from your submission here, but I just want to be quite clear — key projects, including the Springvale community hub/library at \$40 million, the Keysborough South community facilities at 15, the Dandenong Oasis aquatic centre at

50 million, and the Dandenong community hub at 20 million, are all projects that are likely to be deferred. Am I correct in understanding that?

Mr JAENSCH — To the committee: the final three are the ones that are likely to face deferral. Council is committed to proceeding with the Springvale community and civic hub. As the committee notes, it is a \$40 million project. It will be funded by council undertaking \$20 million in loan borrowings, which will really take us up to the maximum that we could do with our debt funding. It will also be partly funded by an \$11 million asset sale, which has already occurred. The other projects are likely to face considerable deferral or delay.

The CHAIR — Right. And that will be as a direct consequence of the rate capping process?

Mr JAENSCH — Absolutely. As noted at the City of Kingston, 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.

Mr SOMYUREK — Just on the federal funding too, the cut in the financial assistance grants by the federal government, what impact has that had on your individual councils, and how much did you actually lose out?

The CHAIR — It is actually a freeze, I think, isn't it?

Mr JAENSCH — Yes. It is significant to Dandenong. We currently get \$10.5 million in federal funding, so it is 6 per cent of our total revenue base. We would normally be having that indexed by around 3 per cent per annum, and it has been frozen at previous levels. This is the final year coming up of the three-year freeze. So you are looking at an amount of potentially about \$300 000 a year that we are losing. It is significant, but not in terms of the rate cap.

The CHAIR — So just in the context of that, state payments to Dandenong, have they grown or fallen this year, or remained static?

Mr JAENSCH — They have remained static.

The CHAIR — Right. And is that the case with other councils? Dennis, is that the same with Frankston?

Mrs JAENSCH — Yes.

The CHAIR — And also with Kingston? Are they identical, or have they fallen slightly? How is that — I am just trying to get an exact idea.

Mr NEVINS — There has been a freeze, Mr Chairman, in the federal government financial assistance grants.

The CHAIR — That is right.

Mr NEVINS — And with the state grants, be it for libraries or maternal and child health, there has been a marginal increase. I cannot quote the exact percentage, but there has been a slight increase.

The CHAIR — Is that the case on other councils, not on Dandenong — Dandenong is a slight fall.

Mrs JAENSCH — Yes, through the Chair to the committee, the assistance grants have remained at a fairly status quo amount, but over time because of the zero or slight drop, depending on the drivers in the calculation, we have actually had a negative impact.

Mr SOMYUREK — I note that Dandenong in its submission says that applications from metropolitan councils would not be seriously entertained by the ESC in the first year of rate capping and that is why you have not actually put in an application. I note that every other council represented here has not put in an application either. That seems to be pre-empting the ESC a little bit. Can you perhaps expand on why you did not do that? And built into your decision, was there any community consultation or consultation with various stakeholders in your council?

Mr JAENSCH — Yes. To the committee, there were three reasons why we chose not to put in, and that was one of the three reasons, not just the only reason, and it is a perception rather than necessarily anything based in reality. I do note that there are very few metropolitan councils that are continuing with a rate variation application. Obviously the City of Casey will present shortly, and they are one of them. It is certainly a perception that is held by the vast majority of metropolitan Melbourne councils that I have spoken to that the ESC will not seriously entertain these applications from large councils, but, as I said, it is a perception at this point in time.

Mr SOMYUREK — But there must be more to it than just the feel of the thing, the vibe of the thing. Do you have anything more specific rather than just perception?

Mr JAENSCH — If you go back to the ESC's papers and the guidelines they have put out, even comments in those papers where they make comments in writing that they did not expect to receive many applications.

Mr SOMYUREK — Did you consult with the community on this?

Mr JAENSCH — We have certainly consulted the community on a range of things, but in terms of the rate cap in terms of the community — whether the community wanted an increase above the 2.5 per cent — the time lines that were allowed by the ESC did not allow us to do that in a way that would have been productive.

Mr LEANE — I apologise that I am late. So everyone is a council officer?

Cr DOOLEY — I am not; I am a mayor.

The CHAIR — Cr Dooley.

Mr LEANE — Cr Dooley, I am not going to hurt your feelings in saying this, but for the council officers, we have had a lot of evidence around councils that as part of their concerns with the rate capping policy they have been sticking to their knitting, for want of a better description, and flagging concerns around certain services that exist at the moment that councils support. But I suppose as council officers, is there ever a frustration? I find a lot of councils cannot help themselves but deal themselves into issues outside their jurisdiction as far as federal and state issues go. I am just wondering if you have seen a trend since the rate capping policy: has that reduced as far as buying into issues outside councils' knitting, or have you found it just the same?

Cr DOOLEY — He can answer that, but I would also like to answer that, if you do not mind.

Mr LEANE — Yes.

The CHAIR — Be brief, if you can.

Mr HOVENDEN — Thank you, Mr Chair. I think before the member of the committee came in we were reflecting on the journey that Frankston City Council in particular had been on. I do not think anyone sitting in this room would deny the fact that all three levels of government could actually perform better. We are not immune, nor are the other two levels.

The journey that Frankston was involved in and is still involved in was tightening up what we were involved in. The mayor has articulated that we even took the hard decision where we did not believe that we should be in a service — family day care, for example, before and after-school programs — we made a decision to exit that. But rather than leaving the community vulnerable we actually negotiated an alternative provider so that the community would be still supported, and then we looked the other way and we have returned services in house because we believed that we could undertake that service in a more effective manner.

The mayor quite rightly pointed out that ratepayers, the community, do not like high rate rises, and so the Frankston City Council were involved in putting together a long-term strategic financial plan that avoided yoyo rate rises and set out what the community could expect year from year at 5.5 per cent — not to live beyond our means but to actually address the needs of the community based on a clear understanding of the community's needs because we are there every day working alongside the community.

We were putting money back in through the 5.5 per cent, back into asset management, reducing the asset renewal gap. We were living within our means, and rate capping has now challenged us. For all that good work — it was the point that I was making — we should have been receiving an incentive, not a disincentive, undoing all our good work.

The council every day — every day — considers the services that we are providing: are we the most appropriate provider? In some cases we may not be, but it was the point that I was making, that perhaps the state and local governments should be sitting at the table, dissecting the services that are being provided, avoid the confusion, and be big enough under the state-local government agreement that everyone knows about to actually once and for all determine which services should be provided by the state government and which services should be provided by local government.

We have not touched on the other hidden costs that local government has to factor in as well. We collect levies for state government, and what is happening in the traditional library funding model is starting to happen in the fire services levy. We started out receiving funding from the state government that would actually compensate council for collecting that levy. On that levy and the costs associated to council, we have got levy creep: we are incurring additional costs not thought of at first. We incur and have to pay over for fire plug service maintenance. Perhaps the state government can take back the fire plug service maintenance and look after that and council can be left to provide another service.

I think there needs to be a mature conversation between local and state government to get it right. At the end of the day the beneficiaries of the state and local governments sitting down at the table will be in fact the community that we both jointly serve.

Mr SOMYUREK — I note that the City of Casey is putting in an application to the ESC. Should the City of Casey be successful in its application, would the councils around this table be concerned about your perception by not putting in an application to the ESC, because Casey is a metropolitan council? How would you explain that to your community who would want to know why you did not put in an application to the ESC?

Mr NEVINS — Can I clarify Kingston's position, if I could? Kingston decided it was not going to make an application for a rate exemption because it did not consider that it needed to make an application for a rate exemption, so we were not driven by any perceptions of influence or perceived outcomes at all in our decision-making.

Mr JAENSCH — Just following up from that again, I highlight there were three reasons. The very first reason we did not put an application in in 2016–17 was that we have been able to accommodate the rate cap in 16–17 without any adverse impact for that year. In fact I think the residents of Dandenong would have been disappointed had we pursued an application on that basis.

Mr HOVENDEN — Mr Chair, from Frankston's point of view, likewise. I think the previous hard work that we have demonstrated put us in a position that we did not believe that we needed to put a rate cap variation in. That is not to say that in future years, depending on the circumstances that we have outlined, that you as the government do not expect to see Frankston along with other councils. Casey can speak for themselves, and I am sure that they will put forward the arguments that they require for a rate cap variation. I will say that I think all of local government will watch with interest as to how the process plays out, because it is uncharted waters. We will reassess our situation after the first 12 months of rate capping, and if our circumstances change, then the council in its wisdom will have a look at whether a variation will be sought. But we need to be very mindful of the services that have to be provided and try and balance those services against the expectation of the community, but more importantly the capacity of council to deliver the services in the most efficient manner.

The CHAIR — I wanted to ask all three councils about debt. I am appreciative particularly for the Dandenong material on debt and your indication — there is a very interesting chart in your submission which lays out the relative debts. Some of that is historical. On page 10 of your original submission you have got councils like Whitehorse with very low debts, and Dandenong, Boroondara and Cardinia, for example, with higher debt levels. I am just interested to know how rate capping will impact or compound those debt issues. I hear — and you may tell me if this is correct information or not — that there has been out of the ESC and the department a kind of, and I am putting a colloquial phrase on this, a wink and a nod that you can actually go forward and increase debt. They have particularly, as I understand it, pointed this at councils with lower levels

of debt and said, 'Look, you have got lots of latitude here; off you go'. I am interested in the councils' response on that matter.

Mr NEVINS — I am happy to answer from a Kingston perspective, Mr Chairman. In round numbers, our debts are at about \$20 million, and for a council that collects rate revenue, in round numbers once again, of about \$125 million —

The CHAIR — It is relatively low.

Mr NEVINS — it is not a high debt level. Most of our debt is driven by the acquisition of our municipal building at 1230 Nepean Highway. We effectively pay half that debt through subletting to a private sector tenant, so our debt is minor. It is not a significant issue. We have plans to marginally increase our debt around some hubs that we are building. We are currently building a hub in Westall. That is about a \$9 million building project that will deliver significant community benefits.

In terms of the ratios that the Auditor-General would use to look at whether a council is financially sustainable or not, our debt level is very low. A more pertinent consideration, though, is our cash flow capacity, so when projecting forward our financial plan — and Kingston is not cutting services, it is not cutting its capital works program under the rate capping scenario that we currently have — we have to watch our cash flow capacity though. If we borrow more money, we have then got to repay that plus repay the interest. That is the driving consideration for us: cash flow, not the actual debt level.

The CHAIR — You would not be intending to increase debt in any significant capacity in the forward period?

Mr NEVINS — No, not in our forward financial planning. There is a marginal increase connected with the Westall hub project, but we have no plans to significantly increase debt. It is not that the ratios say we cannot, but rather from a cash flow perspective to make sure we still maintain capital works and our service levels.

The CHAIR — And I note that Dandenong has brought its debt level down when related to its revenue base.

Mr JAENSCH — Yes, we have brought our debt levels down, but our debt levels after we completed our Dandenong civic project were quite extreme and needed to be brought down to a reasonable level. Similar to what Kingston has just said, debt can be viewed in two ways. The first is whether your debt levels allow you access to borrow and whether you have spare capacity. The second one is very much about whether you have the capacity to service that debt in terms of debt repayment and debt servicing. We will look to borrow once again. We currently have \$58 million worth of debt on a \$100 million rate base, so our debt levels are reasonably high. We will probably stay about the same as that over the next five years. We will reduce it slightly and then we will borrow for the Springvale project, as I have mentioned. But certainly if the ESC were to make it as part of the variation of framework that they would consider rate variation applications on the basis of councils taking out more debt, that would make more sense.

The CHAIR — A rate variation where you had a program to reduce debt?

Mr JAENSCH — No. A rate variation where you plan to borrow to fund a major community infrastructure that had community support.

The CHAIR — And the borrowing was a component of that?

Mr JAENSCH — Yes, absolutely. In the case of the Springvale project, for instance, as I said, we are going to borrow \$20 million as a funding component for that. We need to service the principal and interest on that loan. That is going to have to come from within the rate cap at present. If that was a consideration by the ESC, that would be a positive step forward.

The CHAIR — But a solution where you went up in debt as opposed to collecting more rates is not a long-term sustainable solution.

Mr JAENSCH — Borrowing to fund a project where you amortise the cost of that over 20 years is still a prudent method of funding capital works. The issue we have got, as Kingston has pointed out, is with cash flow, so they are now restricted to service that debt.

Mr FREDERICO — Mr Chair, we are reasonably comfortable with our debt levels. We borrowed recently mainly for the aquatic centre and the new transfer station. We bought the regional transfer station, but we are comfortable with those debt levels. The critical thing about additional debt is that borrowing costs, even in this low interest rate environment, are going to be 4, 5 or 6 per cent. Even on an interest-only loan, on \$10 million you are going to be having to find \$600 000 or \$700 000 a year. At a 2.5 per cent rate cap, we can only recover half of that amount into the future. So as has been said by the other councils, that cash flow impost upon us means we would have to reduce outgoings in other areas to be able to fund the cost of the borrowing, so it must lead to a reduction in services. It might get us a new capital works project up early, but something has got to pay for it later on. Certainly if there is relief in the rate capping environment for debt funding for specific projects that the council embarks upon, that would certainly go some of the way to negating the effect of the cap on limiting borrowings and the cash flow to pay it off.

Mr LEANE — To follow up on the Chair's question, you did not really answer his conspiracy theory that some external agency like the Essential Services Commission or the department would advise you on your debt level. I would say that you would be more professional than that and you would be more organised than that to be advised by an external influence about what you should do in the future with your debt.

Cr DOOLEY — Thank you. I would like to answer that from the perspective of a councillor. As a councillor I am risk averse. If I have another call on our superannuation or we have another big liability hit us, we will not be able to do other things. A high debt strategy does not fit within a risk averse position. One of the key responsibilities of council is basically to minimise the liabilities of the council —

The CHAIR — For future ratepayers.

Cr DOOLEY — for future ratepayers, so it does not fit within the legislation or what we need to do as a council to basically protect the city to have a high debt ratio. We have currently got a debt of \$37.2 million; I think that is correct. At 6 per cent that is roughly \$1.8 million. That is one sporting club we will not be building in a year. So we are better off having lower debt. It is just financially better for us to forget about having a debt. That is not something that as a councillor I would want to see happen.

The CHAIR — Just on a related matter — and Frankston's submission goes directly to this — with EBA costs and the points made by a number of other councils about, as it were, the basket of goods that form the basis of an index, the EBA costs I think, or at least in the case of Dandenong, are higher than CPI at 1.1 per cent and higher than the rate cap at 2.5 per cent. Is that the same with each of the other councils? You might want to give me your annual figures for the EBAs.

Mr HOVENDEN — Mr Chairman, if you would allow us not to answer that question. While Dandenong has concluded their EBA negotiations, Frankston is just about to start their EBA negotiations and I would not want to be pre-empting — —

The CHAIR — You might want to give me the current year number.

Mr HOVENDEN — We are just concluding an EBA and the current figure in its last year is 3.25 per cent.

The CHAIR — So essentially my principle here is that the EBAs are all over the rate cap amounts — —

Mr HOVENDEN — As it stands.

The CHAIR — I am looking around the state and I am struggling to find a case that has an EBA increment of less than two and a half.

Mr HOVENDEN — As it stands at the conclusion of our current EBA, 3.25 per cent is significantly higher than the 2.5 per cent rate cap. Now what happens in negotiations with the relevant unions in the forthcoming months is yet to be played out.

The CHAIR — And in that consequence where does it land if the EBAs, to put in the general, come in at higher numbers? That means a loss of staff. Is that the conclusion in many cases?

Mr HOVENDEN — Mr Chair, your terms of reference talk about the impact of rate capping, and any person who says there will be no impact relating to rate capping I think is selling the community short. 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. Yet when councils actually talk about rate capping we are chastised and told that we are hiding behind rate capping. Far from it, Mr Chair, we are actually putting out into the community what the impacts potentially are and we have outlined them — whether they are services, whether they are construction, whether they are unintended consequences relating to our economic development within our community or whether indeed they are staff numbers. These are the realities that we are facing as a result of rate capping. You cannot have everything. If you cap council rates, if you reduce income, something has to give.

The CHAIR — I have one further question, and I am conscious that we are about on time; we started just a few minutes after time. I cannot not ask this question in this context here in terms of your cost structures. Sky rail coming down to Frankston — there is still obviously a debate occurring with a consultation process here and without a formal decision yet made by government. I am interested in the work that is done behind the scenes by councils — the planning work and the advocacy and also, potentially, provision for maintenance into the future. Has council looked at the costs of advocacy and planning work on the sky rail proposal here — the level crossing removals?

Mr HOVENDEN — I think it is a two-part question. There is probably an officer's prospective and then there is an elected member's perspective, and I see my mayor is itching to go with the elected member's —

The CHAIR — He is itching to go. We will hear from the officers first and then we will hear from the councillor.

Mr HOVENDEN — I think, Mr Chair, any proposal probably requires consultation and open communication with those people, whether they are the community or the councils, that could be impacted. Frankston City Council obviously commends the state government and the previous state government for the investment made for the infrastructure along the Frankston railway line; we are currently working with the state government on the transit interchange. From an officer's point of view, in a world of rate capping, we have seen limited information about rail crossing removal — whether we go under, whether we go up. We have seen the pictures, we have seen what the community may benefit from, not only infrastructure but in and around the land that will be sitting under sky rail.

I guess the plea is to continue the conversation and come and talk to council at an early stage and if there is a view that council is going to pick up the tab for whatever it is, then let us have that conversation so that we can factor it in, if indeed sky rail is built. That is our plea: do not wait until the 11th hour. Come and sit and have a mature conversation. I think you will find that local government is up for a challenge, but we need to know. We have a rate capping environment and I will go back to the point that if you are going to ask us to take on more, do we take it on and have to find it within our budget or does the state government give us the opportunity to take it on but also give us some financial assistance to do it? Otherwise the pretty pictures will pretty soon evaporate and we will be left with something that all of us are embarrassed about. So I guess the plea on sky rail is to keep us informed and keep us involved.

The CHAIR — Dandenong has got the Chandler and Corrigan crossings.

Mr JAENSCH — Yes. At the outset I say to the committee that I am probably the wrong person to be answering this question in a great deal of detail. I would highlight that council has three level crossings — one at Corrigan, one at Chandler and one at Heatherton Road — and the removal of those crossings is imperative to council, whether via sky rail or whether via other means. It has been a long-held project that this council has advocated to government for.

Council does have concerns about the ongoing maintenance underneath sky rail and is working with the level crossing authority on those concerns. Council will consider a report at its council meeting on the coming Monday night which stresses to the community what its position is on sky rail. It is certainly unlikely to be against sky rail but it certainly will express the community's concerns about the consultation process to date. Council continues to work with the level crossing authority on what facilities could be built in the rail corridor to benefit the local communities adjacent to sky rail.

The CHAIR — And Kingston?

Mr NEVINS — Chair, I had not connected rate capping with sky rail.

The CHAIR — Well, cost shifting occurs in many ways, you see. There are advocacy costs too.

Mr NEVINS — In Kingston there are 7 grade separations out of the 50, which is 14 per cent of the total number that the state government is committed to. There is one on the Dandenong line and there is rail above road there. There has been no approach to Kingston council about it having to accept any maintenance responsibility for anything in that rail reserve under that rail over road.

On the Frankston line within the City of Kingston there are six grade separations that have been nominated. The LXRA is in its very early stages of consultation. It has undertaken initial rounds. We have a commitment from the LXRA that it will be coming back to the community with options, and then those options will be explained and presented to the community and to the council and the community will have an opportunity to respond. At this point, we do not have — —

The CHAIR — You have also got, I think, Centre Road. The boundary of Kingston comes up to Centre Road.

Mr NEVINS — Yes, we have Centre Road. That is the Dandenong line. We will run rail over, and that is in the rail reserve, and there has been no approach to us about us having to take any maintenance responsibility at that point.

The CHAIR — Have you been consulted on that one to date?

Mr NEVINS — Yes. The LXRA has presented to the Kingston councillors. This was following the public announcement of the treatments that have been proposed or are proposed.

The CHAIR — Not prior?

Mr NEVINS — No. There was no briefing to Kingston council prior to the public announcement by the LXRA, and there was no briefing to councillors.

The CHAIR — Right. And the mayor, I think, wants to — —

Cr DOOLEY — My perspective is a little bit different; as a councillor I am not allowed to have a predetermined position on something. We have not seen all of the detail come to us yet. But in Frankston our concerns are somewhat different. We have a whole range of things that we are looking at. Obviously we have an upgrade of this station at the moment. This is very important — the realignment of the line. We would dearly love an electrification to Baxter. But what we really want in Frankston is more reliable and quicker travel times to Melbourne. In the movie *On the Beach*, which was done here in Frankston in —

The CHAIR — 1961 or something.

Cr DOOLEY — in 1961, 50 years ago, Anthony Perkins turns around to Gregory Peck and says, 'Frankston's not far. It's only 50 minutes by electric train'. Well, I can tell you that now it is over an hour — it is an 1 hour and 15 minutes. So the travel time has got 50 per cent slower and we are not happy; we really are not happy. Overton Road, which is one of the level crossings to be removed, is the natural entrance to Frankston and it takes half an hour to get over from Frankston-Dandenong Road, and that is just not acceptable. This is a bottleneck that is affecting the livelihoods and the wealth of the people in North Frankston; it is denying them opportunity. So we will actually see what is put on offer and we will try to get the best result for the people of Frankston in every respect.

The CHAIR — I thank all the officers and the mayor as well for your evidence. We have gone just a tiny bit over time. I also want to put on record our thanks to Frankston for hosting this; we are very appreciative of the very good venue, so thank you indeed. Whilst asking for councillors and officers from other municipalities to come forward, can I just acknowledge some councillors in the audience — Cr Darrel Taylor and Cr Colin Hampton — and also Dr Andrew Hollows from the Victorian Local Governance Association. Thank you.

Witnesses withdrew.