

TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into rate capping policy

Sale — 30 June 2015

Members

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Ms Harriet Shing — Deputy Chair	Mr Shaun Leane
Ms Melina Bath	Ms Gayle Tierney
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Witnesses

Ms Maryanne Bennett (sworn), director corporate, and
Mr Gary Gaffney (sworn), chief executive officer, East Gippsland Shire Council;
Mr Arthur Skipitaris (sworn), general manager corporate services, and
Mr David Morcom (affirmed), chief executive officer, Wellington Shire Council;
Mr Tim Tamlin (affirmed), chief executive officer, and
Cr Don Hill (sworn), councillor, South Gippsland Shire Council;
Mr Matthew Rogers (sworn), manager finance, Latrobe City Council; and
Ms Helen Anstis (sworn), chief executive officer,
Mr Phil Cantillon (sworn), director community assets, and
Cr Joe Gauci (sworn), deputy mayor, Baw Baw Shire Council.

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

The DEPUTY CHAIR — Good morning, everyone. I call this committee meeting and hearing to order. We have the environment and planning committee hearing for its inquiry into rate capping policy and its inquiry into unconventional gas in Victoria, with public hearings to be conducted today and for the first part of tomorrow in Sale at the Gippsland Regional Sports Complex. I note that we have a number of attendees here from various councils who will be wanting to put their views on the record in relation to the matters that the committee is charged with inquiring into.

For the sake of housekeeping I confirm that I have discussed with everyone the need to go down the line as far as introducing yourselves, stating your name, position and the organisation for which you work, and thereafter swearing or affirming. Hansard staff are recording today's hearing and will make sure that your name is correctly attached to your voice for the transcript.

My name is Harriet Shing. As Deputy Chair I am standing in for David Davis, the Chair, until he arrives. The schedule for today is that we will be going until 11.30 a.m. in relation to rate capping, whereupon we will then have a break, and then I assume that a number of you, if not all of you, will be staying to go from there.

This is going to be a process which, whilst it is formal, privileged and subject to you be affirmed or sworn as witnesses for the purposes of a parliamentary committee, will involve the asking of questions and answering of questions. Members of the committee will take turns to ask you questions.

All evidence taken at this hearing is protected by parliamentary privilege, therefore you are protected against any action for what you say here today, but if you go outside and repeat the same things outside of this room, those comments may not be protected by privilege. When you take the oath or affirmation, you are also bound to tell the truth in relation to the matters that you talk about today.

We might get underway. In relation to the materials that everyone has filed prior to today, please take them as read; the committee has received various documents that have been supplied to us.

I would like to start perhaps with you, Mr Skipitaris. As the hosting council, could you give us a brief 5-minute overview of the issue from your council's perspective, and then we will work our way through the various other councils from there, with questions to follow.

Mr SKIPITARIS — In terms of our response, we referred to the original terms of reference and to the *Local Government — Rates Capping & Variation Framework* consultation paper, so in the brief 5 minutes I will give you what I suppose are our key concerns and then perhaps a recommendation in terms of how this might be able to work.

In terms of the terms of reference, the key aspect was containing the cost of living of Victoria and supporting council autonomy and transparency. In terms of the fundamental tenet, which is the cost of living, council rates comprise probably 1.4 per cent or less in terms of the cost of living to Victorians. We believe there are more substantial levers that state and federal governments can manoeuvre to contain the cost of living. In terms of transparency, in my view local government is probably one of the most transparent levels of government in terms of budgets and making them available to the community and also getting their feedback prior to adoption. On that basis it seems evident to us that it may not just be about the cost of living but perhaps that it appears that the state government has a mandate to implement rate capping in some guise on the basis of trying to control local government in driving efficiencies.

In terms of a simple rate capping framework or methodology, whatever the framework is it must be clear and simple, the process must be timely and current legislative and logistical requirements must be taken into account, especially in terms of the way that we adopt the budget.

In terms of rate variations, the process for applying rate variations and the associated information that will be required should be clear and set out and defined so it is not arduous to actively deter legitimate applications for rate variations, which has been some of the experience in New South Wales.

The next one for us is: should a single rate cap apply across all councils? In our view it probably should be a multi-cap model that takes into account differences between councils — inner city; middle suburbs; interface areas, such as green, and also growth; peri-urban areas, regional centres; and rural. We would hope there would be a more sophisticated multi-cap model.

In terms of CPI being used as the baseline for rate capping, we do not believe it is the acceptable basis for setting out the cap for rate increases. In fact for us the ideal baseline would be more of an independently verified and validated local government cost index, which LGPro has recommended in one of their submissions, and we will get to that when I get to the recommendation.

We believe rate capping should also only apply to general rates, not to other charges, such as waste, which are operated on a fee-for-service or on a contracting basis, or things like the fire services levy, and it should also exclude supplementary rates.

In terms of distinction between metropolitan and rural councils, it is evident some councils have greater ability to raise revenue from sources other than rates — parking meters, parking fines — which does not apply to many rural councils. Rural councils have significant costs related to infrastructure maintenance and renewal that many metropolitan councils do not have, so consideration needs to be given to how this will be factored into a rate capping framework and, as I said before, whether there need to be multi-caps across different types of councils. The last thing before we come to a recommendation is the consequences of — I am assuming there may be — a blanket rate capping.

The obvious one is things like assets renewal. It is essential that any rate capping framework has a core principle that potential impacts on local government do not include deterioration in existing levels of service delivery to the detriment of any communities that they serve. So a proper asset renewal should continue to be required in the framework.

The last point under consequences would be the unintended consequences of rate capping. For that I talk about two things. One, it may drive some councils, especially rural ones that are finding it hard at the moment, to increase things like borrowings. That might mean that they just have an interest component and they go on and on, and they could become hard core over time. The other one is the pressure to shift to reduce labour costs — shift to things like using more contract staff. That could have a number of implications for some of the smaller and rural councils. It is harder to get quality staff. Staff may move quite frequently, and that gives you compliance and governance issues over time as well.

Finally, in terms of a recommendation for us, one is that a blanket CPI-based cap should not apply. We believe that a local government cost index should be developed. That is based on LGPro's proposal, which includes a core government index. Adjustment factors, infrastructure renewal factors, should be included in that. The other thing too is that a longer term valuation cycle should perhaps be introduced, rather than the two years now. It may make more sense to perhaps move that to three years so there is a bit more certainty in the way rates are set. The last one for us is that ideally it would be great if the state government could support councils in terms of moving to models like shared services or combining services, on the basis that our resources are very tight and doing something like moving to a shared services model would mean you are going to need a complement over and above what we have at the moment. That could be based on a resource or funding, but obviously it would be utilised with a business case and a project plan. Thank you.

The DEPUTY CHAIR — Thank you, Mr Skipitaris. I note that Mr Davis, the Chair, has arrived, and on that basis I will step out of the acting role and back into my Deputy Chair role. Chair, over to you.

The CHAIR — Thank you, Harriet; I appreciate that.

Mr TAMLIN — I would just like to say from the perspective of South Gippsland Shire Council that the council was heartened with the view of the Essential Services Commission that it determined that the framework does not inadvertently or partially shift responsibility for rate setting from councils to the commission. It is important that councils are able to manage their long-term financial plans with the flexibility of being able to determine what a reasonable rate increase would be, given the demands of its local communities. Why I say that, too, is because the regional councils find it much more difficult, from my experience having worked in both an urban and also a regional council, and it has surprised me how much backlash we get from the community with regard to the amount of rates they have to pay.

Recently I made a presentation to the Victorian Farmers Federation on rates and sustainability. In doing so I did an analysis of: what would an \$800 000 residential property attract in rates? I used Port Phillip, Mornington Peninsula and South Gippsland. At Port Phillip an \$800 000 residential property attracts about \$970 in rates — this is using the advertised budgets on their web pages at the time — and that then pulls in something in the

order of \$98 million to that council. The Mornington Peninsula Shire has about a \$1700 rate bill for an \$800 000 property, and that was pulling in I think it was about \$156 million. I might have those two around the wrong way, but it does not matter; it pulls in a lot of money. In South Gippsland, an \$800 000 residential property will have a \$4700 rate bill, and we pull in about \$38 million. We get a lot of tree change and sea change people coming up, and when they move they get this rate bill, and some of them do not get their garbage collected and they live on a dirt road which gets graded infrequently. They are not very happy. You can sort of understand the level of service difference, but in accord with our asset management plans and our long-term financial strategies we manage as best we can to try to keep the rates down to as low as possible and to meet that demand.

To have an initiative that we want to put forward to the community to develop a new sportsground or something and to then be capped just seems unrealistic. The premise that rate capping is here to help with the transparency of council's finance and budget setting processes is a very good thing. I think the transparency across regional Victoria, or Victoria in general, about how rates are set is very important to have in there. Personally I think rate capping is probably a good thing in the long term as long as it does not lose sight of its stopping councils from responding to community needs. Thank you.

Cr HILL — I am also a councillor from the South Gippsland Shire Council. I tend to agree there are some benefits with rate capping. I do not disagree that there are negatives as well. There are 20 per cent of our population, I think, that cannot cope with high rates anymore. Out in the country areas we are paying two to three times the rates they would pay inside the metropolitan areas.

The real problem in my view is not the percentage increase of the rate rise that we talk about, it is the actual rate burden on the community, and that is too high. Cost shifting has meant that the share of our income that has come from the government has decreased over time significantly, and that has been imposed on the communities. The real problem is that the government needs to equal out the playing field and allow the rural shires greater revenue from the government so that we can charge the same rates for the same services to the same person. Then everyone will see it is all fair. From that point, in our shire, they will not mind a 3 per cent or 4 per cent rate rise because they are going to be paying a third of what they are paying now if it is all equalised.

We have got people in lifestyle properties who have retired to the country, who are paying over \$3000 in rates. These are not mansions; these are normal houses in our area. They cannot afford it. I believe they are starting now to consider selling up, and I do not know who they are going to sell to because the person who wants that type of property is the same type of person who has a retirement-type income. They cannot fund it anymore. We need support from the government. There are advantages to rate capping, but there are also a lot of disadvantages. It is just because we are paying too much compared to other people, I think. Thank you.

Ms ANSTIS — Helen Anstis, Baw Baw Shire Council. As a peri-urban council, we are 100 kilometres from Melbourne. We are primarily agricultural in our economic cycle, but we have got an exceptional amount of growth for a large rural shire.

The idea of a CPI on rates is one that I do not believe is sustainable; and the CPI is basically, as you would have already heard, a shopping basket of groceries. Local government does not buy its services from the grocery store, so that has an impact on us. From Baw Baw's perspective a cost index that is relative to the services and inputs into our businesses is vitally important.

One of the other things that we would ask the panel to consider is having an upper limit set for rates. As an example, if it was 4 per cent, then if it is 4 per cent or below, it is just streamlined. Councils can do whatever they like without having to go through a bureaucratic process with the Essential Services Commission. We are a very transparent layer of government. We have council plans that are communicated, and we engage with our communities around the development of those. We engage with our communities around our budgets, our budget deliberations, our long-term financial plans and our long-term infrastructure plans. We are a very transparent level of government, and we engage with our communities on a regular basis.

We would also ask that there be some consideration with regard to asset management and asset preservation and the maintenance costs of the infrastructure we provide to our communities. The New South Wales experience has been to run down those assets in favour of delivering services to the community. But the assets are vitally important, and we have to maintain assets at a standard that meets productivity gains right across a road network

or a service industry, such as a sports complex, aged facilities, kindergartens and the like. It is vitally important that we are able to keep and maintain those at the standards the community expect.

There has been some discussion in some of the earlier reports with the Essential Services Commission that local government should be able to borrow more money against their infrastructure — for example, Baw Baw has somewhere in the order of \$700 million in assets. We have a prudential ratio that enables borrowing up to 40 per cent. We currently have an \$11 million debt — it will be \$11 million at the end of the next financial year, June 2016. The issue with that is that the community does not like its government borrowing money. They see that it is a bad investment. Unless we can change that conversation in the community, borrowing is not going to be seen as beneficial from a community perspective. That needs a more in-depth and broader conversation with the Australian community, not just in Victoria or at a local level.

The other thing that I would also like to highlight is that the fees and charges that are set by statutory providers, such as planning fees, have not been increased for well over six years — it is more like eight or beyond. It is costing local government somewhere in the order of \$20 million a year in lost revenue because those rates have not been keeping pace. That is a cost that then comes back to councils. We have done some recent studies looking at a unit cost for planning in Baw Baw shire; an application that we are receiving on average around \$500 for actually costs \$2000. There has been no escalation in those fees. We provide school crossing supervision on behalf of VicRoads. It costs us \$360 000 per annum to provide that service; we get \$90 000 from VicRoads. These are costs that our community must bear, and if they are not going up at an escalation rate that is equivalent to what we are paying, then residents need to understand that we are in fact providing the services on behalf of other levels of government and that they are sharing that tax burden across the three levels of government, not just their local rates. So it is important that we take those things into consideration as well.

In summary, we need to look at the costs of providing services to our local communities by councils. I agree with what my colleagues have already said — that it really needs to be indicative of the actual fees we are paying and the price of delivering that service. Local government is getting a handle on those unit costs, and I think the community at large would be very surprised to know — as in the example of a planning application or the cost of providing in-home care — that it is a burden that we all need to bear across not just our local council but Victoria and Australia.

Mr ROGERS — Latrobe City Council thanks you for the opportunity to make a submission in relation to the impact of rate capping on councils, service impacts on local communities and impacts of the provision of local infrastructure. Latrobe City estimates that the likely impact on financial resources for Latrobe City Council resulting from rate capping is the equivalent to receiving 9 years of rates income over a 10-year period when compared to existing levels of rates. This is in addition to the federal government freeze on indexation and federal assistance grants, which will also have a further impact for the same period in the vicinity of around \$6 million.

It needs to be recognised that councils have limited ability to realise annual cost increases in line with standing CPI measures. Latrobe City Council agrees with the peak bodies that CPI does not represent the basket of goods commonly used by local government and that the use of CPI as an annual indexation method will substantially impact on the financial viability of councils and their ability to continue to provide the current array of services and facilities over time. Latrobe City Council therefore supports the call to develop a local government cost index which better reflects the types of goods and services most regularly used by councils and the implementation of this index as a better indication of the actual cost increases being borne by councils on a regional basis.

Latrobe City Council wishes to bring to the attention of the panel our concerns relating to the current method of calculation of increases relating to electricity generators, of which we have six located in our municipality, which contribute in the order of 13 per cent of council's annual rates revenue. Annual increases are calculated in accordance with an order in council which provides council with annual increases in line with CPI for all groups Melbourne. In the last two years this has resulted in annual increases of 1.5 per cent and 1 per cent approximately. These increases are significantly lower than current annual rate increases and have resulted in higher increases for other ratepayers in order to realise the average annual rate increase required to meet service needs.

We fear under the rates capping model that we will be further penalised as we expect that we will be unable to recoup the variation in increases as we currently do, resulting in a shortfall of approximately \$80 000 per every

1 per cent variance between the indexes annually. We propose that the government consider reviewing the order in council and Electricity Industry Act 2000 to be consistent with the local government cost index we propose to be developed.

Council is committed to continue to seek out efficiencies in operations and to continue to provide the much-needed services to our community, while remaining mindful of the fact that there remain unforeseeable events which may impact significantly on the financial wellbeing of the council and the services it provides. These include but are not limited to defined benefits superannuation calls; cost shifting and cost impediments from other levels of government, such as preschool teacher ratios; landfill costs dictated by EPA; and natural disasters which are funded upfront by councils. We therefore look forward to your continued reviews of the impacts faced by local government as a result of the implementation of rates capping.

Mr GAFFNEY — East Gippsland Shire Council is delighted to be able to present here today. I have been sitting here ticking everything off the list, so I will try to wrap this up. Let us put some things in perspective: the East Gippsland Shire is 21 000 square kilometres, of which only 25 per cent is rateable, and many of the shires in Gippsland share that same problem — a lot of unrateable land. We service over 42 communities spread out in that 21 000 square kilometre radius. As presenters before me have stated, if we have a city-based CPI index, it just does not cover the cost of what we have to do where we are providing services in Mallacoota, Bairnsdale, Omeo and Orbost.

We believe there needs to be a regional cost factor based on what the services would provide. As Helen explained, it is not a basket of groceries. The majority of our costs are road building, and a lot of road-building costs are based around fuel costs, which make up the tar and bitumen that goes into it and transporting materials. I think that has to be taken into account. If you look at local government in the case of East Gippsland, about 80 per cent of our expenditure is expended in the region on local contractors employing local people, so we are a large employer ourselves. The follow-on employment of about \$80 million per annum is within our municipality. About \$80 million of our budget is spent directly in our municipality. It is a huge amount of money, and a lot of that goes into contractors, road contractors — all the service provision that we get. Think of the CPI factor: their costs go up, and if we have capped costs, they are uncapped in the service costs that they charge to us.

An interesting point to make about disaster funding up front: at the moment we have \$7.5 million of national disaster funding still owed, and some of that dates back to 2012. Anybody who goes through the process will know that the hundreds of thousands of dollars of work required to get the money out of the NDRRA and VicRoads for that funding is phenomenal. It is phenomenal the amount of time and effort that we have to put in to get that natural disaster funding. As I said, we have \$7.5 million, and \$4.5 million dates from 2012. The council has carried that billing.

I am glad to hear the call on superannuation. If that comes in, it is either take a loan or start planning and saving for it. It is only at a call on very short notice that local governments have to come and bring that together. Again, those calls — we should be able to put them into those rates over a period of time. One of the suggestions has been that if we have a rate capping amount, we should know what the next two, three or four years of rate capping is. We should be told that rate capping is 3.7 per cent for the next three years. We can then start really programming in our long budgets.

I agree that the government came in on a mandate for rate capping, but I think there has to be a realistic rate cap for country municipalities across the state. We are different. I do not get the parking revenue that the City of Port Phillip gets. I would be lucky to get a couple of thousand dollars in parking fine revenue. I do not collect hundreds of thousands of dollars a day. We have not got the ability to do that extra thing. I have heard from South Gippsland, and Baw Baw is probably the same as we are — in five years time 44 per cent of our residents will be over 60 years of age. We have a retirement demographic that will be demanding other services, not just roads, rates and rubbish. They are going to be demanding more social services from a local government, and we will have to provide those services because we are generally the last call.

If you consider that those people living on fixed incomes are coming in with their superannuation and the money they put away, and they are not getting the returns that they used to. They are now looking at us saying, 'We can't continually afford rate rises'. We agree with them. We have a capped situation and a retired demographic. Do not get me wrong; there is also a lot of business opportunity in that retiring demographic, but

we have a lot of people on fixed incomes who will be calling more on local government services. The reason I know this is that I did a thesis on the service demand of the baby boomers on local government.

The fair call is that unfortunately what I started writing about six or seven years ago is now starting to become reality. People are not getting their superannuation returns. They are on limited incomes, and we are now seeing that demand on local government increase, which is going to affect a lot of municipalities. It is good to see my compatriots nodding.

The CHAIR — We would be very interested to see it.

Mr GAFFNEY — Yes, sure. As Helen said, there is total agreement amongst all the councils in Gippsland that we need to have an effective rate capping model that undertakes to look after people in rural municipalities, because we do not have the revenue raising that occurs in a city base or even close-in metro municipalities. We service communities on a grand scale, not on a small scale. Consider that Maroondah is about 70 square kilometres, and about 90 per cent of it is rateable. We have to send out garbage trucks, so our services are stretched over greater distances. Therefore rate capping will be detrimental if it is not looked at as a country CPI index, not a city-based CPI index. I think that is very important. I do not think that I can cover much more, but like the rest of the panel I would be happy to take independent questions.

The CHAIR — Is there anyone else who wants to make a quick comment?

Mr MORCOM — I will be very quick, Chair. The only point that needs to also be made is that we did have a conversation about those areas that council and state government jointly fund. We know what they are, from libraries to school crossing supervisors. A very quick example from Wellington Shire Council is that 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, as do discussions about school crossing supervisors and things like developer contributions.

I understand that when the New South Wales state government introduced rate pegging a couple of decades ago they also brought in regulations around developer contributions — something that neither colour of state government in Victoria has traditionally wanted to deal with.

I just wanted to make the point that in looking at some of the businesses we can drive I am not talking about passing costs back, but we need to be able to have honest and open conversations about putting in place an understanding of how we share those moving forward, because that conversation is not happening and it needs to.

The CHAIR — I am going to move around the people on the panel one by one to my colleagues, but I want to ask a single question at the start, and that is about country roads and bridges, which was a very significant program, I believe, from all the information that has been put to me. I am interested in the views of people who are submitting from your shire, so does anyone want to say something about that?

Ms ANSTIS — Absolutely. Country roads and bridges, for us, was about assisting with the delivery of first-and-last-mile productivity. What I mean by that is getting the product from a farm over a bridge that can carry a tanker-load of milk. At the moment we have got bridges that people are taking 22-k detours or 18-kilometre detours to avoid, because we cannot maintain all of the bridges to the standard of new weights on vehicles. We used that money over four years to upgrade predominantly our bridge network. Unlike East Gippsland, which has hundreds of bridges, we have 100-odd bridges and culverts, but we have currently 20 or so that actually have detours in place because they cannot bear the weight of a single-axle tanker-load of milk. We are talking about 30 000 litres. It cannot do it. Even going empty is difficult, because we have got 12 or 16-tonne limits on some of our bridges.

The CHAIR — That list would be helpful.

Ms ANSTIS — Yes, that is vitally important. We have been able to get through a number of outstanding bridges that improved productivity. We have tried to prioritise them in that regard.

Mr GAFFNEY — We have got 120 wooden bridges. A lot of those bridges take farm produce, and we are talking about produce out on the Lindenow flats, which is probably one of the largest growing areas for leafy and other vegetables. The average bridge to replace is about \$1 million for a high-quality bridge down to about half a million for a good single-lane concrete bridge. That program was helping us with 2 or 3 bridges a year, and now it is not there this year in our capital works program I think we are replacing 2 bridges of the 120 bridges. It was helping a great deal amongst us.

Mr MORCOM — A very high-level comment in relation to that is what is generally happening with the freezing of the financial assistance grants, whether it is funding for infrastructure such as roads or otherwise, is our general as-of-right funding, if you like, for country roads is declining, and competitive grants are increasing. In the context of rate capping and the freezing of financial assistance grants that makes it tough when you are competing against your neighbours for a pot of money, so conceptually it is about having a pot that you know will come, which in the case of country roads and bridges was \$1 million. That was great, because you could plan forward works. Now obviously we are going through a competitive process both federally and state wise, and that makes it tougher.

Cr HILL — This is one of the costs that you do not tend to get outside of the rural areas. We have got 20 bridges in our shire, South Gippsland, that service a single property. One of those bridges is going to cost \$750 000 to replace. All the bridges we have to service are getting pretty old now. It is a lot of money. The inner Melbourne suburbs do not have those to cater for, but we have got to fund it. At the moment we do not have the money to do all of those bridges.

Ms SHING — I would like to ask what is the impact of or what is being done in relation to planning for the introduction of rate capping and how is it affecting councils at this present time?

Ms ANSTIS — What we have done at Baw Baw is have a long-term infrastructure plan and a long-term financial plan. They are 10-year documents. We have planned all of those around a rate increase of 3.9, which we know is at least 1.9 above current CPI. But our enterprise agreement requires us to provide an annual increment of 2.8. There is usually a 1 per cent cost index for banding increments and the like, so that brings it to 3.8, leaving a small margin of buffer for other things. So we have actually predicated our long-term plans on 3.9, but we have also been managing our services, our staff numbers and a whole range of things that we have gone and done now in preparation for a transition. We are working with our colleagues along Gippsland and into Cardinia around shared services, and those shared services are around using technology to help improve efficiencies and using our human resources to better advantage across the region, not just within our own shire.

As an example, we are doing some work with Latrobe at the moment around environmental health, we are working with South Gippsland around occupational health and safety and risk management and we are talking to our colleagues in Cardinia around electronic document management systems. So we are looking at the way in which we deliver services, using technology to help with that.

Mr ROGERS — At Latrobe City we are in the process of going out to tender to undertake a full financial sustainability review that will look at all our services and better understand the costs of our services as well as developing a new 10-year financial plan. So our existing 10-year financial plan is premised on a 4.5 per cent rate increase annually going forward. We obviously expect that to be much lower under a rate capping process. We are now undertaking that review in light of a much-reduced rate increase.

Mr TAMLIN — Just in closing, South Gippsland Shire Council adopted its budget last Wednesday with a general 4.9 per cent rate increase, which was targeted in our long-term financial plan to be around the mid-fives — so 5.5. But then for our subsequent years flowing on, council has pulled that down to 3 per cent. So we are targeting a 3 per cent rate increase for the next number of years and eventually back to 4 per cent in our long-term financial plan, which goes over a 15-year period. So council has responded already to the intent of what this policy will do or what we understand it to do.

Mr GAFFNEY — We had a 4.5 per cent rate increase that we are predicating down to about 3.5, where we believe rate capping should be. So that is what we have looked at with our new financial modelling. We went through a series of internal savings in this budget, and some of those savings will then move forward. That is around staffing and service delivery and also around other savings we have made in utilities — like, through the rest of Gippsland we have put in LED lighting; that has an impact of about a \$300 000 saving annually. So we

are looking at all saving measures, and we are looking again at what staffing levels we will have over the next 12 months and what internal savings will be made just to get back to a 3.5 operation.

Ms BATH — With respect to service delivery, what do you think would be your most vulnerable services if you had to maintain this capping? Also could you give me an idea as to the percentage of rates which would be held for infrastructure versus services?

Mr MORCOM — I am happy to kick off that one. We have already started that process, as I suspect my colleagues — in fact I know — my colleagues around the table have. We looked at two things. One is your intervention level, so with things like grading roads, should it be two times a year rather than three times a year? There are also social services. Very quickly, we looked at one service, the creche at Aqua Energy, our gym, used by 60 mums; it costs us \$70 000 a year. Basically it is almost a babysitting service, if you like, for our gold class mums. Council thought that was a fairly easy one to cut, in line with the austerity and some of the focus we wanted.

Very quickly, the feedback we got from that cohort that use that service, we had 20 mums in at the council, and a lot of them were in tears talking about the journey that they had gone through with coming to Sale, and kids and postnatal depression. In local government in 10 years it is one of the most emotional council meetings I have ever been involved with. It just demonstrated the difficulty of when you are so close to the community, as local government is, and you start to trim services — be they library hours, be they the creche — the kickback and the passion you get from the community is really, really extraordinary, from community members you know.

I guess I just wanted to impress that even when we look at cutting those services, the challenge for councillors when they are eyeballing people — whether they go to the footy club or the bowls club or wherever — is really, really challenging. In the end we went with a sort of cocktail, watered-down version of reducing the creche, which to me when I put it in front of council seemed a — if I can use the term — no-brainer, as in, ‘This would be an easy service for it to cut’. So it is very, very challenging.

Mr TAMLIN — Just to add further weight to that discussion, when council was elected in its last term — so it was about three years ago — the council came in with a very strong view from the community that it was about time to cut costs, so we had to cut costs. One of the things was, ‘Okay, how can we look at reducing services?’. My executive team and myself worked very hard and put together an 870-page document which documented every service we do and why we do it — what legislation is around the service; has it come out of the council plan; or is it a nice-to-do thing? So to the question that was asked — ‘What services can you cut?’ — there are actually not many when you document them like this, because a lot of them are hooked in with legislation and you cannot.

The ones that then got to the surface, that we could look at getting out of were HACC — home aged and community care, I should say — visitor information centres, Coal Creek heritage museum and swimming pools. Out of that — and Cr Hill will testify, I have no doubt — council sat there and said, ‘Right; let’s get rid of some of these services’. But what David Morcom was saying, the backlash you get from the community does not lend itself to a majority vote to make any changes. It is so politically sensitive. We still have the same level of services doing the same thing, so for us to look at what it is we are going to reduce, we then start to talk about what Helen mentioned and say, ‘Okay, how can we deliver them more cost effectively? How can we work together to deliver these services?’, or, ‘How can we work with the community’, such as with the swimming pools, ‘to get them to maybe do some more volunteer work in helping us deliver these services? Thank you.

Mr HILL — Also at South Gippsland we did not make any real cuts to existing services, but we did cut from our future 15-year budget extensions and new works, although there are still those in there. We have done a lot of work on identifying revenue sources from other areas, other than rates, and productivity gains within council, and we have identified all the services we have and looked at many community services over the last two years as well. So we believe there is a plan that we can do as a council to do our bit, but there is going to be a point — there is not too much room there, but there is going to be a point — when we will have to start cutting the services if we do not have that revenue equation fixed.

Ms ANSTIS — Just very quickly, to build on this theme around being in remote areas, if you look at swimming pools as an example, for us to deliver a swim at Warragul is somewhere in the order of \$9 a swim. At Thorpdale, a remote community of 500 people, it is \$90 to \$113 a swim. These are the variations that you

see. When you have a metropolitan area where you have density of population, you have an ability to offer these services, with small travelling times. For us, we have long travelling times. We have to get somebody out there. The same is with our home and community care services. In the metropolitan area they will have one carer doing a street of maybe 10 people, within a very small couple of streets. For us that same carer might have to travel 150 kilometres to deliver care to the same 10 people. That is the difference. You have to factor in that we have additional costs to provide these services. They are the sorts of things that impact on a rural council.

Mr GAFFNEY — I have probably got one of the unique services of any local government. It is called a ferry. It costs \$1 million a year to operate, and the rates on Raymond Island do not even cover the cost of that operation. So I was very happy, when the CRB gave it to the shire of Bairnsdale at some good deal, to hand it back to VicRoads, because they call it a bridge under funding, and it will be all theirs. This is the uniqueness of some of the local government services. As I said, I have got a ferry. It has to go in to survey every year, so it means it is taken out of service and we have to put another thing in.

If the spare chain breaks, it costs \$250 000; so \$250 000 in capital sits on the shelf just in case that chain breaks. Tell me how — I would love to know — you can put a rate or service fee on that. Can I tell you if I take that out of service, there will be rioting in Spring Street.

Ms HARTLAND — I have got two questions, but they may both need to be taken on notice. You have all put together a really interesting case, but do you have a chart of home care in a rural shire in comparison to metropolitan. Has the MAV, VLGA or anybody actually done that kind of comparison?

Ms ANSTIS — Gippsland councils at the moment are working on a collaborative services model, and one of the things we are looking at is doing some benchmarking around a unit cost per service. We have been speaking to the MAV about a unit cost per service, but we are actually doing all of the groundwork for that at the moment, because if we know what it costs us to deliver a unit of home care services or recreation services, we can then start to compare that. At the moment the issue has just been about: we deliver 400 000 hours of home care, and we get this much money and divide it by 400. But that is not the true cost of providing that service when you start looking at all of the overheads and the like.

Ms HARTLAND — When would that be ready?

Ms ANSTIS — We are working on it at the moment. We have just started. We hope to be able to have something in place — Baw Baw has done it. We have done it for our services. That model is being replicated across the Gippsland councils. Arthur has been working on that with my finance manager from Wellington, and we are just gathering the data. We hope it will be about two or three months away. We have also spoken with the Essential Services Commission and have provided them with the unit-cost model that we have developed at Baw Baw. We have asked them if nothing else comes out of rate capping, 'Please let us have a unit cost per service as an average or a formula to develop across each council', because that is really useful for us to administer our business.

Ms HARTLAND — The other one is I was quite interested in that issue of crossover funding especially with the emergency services and the amounts of money that are still outstanding. Would it be possible to supply that information to the committee as well? In that list as well, just really quickly, the thing that really strikes me is that it feels like you are saying you are going to have a choice between either cutting services or downgrading assets. Have you actually got to the stage yet of deciding which one that is going to be?

Ms ANSTIS — Baw Baw has. In 2012 I commissioned an internal report, which I presented to council, which was a structural analysis report. It demonstrated that we were not sustainable financially going forward. We have done a lot of work for Baw Baw to be financially sustainable with an above-the-line surplus and an underlying surplus, because when you take out the developer contributions and donated assets we still have a small surplus. This year I think it is about a \$1.5 million surplus below the line and above the line. We have done a lot of work around how we can maintain financial sustainability, but in the current environment where we were relying on country roads and bridges but we do not have that funding anymore, the Putting Locals First and a number of other grant opportunities that were available to local government helped us to develop our plan going forward. But we have had a look at our lazy assets — so redundant assets, assets that are vacant parcels of land or under-utilised assets — and asset sales are things that we are looking at.

We have also just recently closed our customer service centre at Trafalgar. For us there it was \$30 a transaction versus \$4 transactions, and everything could be done online. The other one was a small library service being provided in Noojee at a cost of \$16 000-odd per annum, but there was not anybody utilising the service. We worked with the regional library corporation, and council resolved a couple of weeks ago to close that service.

Mr YOUNG — My question is also probably something that can be taken on notice. I have heard the term cost shifting used a lot lately, and what I want is more of an indication or more examples of what local governments consider have been cost shifting that is imposed on them.

Cr HILL — The library used to be funded 80 per cent by the government and 20 per cent by shires; it is probably the other way around now.

Mr YOUNG — Again, if it is something that can be taken on notice and given as a written answer, if there are any more examples of that, I would be really interested in hearing them.

Mr GAFFNEY — I think it is quite interesting that every time there is a legislative change that is forced down on local government there is never a costing done. We have to operate for about a year to work out how much it has actually cost us. I think one of the things is that what you consider to be legislative changes — it does not matter if it is in the environmental health area or the fire services levy area — every time there is a change it takes us probably 12 months to work out what the real cost to us is. It is a good question, and we will take it on notice, but as you pass legislation that affects local government be very aware that that cost shift is sometimes a lot more than just a fee.

Going back to what Helen said earlier, in planning, for six years there has not been a fee rise, but once that fee rise goes up, who is going to cop the blame? Local government will cop the blame. At the moment the fire services levy has gone up, but guess who collects it? We do. And guess who is going to cop a kicking for it? We are.

Mr TAMLIN — I just wanted to clarify in relation to the question about home and community care. You are probably already aware of the local government performance reporting framework that is being developed, and I was just having a little bit of a check. There is actually a cost of service indicator, which is due to be applicable from 1 July 2015. That will benchmark all the councils and what their costs are for home and community care for the regions probably better than anything that we can do around this here. That will give you that sort of information

Ms HARTLAND — Could you send us a link to that?

Mr TAMLIN — Yes, that is no problem at all.

Mr DALLA-RIVA — Matthew, you raised the issue about a proposed or suggested local government cost index. I do not know if that is something that is used in other councils, but I have not heard of it. Are there any other models? Can you give us further details? Perhaps not now, but if you could take it on notice given the time. Also are the other councils looking at a similar type of cost index? If so, what is the proposed index you are looking at, and what is it based on? I have heard of various issues across different councils.

The other one was from Helen. She said planning and cost fees have not increased. Is that on the basis that they are capped?

Ms ANSTIS — They are a regulatory or statutory fee, and there has been no increase. It is set by state government, and there has not been an increase to those fees in six years.

Mr DALLA-RIVA — Is that as a result of regulatory — —?

Ms ANSTIS — The state government has just said leave them as they are.

Mr DALLA-RIVA — Okay, and do you run that on a cost-recovery basis?

Ms ANSTIS — We do not at the moment, no.

Mr DALLA-RIVA — Why not?

Ms ANSTIS — Because it is a statutory fee. If I could just answer the question around the local government cost index, the MAV has been using a local government cost index that they have calculated for the last few years. It is usually 1 to 1.5 above CPI as an average.

Mr BOURMAN — Mine was more along the cost shifting as well. Helen, you mentioned specifically that VicRoads does not cover the level crossing people all the way. Is this something that is new, or is it something that has always existed?

Ms ANSTIS — No, school crossing supervision — —

Mr BOURMAN — Or has the cost never been fully met?

Ms ANSTIS — Definitely not at Baw Baw. As I said, my staff and the councillors know. I look at the budget on a regular basis. I have had conversations with numerous regional managers, and they have just said, 'Put in a case for an increase'. It is about managing the number of crossings that you have and where they are. We keep getting crossings, but we do not get a contribution for them.

Mr MORCOM — Just a very quick comment in relation to cost shifting. The term 'cost shifting' sounds a bit sinister and deliberative, but I think a lot of it has just been evolutionary over many years. It goes back to a comment I made before. We need to have some conversations with the state government about appropriate funding structures moving forward. History is history; it is what it is, and it has got to that point in time. Whether it is the SES, school crossing supervisors or libraries, there needs to be in the context of rate capping a framework around how we fund those moving forward.

Mr LEANE — I was interested in the local government cost index figure, and you have answered the question about why it is produced. If that is running at about 1.5 above CPI and the CPI now is 1.77, if you embraced the local government cost index of the MAV, does that not still disadvantage you as a regional council? If this is a uniform figure that MAV has produced, would you not still be arguing your disadvantage because of the nature of your council compared to Maroondah or Boroondara or somewhere like that?

Mr GAFFNEY — I think there has to be a regional factor, and I think the further you are out the more your cost is impacted.

Mr MORCOM — If I can quickly add, the elephant in the room for local government is labour costs too. If you look an average EBA for most councils of 2.5 per cent to 3 per cent and if you add in the in-band movement, I think the MAV has said the average annual salary increase in local government is around 4.5 to 4.6 per cent. If you overlay that onto a CPI of say 1.7 or even a local government CPI of 2.5, it clearly is not sustainable. Already all councils have had lots of letters from unions — the ASU — indicating they have some concerns about it. That is a storm that is brewing that we need to deal with as well, and it could be a good opportunity for us to break the nexus of increasing labour costs. It is a conversation that needs to be had. That is a significant issue for most of us.

Mr RAMSAY — Thanks, Chair, for the opportunity to ask a question. I just want to recap if I can. What I am hearing from the councils is that the proposed cap rating is unsustainable unless there are significant changes in relation to how it is applied to different rates. The farming constituents I used to represent told me the increase in rates is unsustainable because they bear an unfair burden in relation to the methodology of their rates. You are indicating that maybe a way forward might be to split the rate between rural and urban councils. We have heard that Buloke over my side of the world has huge road networks, a shrinking population and a smaller ratepayer base, yet there is still a call for providing a service level from local government. It is unsustainable, and there are about 12 or 14 of them in the same position.

The country roads and bridges program that the chair mentioned was an extremely important program that supported councils, and that has gone, as has the Putting Locals First program and a lot of other good programs that were attached to local government to help with their asset renewal. So I am not clear about the way forward. If rate capping is not sustainable, increasing rates is not sustainable and the ongoing financial contributions between state and federal governments are shrinking, where do we go from here if you are not going to drop service? I know that is a bit outside the reference, Chair, but I just want to put it on the table because I think it is important that you have that opportunity to provide a view in that respect.

Ms SHING — That might be something, Chair, that you can take on notice in terms of providing further thinking around it. It is a pretty big issue.

Mr TAMLIN — Yes, I suppose it is outside the terms of reference. In council rating, if you take a step back and you have a clean slate and say, ‘How can we better collect tax from across Victoria’ — because rates are a tax. Instead of having all the councils raise their own rates, get rid of the whole rating system, put in another — I did a rough calculation, and I think it is about 1.5 per cent — raise the GST up to 11.5, that 1.5 will give the same income that the rating base brings in, then distribute it back to the councils so everybody gets their piece of the pie. But it is outside the terms of reference.

Mr LEANE — That is the last time we go outside the terms!

The CHAIR — I thank all who have submitted here on this matter. This is incredibly important, and we are very appreciative of what has been put forward in terms of the impact on councils and communities.

Witnesses withdrew.