

ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE

Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils

Traralgon — 9 October 2017

Members

Ms Josh Bull — Chair

Mr Simon Ramsay — Deputy Chair

Ms Bronwyn Halfpenny

Mr Luke O'Sullivan

Mr Tim Richardson

Mr Richard Riordan

Mr Daniel Young

Witnesses

Mr Gregory Drumm, General Manager Corporate Services, and

Mr Matthew Rogers, Manager, Finance, Latrobe City Council;

Mr Malcolm Lewis, Acting Director, Corporate and Community Services, Baw Baw Shire Council; and

Mr David Morcom, Chief Executive Officer, Wellington Shire Council.

The CHAIR — Good afternoon. I thank you all for being here today at the Century Inn in wonderful Traralgon. I take the opportunity to thank the staff of the Century Inn for having us here, as well as staff from the Parliament and Hansard who are attending today's session.

Welcome to the Environment, Natural Resources and Regional Development Committee's public hearing in relation to the inquiry into the sustainability and operational challenges of Victoria's rural and regional councils. I take the opportunity also to extend a warm welcome to members of the public and to any members of the media who may be here today. All evidence taken today is protected by parliamentary privilege, therefore you are protected for what you say here today, but if you go outside and repeat those same comments, they may not be protected by such privilege. Today's evidence is being recorded. You will be provided with proof versions of the transcript at the earliest opportunity, and transcripts will ultimately be made public and posted on the committee's website. I know there have been some changes to the line-up, so I will take the opportunity to ask you to introduce yourselves and state your job titles.

Mr MORCOM — My name is David Morcom. I am the chief executive officer of the Wellington Shire Council.

Mr DRUMM — I am Greg Drumm, general manager corporate services at Latrobe City Council.

Mr ROGERS — I am Matthew Rogers, manager finance, Latrobe City Council.

Mr LEWIS — I am Malcolm Lewis, chief financial officer, Baw Shire Council.

The CHAIR — Thank you very much, gentlemen. We have allocated an hour and a half for this session. We will start with an opening statement, somewhere in the order of 5 to 10 minutes, and then we will go to questions from committee members. Four committee members will go with one question and a supplementary, as we have done in previous hearings, and we will see how we go for time. I now invite you to make an opening statement.

Mr DRUMM — Greg Drumm from Latrobe City Council. We made our submission in September 2016. Since then, in terms of what is relevant to sustainability of the council we have had a couple of major events for us — obviously the closure of Hazelwood power station and Carter Holt Harvey more recently. The impact of both of those is twofold. The first is the general economic impact, the full implications of which are yet to be fully felt by the community, and the second is the rating impact. I do not know to what extent we can discuss an individual ratepayer, but certainly in the case of Hazelwood it is fair to say they have gone from being a significant ratepayer to being much less so, and that has had a significant impact on the revenue for Latrobe City Council from rates.

Other than that, I think the other impact that is worth talking about is in terms of the grant funding. For us, grants — which is common to regional and rural councils — make up about 24 per cent of our revenue. The commonwealth has resumed indexing of an element of their grant funding, which makes that more manageable, but obviously for us it is a significant risk if the grant funding were to be reduced or otherwise impacted.

In terms of rates, obviously we have rate capping. The principal impact for us is really in terms of managing the unforeseen. For example, we refer in our submission to some examples of regulatory movement where things that had belonged to other bodies, including the state government, have been shifted to local government with or without funding. But there are also other impacts — for example, we run some early childcare centres and so when the ratio of staffing levels was changed, that had an economic impact on council as well. Rate capping does limit our ability to respond to some of these changes, but it is not just rate capping because, as I began, the other impact on the community is the ability to absorb and rate increase. Even if we were free to raise rates by more than 2 per cent, certainly at this time there is a limited appetite and ability in the community to be able to withstand that sort of increase.

The CHAIR — Thank you very much, Mr Drumm. Other any further comments?

Visual presentation.

Mr MORCOM — Yes. I thank the committee for allowing us to speak. I will be very, very brief. My presentation is similar to Greg's, my colleague to my left. Presumably you have read all the written submissions so it is not my intention today to pore over those in detail. In the 5 minutes that I have I want to do a brief

presentation and really leave you with some pretty salient facts that are discussed around our council chambers about some of the challenges we have got. One thing I will put out there straightaway is that our council is actually not against rate capping. We understand it. I am going to put some figures up there to demonstrate that to you.

If I can be so bold, Chair, as to say one of the challenges that I think the committee has is that change needs to be fundamental. I want to take you through a very brief presentation. It is brief, only 5 or 10 minutes. There needs to be some structural change, because the difference at the moment between fundamentally what rural and regional councils are doing vis-a-vis some of the larger metro councils is significant and growing broader by the day. I will demonstrate some of that to you.

I have got some thoughts I would like to share with you. Certainly we believe there is a need for change, but the change needs to be not tinkering around the edges. There needs to be a fundamental change in the way local government can generate revenue, particularly to avoid disparity between rural and urban areas. But I will go into that in more detail during my presentation, Chair.

The CHAIR — Terrific. It is up.

Mr MORCOM — Sorry, I apologise. I thought this was a brief introduction. I will go through this very quickly. This only goes for 5 or 10 minutes, so bear with me. All of these facts you know. I might go to the next slide if I can. That is the one I really want to show you. What I wanted to do today was just compare Wellington Shire Council. We are not a small regional council. We have got about 43 000 people, so we are not a West Wimmera or a Hindmarsh or a Towong. We are a reasonable size and have a reasonable ratepayer base. There are a number of assessments, and I have got Stonnington City Council as a comparison sitting next to us. Rates income: again they are over double our population so it is not unusual to see them generating double our rates.

The next few lines are the key. This is why I said to the committee we are not against rate capping in this sense. Our average general rate per residence assessment is nearly \$1500. Our community know that and they tell us about that every time we issue a rates notice. Stonnington is not far south of us at \$1300, so we are not too dissimilar. But look at the average residential valuation: that is the key. The average residential valuation in Wellington, for those not familiar with the area — Sale, Maffra, Heyfield et cetera — is \$275 000 against \$1.2 million. We have no capacity to increase that, and Greg, my colleague to my left, made the point that we have no capacity to increase rates more than we do now; our residents are hurting. Stonnington do. That is a really, really significant disparity, particularly when you get down to some of the really fundamental infrastructure that we need to service. We have got about 2500 kilometres of road network as opposed to 266 kilometres in Stonnington. Again, I know there are a number of things that Stonnington do that we may not et cetera, but fundamentally our problem is that we are maxed out when it comes to being able to generate general rates.

The next slide please. This, to me, is the absolute kicker in the whole disparity between rural and regional and metro councils: statutory fees and fines and charges. Sixty per cent, by the way, of our income is general rates. Only 40 per cent is fees and fines and fees and charges. Wellington is on the left, the City of Stonnington is on the right. If you look at the ability that metro councils have to generate other source income, it is staggering. When we attend local government forums, their capacity of generate income always blows me away. For example, I know Stonnington raise about \$18 million or \$19 million a year in car parking. They can whack on an extra dollar an hour at the Prahran markets and they generate significant income. Good luck to them. I am not in any way saying they should not do that. Wellington Shire Council car parking fees last year raised zero dollars. We do not have meters; we do not have car parks. It is similar with other user fees and charges, so our ability to generate income outside of rates is virtually zero.

Greg made the point before about operating grants. One of the challenges is that we can access a number of capital grants. Capital grants are relatively easy to get, regardless of the colour of government. Operating grants are far less attractive to fund, and to get recurring operating grants to fund some of the programs is a real challenge for us. But that slide is one of the take-out messages: the real lack of ability and lack of capacity for rural and regional councils to generate own-source income.

The next slide thanks. What I wanted to focus on and leave with you, again without going into everything, was just one thing in particular: EM, standing for emergency management. Since 2000 we have had about 13 major fires in Wellington. We have 11 000 square kilometres, so we go from the Man from Snowy River country up

in the high plains down to the Ninety Mile Beach. We have also had three major floods. The impact on our communities and the cost of servicing this is becoming increasingly significant.

The next slide please. I will scoot through these fairly quickly. Again, I wanted to get some figures up just to give you an indication of what emergency management is costing us. The benchmark for the three councils are there for you to have a look at. We will just go to the table at the bottom — us, Yarra Ranges, which has a significant rural area, and Cardinia, which is a peri-urban council — just in relation to the number of full-time employees right on the end. Again, we fund two of those positions full-time. Five years ago we only funded one. Our emergency management costs are going up by around about \$130 000 a year — really, really significant. From our rates this year we are budgeting \$760 000 to put solely towards emergency management, so that is a significant cost for rural and regional councils, certainly in our area, that we have to shoulder.

The next slide is something about that. I do not expect you to read any of that, but I just wanted to give you an idea. In the last six months — and at the moment I empathise with Craig Lapsley, who is working through the new emergency management protocols and procedures — these are all the various meetings, responses and papers that we have had to address since March 2017 in relation to emergency management. And emergency management, I have to say — and I am happy for it to be on the record — in a sense terrifies me not from the point of view of the damage it can do, but the bureaucracy and the red tape now that is being wrapped around it is absolutely frightening, and the staff resources. I have got three people in my emergency management area to attend those and to write papers, and that is all in the past six months as we go through this process.

Again all I really want to do is put that on your radar. This is something that is happening now. It is bubbling away, something that again from our point of view is a huge cost driver. Where it will end I do not know. Obviously we are totally committed to doing our emergency management responsibilities, but I just wanted to give you a feel for some of the things that we have had to do over the last six months in one particular area.

The very final comment I will say is: what are we doing in response? It is easy to sit here and cry foul, I guess, and to say it is difficult. We are working through a major shared service initiative with four other councils, where effectively we are looking to combine our back offices completely, with savings of about around \$5 million per council.

Mr RICHARDSON — How much, sorry?

Mr MORCOM — Five million dollars per council per annum in operating — so really, really significant. It has not been done in Victoria to this extent — a lot of issues around the culture, a lot of issues around risk aversion. A lot of issues, so a lot of hurdles to go through.

Mr O'SULLIVAN — So which are the four councils?

Mr MORCOM — The four councils are still being decided at the moment, but Wellington, East Gippsland and Bass Coast are looking at it, and South Gippsland Shire Council. It is a watch this space situation, and again I do not want to give you too many details on that. I can. I am happy to answer questions, but we are really trying to be proactive in trying to drive down some of our costs.

The final thing I would mention, and again I will just segue back to Stonnington council, is that when we had the freeze on financial assistance grants we really looked into that data with a lot of thought. A thing like the horizontal fiscal equalisation to me is something that fundamentally makes no sense at all. It is a federal jurisdiction or a federal law, I believe, effectively where every single council must receive a minimum financial assistance grant. So someone like a Stonnington — and they are not here to defend themselves — get a federal grant. They have to. Every single council, I believe, in Australia has to get a minimum grant. It makes no sense to me when a council that has the ability to generate such significant own-source income also receives — because of, I guess, an issue of egalitarianism or whatever it might be — some funds through the federal assistance grant. To me those funds should be wholly and solely based on a needs basis. So in the view of Wellington Shire Council they are the sort of fundamental issues on which we would love to see recommendations coming out of this committee.

I apologise, Chair. I may have gone over 5 minutes, but that is me done.

The CHAIR — It is not an issue. Anything further?

Mr LEWIS — Through you, Chair, I have a presentation on behalf of Baw Baw Shire Council. One of the key things that David mentioned and even Greg alluded to is the use of rating of lands as a revenue source. When you look at rural councils, generally the percentage of household income is in the order of 4.3 per cent for rural councils compared to metropolitan councils at 2.3. So in terms of the actual base that the rate forms, it is significant and almost double the extent of household income than for rural ratepayers.

Baw Baw council again has a budget of \$94 million and a capital works program of \$33 million. The main challenges for Baw Baw are managing for growth and supporting the employment base. Baw Baw is a peri-urban council about 95 kilometres from Melbourne. Our rural towns of course are mainly Warragul and Drouin, and of course with that growth and the development is how to protect the natural environment and agricultural land.

The key things I am going to go through are some graphs, while David used some numbers. If you could just go to the next presentation, this is a graph where if we look at the purple line, you will see in the history of the last four years of Baw Baw council is \$100 million of capital works investment. With a lot of those capital works, whilst they have generated employment, particularly to the extent that it might be at the Warragul Leisure Centre, it is the construction of a \$15 million facility plus it is the ongoing employment at that facility. Compared to the rate base for that, Baw Baw's rate base now is circa \$40 million, so well over 50 per cent of the total rates that are collected are actually allocated to the capital works program.

You will see to the right there is a purple and a blue line. The blue line to the right indicates that our four-year capital budget program is \$109 million. Now that all looks quite healthy and you might say, 'You've done \$100 million in the last four years; you are going to do over \$100 million in the next four years', but that is propped up by \$29 million of developer contribution plans that need to be 100 per cent funded from developers. If that funding did not happen, as a worst-case scenario you will see that the extension of the purple line indicates that the council's capital works program would only be \$80 million. Of course that will not eventuate because there will be some developer contributions, but to the extent of having that as \$29 million in the next four years, there are some challenges.

Last week myself and the new chief executive officer, Alison Leighton, presented to the Latrobe Valley Authority, and I believe they are putting in a submission to Local Government Victoria about some opportunities for potential reallocation of funds that might [inaudible] or fund the capacity to bring forward some of our projects and therefore allow Baw Baw to maintain the current capital works program.

That is the top two graphs. The second two graphs indicate the impact of the infrastructure gap. You will see there is a red line, which is the amount of our renewal capital, and as a rule of thumb it is designed to stay above the green line. You will see the green line back in 2012–13, but in the future years we are now looking at a gap or a shortfall of \$17 million. If that eventuates, that would be in addition to the existing infrastructure gap. What Baw Baw has done more recently in terms of a remedy is — and David spoke about the potential of shared services — about 18 months ago or two years ago Baw Baw had an organisational restructure that took in the vicinity of \$1.5 million out of the salaries budget. It was back office, but that was subsequently added back in in the current 17–18 budget mainly for front-of-house services and the need for things like additional investment in community service programs, building and planning, and regulatory and compliance.

I did mention the impact of the financial assistance grants freeze. Over the course of four years for Baw Baw it is \$2.3 million, whilst with the financial assistance grants that freeze on CPI has now been listed. It is no longer there. The ongoing impact of that is a lower base for which CPI escalates over a four-year period. That is an impact of \$2.3 million. If we go to the next slide, we have talked about some cost shifting, as has been talked about across local government generally as a sector. This is some high-level indication of the impact of cost shifting for Baw Baw over the course of the last 6 years.

You will see there the total operating of the council incomes. The council contribution has had to be from rates, and generally this has been in the pre rate cap environment. We are only into year two of the rate-cap environment. The increase of the council's contribution to service delivery — so the operations — is our \$70 million worth of service delivery for 100-plus services. Council's contribution has increased by 19 per cent. The grants impact has decreased by 8 per cent in that time, and the fees have decreased by 25 per cent.

David spoke about the disparity between ourselves as rural councils and metropolitan councils, regarding our capacity to generate revenue from fees as a percentage of our rate base. Again you will see there the second

graph talks about our capital, a significant increase of 214 per cent, as we indicated from a previous slide, which has mainly been funded by the rates.

I am conscious of time. I will just go to one more, if I may, and maybe leave it at that. There is indication in a lot of information of the impact of the national disability insurance scheme on the aged and disability sector. Baw Baw has something like 3000-plus clients in that aged and disability sector. The council contribution to that, by way of registered ratepayers, has been a 48 per cent increase in that time, which is the green component. The grants have increased by 6 per cent. There has been a net decrease of 13 per cent. In fees again there is a similar pattern with family and children's services — the green 97 per cent increase for council, which is a significant increase from the other services.

I will just show the next one, a final one. Again in planning and building services you will see there is generally a similar pattern, although the fee increased. There was a change more recently due to the state government lifting the capacity of council to raise fees for planning applications. That has had that impact, as you will see, as a proportion of the total investment in planning services. The green, which is for council contributions, is the most significant. I will just go and show — but I will not talk to it due to time again — that we have done a map across some other services, and there is a similar pattern.

So I guess in summary the future impact for Baw Baw and rural councils of the rate capping for cost shifting does put pressure on the capacity for capital investment. This leads directly and indirectly to jobs growth and then the opportunity, of course, to look favourably to how we might review those opportunities for alternate revenues and the way that rate revenue has been capped and the impact of that on local government.

The CHAIR — Thank you very much. We do have time. You have got four more.

Mr LEWIS — I have, but I am conscious of the time more for your information. The remaining presentation just talks about the average household income percentage consumed by rates. The impact on rural ratepayers is 4.3 per cent versus the impact on metropolitan of 2.3. Again, there are sliding scales for the interface councils and regionals, but the greatest impact is on the rural councils because of their average household income.

I will not go through the others, but the following pages address the terms of reference document. I am happy just to leave that. Thank you, Chair.

The CHAIR — Thank you very much, Mr Lewis. I will take the opportunity, as the Chair, to ask the first question, if I may. Mr Drumm, I will direct it to you. You spoke about the freeze to assistance grants specifically in the 2014–15 year. Can you elaborate further on the direct impact of that and more so on whether you have ever been able to make that up?

Mr DRUMM — We are in the same position obviously as the other councils, who illustrated that the issue was that when the commonwealth stopped indexing, effectively it was frozen at that level. Although indexing has now resumed, it has resumed at the pre-frozen level, so it is not like they have caught up the money that has been lost.

The CHAIR — Mr Morcom, you mentioned the bringing together of back-end services, and I understand the details are still being worked on. I think committee members would probably be quite interested in this space. Have you done any analysis, number one, on the impact of jobs on that process, and, number two, are there any other models around the state that have gone down this path? I think you said four or five were going to look at coming together. It might have been in its infancy. Can you just elaborate on that?

Mr MORCOM — It is a good question. Yes, I can. We have done a lot of analysis on it. In fact we actually had Deloitte come in. The councils paid for it. We worked with Local Government Victoria to basically verify all the data across all six Gippsland councils. I use Wellington primarily as an example. I have got about 55 staff in my corporate services area. Those 55 staff could essentially go down to 45. So it is a significant cultural issue.

Having said that, there is the opportunity over time to move those jobs away from your payrolls and those back office roles into direct community service roles. That would be the decision of each council if they chose to do the shared services model. You can either take those savings and effectively give them back to the ratepayers or you can move those 40-odd jobs into more immunisation nurses, more childcare workers, more et cetera

et cetera. That is a decision that each council could take. Effectively the way Wellington Shire Council looked at it was that we can transition those roles into direct service provision roles away from back end. One of the areas local government does not share, I have to say, is we all have our own separate software systems, we all have our own payroll systems, and it is a significant cost for all of us.

Mr RAMSAY — My question and supplementary will be around the issues of cost shifting, which you have all acknowledged in your submissions and also in your submissions this morning. However, I would like just to refer back to the FAG grants, which you have all identified as being a significant challenge in your revenue. I do note while there was the freeze for two years that in fact supplementary grants were made available to councils as well on top of the FAG grants non-indexed for those two years. Were any of you recipients of those?

Mr MORCOM — I am happy to have a first crack at that. At Wellington Shire Council that was accompanied by an increase in Roads to Recovery funding, so we were able to increase our maintenance on roads. But the general pool that we get from federal assistance grants we use to fund a whole range of programs for which there is no other income to do. The question was asked, ‘How much did you lose over the three years?’. The cumulative effect in Wellington was just over \$3 million, so it was a significant amount to take out of income that you use to fund a whole range of programs.

Just very quickly, little things happen almost on a monthly basis. We were advised recently that there was an unfortunate drowning we understand at a municipal pool some years ago. There was a review done. Rather than one lifesaver at every pool, we now have to have two. That is the response. We have six municipal pools at Wellington Shire Council, so the cost to maintain the same hours has gone up by about \$200 000 a year in additional expenditure just in response to that. They are the sorts of things that when you are looking at the way you mix your services, often the assistance we get — I am sorry, I am getting off track a little bit; I apologise, Deputy Chair. We use those funds basically to try and cover those sorts of gaps, those direct service provision gaps. So it was a significant detriment to us.

Mr RAMSAY — I suppose the point I am making, and this is not my supplementary question, Chair, is that in fact some of that supplementary funding in lieu of the indexation of FAG grants was used for filling the gap of the loss of state government funding through the country roads and bridges program and the like. I just did not want to put too much emphasis on the FAG indexation as being a loss of revenue when in fact all your funding streams coming from both the state and federal governments had an impact, with some reduction in funding to your current revenue base.

The question I want to pose — and I do congratulate you for your initiatives in some of the shared administrative work that is being done through councils. I must say it is not just yours; it is being done in western Victoria region as well in some of those smaller rural councils, where they have had to, for their own existence, look at shared costs. The additional costs that have been put on councils, and this was brought to our attention by the MAV, with the NDIS program, and I think the gentleman from Latrobe, is it —

Mr LEWIS — Baw Baw.

Mr RAMSAY — Baw Baw. I was not aware of that. Rob Spence indicated that local government actually has to fund — you can correct me if I am wrong — I think it was local government under 65 and the feds over 65 in some of these services that are to be provided under the NDIS scheme for which councils traditionally have not had to bear that expense. I will leave that with you for a second; I will park that. But also in relation to the defined benefit liabilities that have been accruing over many, many years, which you have identified also in your submissions as one of the problematic costs associated with council. In the mix you have thrown in school crossing supervisors and the fire services levy. I am as yet unclear about why you would put the fire services levy collection in there, given councils are actually paid to collect that levy and it is quite distinct from the normal rate collection. It is a specified charge that is collected on behalf of the state government. Could you respond to those cost-shift expenses that are affecting your ability to manage your budget?

Mr DRUMM — I can speak to the NDIS perhaps as an example. That is obviously a fundamental change in relation to the way those services are funded. For us the challenge, which is referred to in the submission, for example, which is not related to the NDIS as such, but one of the reasons why we run kinders in Latrobe city was because of what I would call a market failure if you like. There was no private enterprise that was willing or able to provide those services. The difficulty we have with the NDIS is that the funding for the services is too low for council under its current approach to be able to provide those equivalent services. But the difficulty,

certainly for us, is if we do not provide the services, whether the services will be provided at all. So potentially we need to, first, think very differently about how we do provide the services but, secondly, we may need to, for want of a better term, subsidise the services. In other words, we incur an additional cost to maintain the level of service that recipients currently enjoy.

Mr RAMSAY — Chair, if I may, can I ask whether anyone wants to respond on the other issues that I have raised?

Mr LEWIS — In relation to the cost shifting from a Baw Baw perspective?

Mr RAMSAY — Yes.

Mr LEWIS — We have identified that there is a range of things in terms of cost shifting. I think, Deputy Chair, you mentioned the fire services levy. I do recall that councils do receive some compensation funding for administration of the fire services levy, but I would need to take it on notice whether that supplements the full cost of the fire services levy, which has been an additional administrative impost on council for the last two or three years. But in terms of cost shifting generally, I think it has been the service for service, and in the presentation we have indicated those areas that we see as having had a direct impact.

The age and disability sector does include the national disability insurance scheme. Baw Baw, as a result of that, has indicated a resolve to no longer provide the service to under-65s. But having said that, there is an 18 month to two-year transition program, and we expect that there will be a short-term cost impost on that. In fact it is additional resources that Baw Baw council have now engaged in order to transition out, but it is also to ensure that the appropriate other providers are in the market. It is not so much for regional towns, such as Warragul and Drouin; it is more about the remote areas, such as around Erica and Rawson, where there may not be people in the space to actually provide that competitive service. So we would still see that as a bridging need for local government.

Mr MORCOM — I will just make a brief comment on the last matter, which was school crossing supervisors I think, which in Wellington costs about \$180 000 a year. Another interesting one is fire hydrants, which is apparently a legacy from the CFA act. When you see those little bits of blue plastic sticking out, the fire hydrant is in water mains. The CFA use them, so effectively once that body uses those hydrants they are attached to another state asset — the water authority — but for some reason local council is responsible for maintaining the access to those, and they are basically used by two different state authorities. We spend about \$65 000 a year on fire hydrants, so it is significant. But that has happened for many, many years.

The MAV are doing a very, very good job in relation to advocating on behalf of local government. The challenge is local government itself is 79 different councils across Victoria. It is literally like herding cats. So where we have said at a rural and regional level, ‘Why don’t we make a stand on school crossing supervisors? We need some action. Why don’t we all, you know, have some sort of blanket strike or do something?’, we can never ever get a whole-of-industry response to an issue because again, and I am not picking on my good friends at Stonnington — I know the CEO there very well — but to them school crossing supervisors are not particularly an issue. It is not a significant line item in their expenditure, but for us it is \$180 000 a year. It has been increasing over the last 12 years, and so they are significant. But I have to say these are legacy issues that go back a long, long time across multiple governments I think it is fair to say.

Mr RICHARDSON — Thank you, gentlemen, for coming in. I have a couple of questions that go to structural reform and grants. I will come to the fundamental reform because I want to tease that out a bit more. Having had a look at each of your submissions to the questionnaires that were provided to you to answer, there is significant discrepancy year to year between operational and capital grants for each over the five years listed. How does that impact on councils planning and assessing where they land the budget, as well as for councillors, when there is such a fluctuation? For example, with the commonwealth it is the operating grants. For 14–15 for Latrobe city it is up at 18.6, but then the next year it is at 6.3. How does that impact on trying to balance budgets, and how can we gain better certainty from those operational capital grants? There is consistency across the three in those three submissions, but how do we get better consistency in that? Obviously from a government perspective it is easier to announce capital. You can come and cut a ribbon for capital, but operational is the key line item that affects councils. How do we get that greater certainty?

Mr DRUMM — The grants are generally tied to specific activities, so as those ebb and flow so do the grants, which accounts for some of the fluctuation. So they are not altogether unexpected. They are understood. A particular project, for example, may finish or start, and therefore more or less money will be applied in relation to it.

Mr RICHARDSON — So if it is 20-something per cent of a council's budget and you get a big whack one year, which might be recurrent grant funding for three years, and then that ends and it might be on council to keep applying that service, how does that impact the ebbs and flows — in the millions — from a capital at state and federal level? Is it a big issue? Is gaining certainty on funding that might be achieved an answer to some of those challenges? How do you manage that?

Mr LEWIS — I think the answer is that it would help with some certainty. What Baw Baw do is we have a long-term infrastructure plan which is essentially a tentative plan indicative of what we expect those projects to be. Obviously when we adopt our budget it is for the next 12 months. The next three years is a four-year plan. We call ours a strategic resource plan. That is the terminology in the sector. That is probably a little firmer, but not so firm because it still changes. Then the following years 5 to 10 probably have a lot more flexibility.

I guess putting out a 10-year infrastructure plan indicates what those grants are funding and what the indicative grants are funding — and when those grants funding come in, they might be anything. It might be more a 50 per cent chance of funding — and the funding application might not have even been submitted at that stage, but it is an indicative idea based on best knowledge at the time. Then there is obviously the council contribution, which will often be a significant contribution to those projects. So I guess the answer is the capacity for long-term planning and then the timing for the application of those grants and when the councils have some certainty around the funding. Logically each council, when they do submit — notwithstanding whether it has a 10-year plan or a four-year plan — has an annual budget. Logically even after the adoption of that budget the funding then still changes and there is a need to review that budget during the course of the year based on what that funding might be.

So I guess, yes, the planning can help, but also the certainty and the knowledge of what that funding might be based on councils submitting longer term plans. Having said that, there still needs to be cognisance of the elected representatives for a four-year term, and then they develop a council plan for that four years.

Mr MORCOM — Just to add to that, if I could, Chair, Roads to Recovery is a good example, where there is some certainty now so we can program long term. It allows that to do that, particularly with roads, which are really significant for us. RTR is a fantastic program, and we laud various federal governments for doing that. It allows us to program long-term.

Interestingly again in the context of rate capping one of the things that our shire has entered into is the ability to now say that once that operating subsidy or grant finishes so will the service. We have a disability access service currently that has been going for four or five years. That is due to finish fairly soon. That service will stop. It has been quite interesting. I think that is one of the good outcomes of rate capping. It is really focusing elected members on the fact that we do have to jettison some services. If we keep putting things at the top of the bucket, some things have to leave. So they are starting to make those decisions, but it is incredibly difficult. I am sure, if I can speak candidly, in your own electorate offices that you understand exactly what I am saying. People are happy for council to cut all of our services. 'Just don't cut the one I use, because that's the most critical one'. It is just fundamental human nature.

The Wellington Shire Council are a fantastic group. I am not just saying that because I am on the record. They can make difficult decisions based on data and based on evidence. But when you have a gallery full of people who say, 'Don't shut the library by an hour because that's when my kids go and use it', it is really, really difficult. But they are the decisions local governments — particularly the ones I am seeing in rural and regional areas — are making more and more. Those really hard decisions about ratcheting back services in the wake of uncertainty and how we are going to fund this in the future.

Mr RICHARDSON — If I may, Chair, just to your point, David, about fundamental and structural change, obviously the stat with Stonnington you could put in most metro councils and probably some of the bigger regional councils as well, which can attract more funding. We know that that rate base and the people in various regional and rural communities are more disadvantaged than those in metro council areas. They cannot take

more rates. What does fundamental change look like? Are there any ideas that you want to share with the committee in potentially recommending to government what that actually entails?

Mr MORCOM — If I can say it again, through you, Mr Chair, it is a great question, because people in rural and regional areas expect the same service that people get in metro areas. They want their library open until 6 o'clock on a Friday. I have mentioned before that we have six municipal pools. They cost us about \$1 million a year to run. I will not say that pools are a hole in the ground, but you try and take a municipal pool away from a small community and there will be burning at the stake, if I can be so brazen. It is really, really difficult. That is why I mentioned at the start of my opening address that the change needs to be fundamental. People who live in rural and regional areas have an expectation that their access to services will be the same, whether it is public transport or whether it is a service provided by local government or state government. When it is not, that is when our council gallery starts to fill up and people start to get pretty angry. So at the moment we are spinning all the plates or the pots or whatever the appropriate metaphor is and we are trying to balance that. But over time it is going to be more and more challenging unless there is a fundamental shift in the way that we can fund some of these services. I understand from talking to my colleagues at smaller councils, and I suspect you have spoken to a few of them, significant services — libraries being shut and things like that — are starting to be withdrawn.

Mr O'SULLIVAN — I would like to just follow on from the previous question and just expand on that a bit, if I can, Mr Morcom. In relation to structural and fundamental change, I think you gave us the theory behind it, but you did not give us too many practical applications as to what you really mean by 'structural' and 'fundamental'. I am going to blue-sky here a bit. Are you looking around amalgamations? Are you looking at transforming into regional governments rather than local governments? I do not want you to put up specifics that you think should happen in Gippsland, but generally speaking in terms of fundamental change and structural change that is not tinkering, what are you actually referring to?

Mr MORCOM — Through you, Mr Chair, again that is a great question. It is a really, really challenging issue. We spoke about other source income. Take something like planning fees. To allow planning fees to effectively be set by different councils is fraught with danger — statutory fees have always been and probably will always be. The amount of work that we put into a shopfront in Sale is often not necessarily dissimilar to a 12-storey high-rise in the middle of Melbourne. So how can we generate additional income through those sorts of practices? We have looked at commercial practices. What can we do? We run a saleyard, for example. A lot of rural councils do that. We make a small profit from that. We are always concerned about competitive neutrality issues. Obviously we have to stay over the top of that. But generally the only commercial activities in rural and regional areas that we can fulfil are not fulfilled by the private sector because they are not profitable.

Gyms and things are a really good example — gyms with pools. Memberships et cetera in metros do not make a lot of money. We run all our gyms and pools because there is just no commercial appeal to run them. Initially I mentioned the horizontal fiscal equalisation. To move more of those federal grants to local government would be an immediate response — politically, again, challenging. You are taking away some money, but how we can allow councils to increase own-source income I am not sure. It is a real challenge.

Mr O'SULLIVAN — Is it potentially going down a path of having local governments get a contribution of the GST? Is that something that is viable or desirable?

Mr MORCOM — Yes. I absolutely think the sort of fundamental change is something along those lines — a share of something like GST. Rates are an incredibly challenging tax. Most ratepayers see them as a fee for service. 'What do I get for my rates?' is familiar to everyone who has ever worked for local government. We hear that all the time. There is an expectation — 'I spent \$1400, and I get?'. So it is a constant challenge to deal with the expectations of the community and their desire for services. If we could get some certainty through something like a tax-sharing arrangement, absolutely, and I understand that at a federal level through the Australian Local Government Association that has been on the table for some years.

Mr DRUMM — If I might add to that, on the revenue side Latrobe city has been an advocate for receiving a percentage of the royalties that are applied to mining, but on the cost side we have also taken some initiatives ourselves. We have looked at some different operating models for things like — as David talks about — pools, whether we can operate those in a separate structure, as has been done successfully elsewhere, at lower cost. Also just whether, even in the absence of a more formal amalgamation in terms of support services — and there are some sensitivities certainly for our council about, at this time, any redundancies that would be associated with that — there is still an opportunity, which is already good in Gippsland, for the Gippsland councils to

cooperate in terms of the services and products that we share. So we could buy more of them from a supplier at better cost and work cooperatively in that way.

Mr O'SULLIVAN — Mr Drumm, for my next question I just want to go back to your presentation in relation to your council. You mentioned the closure of Hazelwood and also Carter Holt Harvey in terms of that having an impact on your revenue. Obviously businesses like those are significant contributors in terms of revenue through their rates, and obviously that has gone. Have you done any sort of modelling or got any understanding of what sort of impacts those closures are going to have on the local communities and economies?

Mr DRUMM — We have, but the actual, I guess, is in play now. We have just sent out the first rates notice for the new financial year. The first instalment was due at the end of September, but for people who want to pay the whole amount that is not due until the new year. At some point shortly after that we will be able to work out exactly from our rating perspective what the actual impact will be. I think to be open you can look around town already and see that it has already had an impact, but exactly the impact on council I think we will find out very shortly.

Mr O'SULLIVAN — What sort of estimate do you think it will have?

Mr DRUMM — I would have to take that on notice. I do not recall the figure off the top of my head, sorry.

Mr RIORDAN — My two colleagues have talked about this fundamental change, and it is something I am very interested in. We have all been very polite about it, but I think we can use words. For a lot of country people, and for me as a country member in a very similar shire to this one, I look at that Stonnington sort of comparison and think: at the end of the day a rate is a tax. Any other tax in Australia that taxed the poorest people twice as much as the richer people would have riots on the street. If it happened in Melbourne that the poorer suburbs were taxed twice as much as the richer suburbs, people would be very unhappy.

The question I pose and on which I seek your feedback is that our rates system is an 1850s tax. It was a rates system based on a time when landowners were king and our population was more than half in the countryside. It is now of course a very different Victoria that we live in. I pose the question: is it time, when we talk about fundamental change, that the actual role of setting a rate is taken off local government, processed by the state and then distributed along the lines that we do GST and other things? Where it is done on an as-need basis and on infrastructure and whatever else the state's objectives and needs are at the time?

Certainly as a country person you go to Melbourne, and our inner-urban areas spend a lot of time on bells and whistles and arts festivals and all sorts of God knows what. In my patch I have got the Great Ocean Road, and you have got a situation where they cannot even replace toilet roll holders in basic infrastructure such as toilets because there is no money. In fact it completely occupied my Facebook all weekend about the condition of a toilet on the Great Ocean Road, but the point is it is very frustrating when you see vast sums — and you have highlighted it there — and the richest people in the state pay half the rates that the poorest people do. So do you think that could work, where it is actually taken out and redistributed so it is a fair distribution of that tax? And I call it a tax, not a rate.

Mr MORCOM — I am happy to open the batting if I can use that metaphor, Chair, and say, yes, something fundamental needs to change. People, and certainly our citizens, still like their own governments — the council — making decisions for them, making allocations. They still love to engage and call councillors and come into the town hall meetings and all those things. That is really, really important and we should never, ever lose that, but if we move to a system of some assistance or something similar to what you are proposing, it needs to be so strong and robust that it is not politicised in any way. The distribution of the financial assistance grants is probably a good example, where they have got a whole range of factors from road length and number of disadvantaged this, that and the other — a whole structure of things that might determine that — but something fundamental certainly needs to change. I would certainly support something along those lines, where there was something that from a revenue-raising or rates point of view was centralised.

The CHAIR — Further points on that?

Mr RIORDAN — Any other comments on the concept of having that done that way?

Mr LEWIS — In principle I think that could be supported. I think it is also interesting to note the distribution of the financial assistance grants, because it is based on a needs basis, to the metropolitan councils. In a comparison between Wellington and Stonnington, if you look at Stonnington's financial assistance grants, they would have been significantly less than Wellington's and certainly significantly less than Baw Baw's, and that is based on an assessment on a needs basis where there is some central distribution. So I think in principle, but again it would need to be very robustly managed based on service and based on some very accurate criteria.

Mr DRUMM — I would agree with what my colleagues have said.

Mr RIORDAN — The next question I have is one my colleague Simon touched on, which is the defined benefits scheme. I know my local shire raised this in their recent budget as being a serious concern. What is the trajectory at local government level for how much longer or the continued cost? Is there a forward projection over the next 20 or 30 years as to what that is expected to continue to cost local council? I am imagining that the grey heads are increasing, so we have got to start getting a curve twisting back down eventually, do we?

Mr MORCOM — My understanding is that then families are involved as well, so the trajectory is a very, very, very long one.

Mr RIORDAN — It is an inherited right?

Mr LEWIS — Yes. That is my understanding. I will just qualify that.

Mr RIORDAN — And they reckon polities get it good.

The CHAIR — We are in the wrong game.

Mr RIORDAN — We are in the wrong game. We should be in local council.

Mr MORCOM — At the last adjustment, Wellington Shire Council's adjustment was \$5 million. That is a significant amount of money, so effectively we just basically pushed back our cap ex program by a couple of years and fund it that way.

Mr RIORDAN — Is it every year you get a gap or does it depend on the stock market?

Mr MORCOM — It depends on the market. It is assessed regularly. They even provide us updates almost every three to six months. The current word is that it is okay and that it is travelling all right, but it could happen at any time if the market continues to remain fairly flat. Then we would have to make another call. What that also builds in to local government is an inherent conservatism or risk aversion. We sort of sit back and say, 'This is a potential liability'. From a balance sheet point of view, we tend to make sure we have got the capacity to deal with those sorts of shocks, which is a good thing, but it also sometimes leads to some conservative decision-making.

Mr DRUMM — I was just going to add that the right goes to the spouse or possibly now the partner, so it has a significant tail. We have just topped up ours — more on the basis of a provision rather than being required to do so — but it is a significant concern.

Mr RIORDAN — Just one last question on that: if you are a CEO or a senior office-holder and you move from one shire to the next, is it the last shire standing that inherits it? Or where it was initiated — do they get it?

Mr LEWIS — No, it is a transfer, so if a senior employee transfers from council A to council B, then, yes, that council essentially is the last man standing. However, there is a calculation, and council A would then pay council B based on the value of that defined benefit at the time, because you know that can have some future escalation factors.

If I may just add in relation to that defined benefit, when we spoke about a 10-year, long-term infrastructure plan of our capital, we do have an impost where we put in for future potential calls on the defined benefit. So our capacity for long-term infrastructure investment is reduced by the potential risk of having to fund that defined benefit. But having said that, the Vision Super authority brings out a number of reports to indicate, for want of a better word, the language values, and one of those is actually a mortality projection. So they are actually projecting — and that is the language that they use — how long those people will be still drawing on

the fund. But as Greg mentioned, I think 66 per cent of that goes to the spouse if the primary beneficiary predeceases the spouse.

The CHAIR — We are going to go round one more time and have another question from each committee member.

From what the committee seems to be hearing, there is no silver bullet in terms of addressing a number of these issues that we have. There also seems to be, from what I am hearing this afternoon, a fairly collegial mentality in terms of working with municipal neighbours. It is probably pushing even harder on the member for Mordialloc's question, but can you give me any examples of any studies or work undertaken within other jurisdictions in Australia and also overseas in terms of making some of these issues easier to deal with and easier to manage?

I guess where I am landing is that we do not operate in isolation as a state, and this committee is charged with finding those recommendations that are going to make everyone's lives easier and the communities that you represent better. I am after any examples that you have.

Mr MORCOM — I have drawn a blank. I go back to a question that was raised by Mr Riordan. This is around something fundamental — and I think Mr O'Sullivan raised it well — about the share of GST. That sort of fundamental change at a basic level is what needs to happen, in my personal view. It is really, really difficult. You can look at the history of everything from a whole range of tax reports over the years and the amount of recommendations that have been picked up at a federal level. It is really, really difficult to fundamentally change the system. But what will continue to happen in local government, and I just mentioned this, is this expectation that whether you live in Mildura or Sale or Stonnington or Phillip Island or Nhill, your access to services is the same — you can still access the library. We have this great egalitarian principle in Australia, which is a wonderful thing, but it is getting harder and harder to do it.

Mr DRUMM — One of the difficulties is comparing like for like and that the councils, even within our region, do vary to some extent in the full range of the services that they provide. Whether they have got five pools or three pools can have quite an impact. Obviously then compared to overseas, they have in many cases significantly different models for funding local government. In the US and the UK you can see some pressures along the same lines as we have and not a lot of solutions.

Mr RAMSAY — My question is in a similar vein to those of the Chair and my colleague Mr Riordan in that the idea of this inquiry was to actually understand the differentiation between rural and regional councils as against city councils, and you have clearly indicated some challenges with raising revenue. I was going to refer to the Hawker report too, because from a national level to a state level there are multiple reports on where we go with local government funding.

I think Mr Riordan indicated we are using an 18th century model from counties in the UK that had squatters and pigeon shooters and all sorts of things that deal with a CIV rating. I looked at the rate notices assessments then, and I was thinking, 'I wish I only had to pay \$1200 to \$1400 per year in rates, given the rating on my small farm — I am paying tens of thousands of dollars'. So it is unfair and it is inequitable, particularly for farmers right across regional Victoria in that they have large landholdings to require them to make a small profit of \$50 000 to \$60 000, which is in that low income bracket, but they are paying tens of thousands of dollars in rates. We know it is unfair.

What we need to do is find recommendations that will try to balance the inequity of our current system. I pose a similar question to you, then: if we take away the CIV rating methodology currently used — and we have used it for two centuries — and replace it with a defined income stream, like the previous state government tried to do with the country roads and bridges program to address road upgrades, which was \$1 million to 40 disadvantaged councils, or 38, I think, and was specifically for one purpose and that was to alleviate the road audit deficits over a number of years, can you give me some indication of where you think we might make recommendations in relation to providing greater equity, perhaps removing the CIV rating tax we have now, to allow rural and regional councils to perform their service duties?

Mr MORCOM — I am happy to go to that. I would like to make, if I can, just a comment. I completely agree with your points, Deputy Chair, in relation to some of the challenges. At our council, being a rural

council, we have had many debates about equity and farmers, and it is a real challenge. We currently offer a 20 per cent rate differential.

One of the challenges, of course, is that while one part of the farming sector might be down, another might be up. Should it be 20? Should it be 15? What is the answer? At some stage we have to make a value judgement. Someone has to sit down and make a subjective judgement on what is the appropriate level of rates for, for example, a farm. One of our councillors is the local undertaker. He runs a chapel. He will get up and he will say equally, 'I think my rates are far too high based on the assets that I use and the usage', so it is really, really difficult.

In response to your question, regarding those fundamental services — we mentioned country roads and bridges, and that was a fantastic scheme for us because it was not competitive. When you get into competitive grant processes, I have often heard out of Spring Street and Canberra that the easiest way to divide and conquer local government is to put out a competitive grants scheme, because we all fight for that and we all try to differentiate ourselves. But when it is non-competitive, like the country roads and bridges was, it is fantastic; we know we are going to get \$1 million a year, we can forward plan and we can replace this bridge and do that. We can make those strategic decisions about what bridge we replace.

Perhaps the answer to your question is that we need to look at those fundamental services that people have an expectation of. Libraries might be a good example. How can we start to align service expectations? Again it is difficult. I visited the Geelong library a couple of weeks ago while I was on holiday, and it is the most extraordinary library I have ever been into. It is an amazing new building. Clearly they offer different services to the library at Kaniva. So how do you balance those usages up? Perhaps we can look at a model whereby we can look at some of those fundamental service offerings and look at a better way of funding them so people have the same access to services. I know that does not answer your question, but it is sort of a bit of a 'How do we resolve world peace?' type of thing.

Mr LEWIS — If I could just add, the funding trick is, given most councils provide 100-plus services and the challenges also that have been faced by individual councils and elected representatives, how you compete with the weighting of a competing interest between one of those services versus another service. Typically when councils or management go to their elected representatives, indicating and saying, 'We run 100–150 services; we can only afford to run 140. What thing do we stop doing because we can reallocate those?', there is always found to be a justification for why any 10 would seem discretionary. The discussion is: 'What is a discretionary service in local government?'. In some cases most of them could be potentially discretionary but there is a need, and often there is usually a fairly robust lobby group that might support them. It might come to council and indicate that their particular service ought not be one of the 10 that might result in a reduction from 150 to 140. So whether there is a possibility around the decision matrix that talks about the relative benefit of services and what might be — because essentially what business and what service is local government in? It is essentially very broad and has expanded over the years.

Mr DRUMM — I do not really have an answer, I am afraid. I mean from our perspective we are genuinely interested in being sustainable, so we do have at least a 10-year view, unlike many businesses. So from our perspective the more reliable the revenue, however that is made up, then we can at least cut our cloth to fit what is coming in. I think perhaps to reinforce some comments that David made earlier, if you look, for example, at the model of the Victoria Grants Commission, I think, from memory, they apply 14 different factors, so they assign the money according to relative disadvantage. At least within those parameters it is kind of a rational basis and it does provide some certainty, provided the factors do not change remarkably from cycle to cycle.

Mr RICHARDSON — Just a final one, gentlemen. I take this as, I guess, an issue between state, federal and council relations and there is something beavering along in the background that has gone on the backburner, which is the constitutional recognition of local government. Maybe time best spent is on fundamental and structural reforms to the funding of local government between the state and federal. The reason I say that is that in Victoria at the moment we average about 9 per cent of infrastructure funding from the commonwealth and we get a lesser share of GST revenue than we put in, and getting certainty around those structures, even from a state perspective, is fraught, especially with three-year federal government terms. If they increase that to four or five years, I think that would be a good thing, to get a greater certainty on policy outcomes.

So what can local governments do, Gippsland being an example, to try to, I guess, use the COAG process to better represent not just Victoria but also New South Wales, Queensland and Western Australia — there are

some examples nationwide of where there is extraordinary discrepancy in funding and outcomes. How do we better get that message across? Because, to your point, David, which I think is apt, it is a bit like herding cats in local government sometimes. How do we get better structure where we focus on the things that are really affecting the people that we are here to represent?

Mr MORCOM — The point you raise has had obviously very high discussion by local government for a few years. It is interesting that when the federal assistance grants were frozen for two or three years and we all sort of threw our hands up in the air — ‘What on earth is going on?’ — one of the questions that came back from the then Abbott government was, ‘We don’t get enough recognition for it’. In other words, ‘We’re not getting enough front pages in your local papers and things about what we’re giving’. That was sort of a bit of a slap in the face in a way because obviously we did not realise we had to give recognition and handshakes and cut ribbons before there was effectively a shifting of funds from the federal government through the state government processes to local government.

So all of a sudden it is a brave new world. When we now think, ‘Well, what do we allocate our pot of money to?’, we need to get our federal member, the Honourable Darren Chester, along to be in the photo shoot. This is a sort of brave new world that we now need to face. That is really quite a challenging space. In a way, again in the interests of being incredibly candid, it politicises it to a degree that we now need to make sure that we provide that degree of recognition. There was a significant amount of documentation that came out from ALGA saying to all councils, ‘We really need to bolster the recognition — whoever is in federal government — that we provide for these grants’. That was a fundamental message to us that there is a very strong political element that we need to be more cognisant of, and perhaps 10 years ago we just took it.

It is a difficult one. It is really, really complex to work through that. We go back to the fundamental issue of every time there is a change in state or federal government some programs cease, other programs start. RDAs, for example, are very strong regional bodies. They were very strong under the previous Labor federal government. They are not so strong now — ‘Yes, they are’, ‘No, they’re not’. So for local governments it really is a bit difficult to work out how we navigate through some of those political machinations.

Again there was a great example recently with the state government rail announcement. It was a fantastic announcement — \$460 million-odd for the Gippsland line. We all applaud it. One of the biggest issues for Gippsland was then the federal minister, our local minister, comes along and says, ‘Whoa, hang on! You haven’t got that money’, and the community was a little bit confused. I do not want to go into the politics of it other than the messaging to the community, but it is quite difficult and quite confused, and we are stuck in the middle of it to a degree, local government, trying to manage a lot of that message, so it is really, really challenging. The solution is just more certainty, more of a framework longer term around the processes of how we receive funds. That has got to be the answer.

Mr RICHARDSON — Because I think there have been a number of resources expended in the constitutional recognition issue, and having worked for the former Attorney-General I remember that beavering along. But this seems to be the absolute fundamental thing that MAV and all local governments, particularly regional and rural councils, should be focused on and maybe teaming up with their counterparts in other states to try to drive this through as a COAG agenda. That seems to be the right place, because I think that point about politicians and mayors and all governments and political persuasions are guilty of that. That really needs to change, it seems.

Mr RAMSAY — That is a statement, I take it?

Mr RICHARDSON — Unless someone else wants to contribute. I think it is important that, through that COAG process, it is looked at. It may be an idea to take through, but if there are any others — I mean, we are trying to tease out fundamental and structural reforms and there are other things that divert attention away.

Mr O’SULLIVAN — One of the issues that we have around this state is congestion. We see it in Melbourne every day. If you ever have to go through Melbourne, you will know what it is like. I think in the last 12 months we have had something like 130 000 new people come to the state, of which some 120 000 actually stay in Melbourne, which makes the problem worse. In terms of the revenue assistance or the revenue that you are trying to get, would more people coming out to the regions, and from a government point of view more government services, whether it be departments or whatever, coming back out into the regions, particularly to the Gippsland area, be of assistance in terms of the money that you would receive for each of

your councils if we could get more people to come out of Melbourne and actually live and operate their businesses out here?

Mr DRUMM — That has already begun, I am pleased to say, with the building of a GovHub in Morwell, which is very welcome. Obviously more people, especially moving government departments — so where people and jobs move together — is extraordinarily welcomed by us. Our difficulty at the moment is to get —

Mr O'SULLIVAN — But did the GovHub actually bring people out of Melbourne?

Mr DRUMM — Correct — the relocation of a government department, as I said, including the jobs and the people. However, the complexity for us at the moment is that we need to provide jobs before we can reasonably expect more people. The growth of Latrobe city was one of the factors that was below average. There has been only 4.3 per cent growth in the last 10 or so years. In the Victoria or Melbourne context, that is relatively modest. But more people, especially those coming in with jobs, would be great.

Mr MORCOM — If I can just add to that, Gippsland is a relatively unique region. We have got a significant population — around 260 000 people — but we have no singular large population centre. We have no Ballarat, Bendigo, Geelong, Shepparton or Mildura. Our biggest city is Traralgon at probably around 30 000. So you have got a very, very dispersed population in Gippsland — in Bairnsdale and Sale through to the valley and Warragul, Drouin and Leongatha and then down to Wonthaggi. It is very dispersed. We do not have any single large service, and one of the challenges we have got in centralising services in Gippsland — again, I am expressing my personal view — is a lack of access.

If you regionalise services, particularly the current government's response in the Latrobe Valley, you have got to have people being able to come and access those services. I live in Sale. There are three V/Line services a day. From a public transport point of view, that is the reality. I am not making a value judgement on that. That is simply what it is. It is very difficult for people to access services, jobs or whatever it might be if they do not have the public transport there, which of course is driven by numbers and demand et cetera. So one of the biggest challenges we have got in Gippsland is that the dispersion of the population makes it difficult for people to get to job centres or whatever it may be.

Mr RIORDAN — Last question. We will finish on a high. I think a couple of the presentations talked about the demise of the coal generation industries here. I wonder what lessons other rural shires can learn from that. I am interested in what your dependency on those rate incomes was, because we are now seeing in western Victoria, with the gold rush of wind farms that are popping up like mushrooms, that shires there are stuck between a rock and a hard place because they are getting dangled in front of them million-dollar cheques per year. There is this wonderful new income stream, and we know how much a rural shire loves an income stream — but of course they are very fixed term.

Back in the 1960s or earlier, when the industry started, probably no-one wanted to think about when it might end, but we have now got it on the horizon. How does that affect your ability going forward and what you can do? Are there lessons for these other rural shires in terms of how dependent they get on that income stream when the life expectancy of the wind industry, for example, is a lot less than coal has been. They are talking a 25-year life expectancy. Is there something that they need to do or think about so they do not end up in a situation? Twenty years is not that far down the track of what you do when you minus \$2 million, \$3 million or \$4 million a year from your income stream. The shires down here had an approach to using that money in a different way so it is able to demonstrate clear benefits rather than becoming an essential part of paying wages and services.

Mr DRUMM — Speaking for Latrobe City Council, it is a difficult thing in the sense that that industry had been very well established here. I think that while its demise was not unexpected, the speed with which it occurred meant that the transition in practical terms was limited. At this point we have lost one of the power stations, and we may or may not lose any others over the next 10-year period —

Mr RIORDAN — It depends on how the Northcote by-election goes.

Mr DRUMM — The answer, I guess, is just with anything about diversification of risk to the extent that you can, but it was also, I think, for us about the time for transition. If we had had more time, it may have just been easier to manage the implications.

Mr LEWIS — I think it is a good point, because councils intentionally do not allocate funds. When they receive their rate revenue, they do not allocate it and partition it, for want of a better word. This is a potentially susceptible income stream, such as Hazelwood, because of the nature of the industry for which the rates are generated, so as a general rule of thumb councils do not tend to do that, obviously, other than the impact of a differential, such as the farm rate and generally the discount that is afforded to farm ratepayers. They tend to not petition off and allocate rate moneys as such. It tends to be reliant on the total rate base.

But again it is the diversity of the sector to the extent that individual councils are relying on particularly large ratepayers. I think one of the first things for any executives to look at is what are the top 20 or 50 ratepayers and how large are they? I know from a Baw Baw perspective it is relatively low. There is no single ratepayer. That can be a double-edged sword. If it was a very large industrial ratepayer, it might be a high-paying ratepayer that does not use a lot of services compared to a lot of residential, so it is a bit of a double-edged sword in that sense.

Mr MORCOM — It is a good question. I am also in the Gippsland regional plan leadership group with other CEOs and some industry people, and one of the challenges is always about direction from the state government. We can look at something that you mentioned — coal. The current government has got a very specific position in relation to coal. The position from the current opposition shadow minister is that, should they form government, it is back on the agenda. So is it here to stay, is it going, or is it staying but it has got to be sustainable? Our biggest ratepayer Melbourne's Esso. A little bit easy, but again, issues around onshore gas have been a real challenge for the community to work through from the previous government and from this government.

Probably the most pertinent example around challenges is the Heyfield timber mill in my patch. You would be aware of that — around 250 jobs. The challenge has always been around — again in the interests of being incredibly candid with you — the politics of whether this is about seats in Melbourne. Is it about the Leadbeater's possum? No-one wants to see the demise of Victoria's faunal emblem, the Leadbeater's possum, but at the same time, there are jobs hooked onto this incredibly valuable and incredibly valued industry. People love Victorian hardwood.

A conversation I have had with all of our local members, upper and lower house, is about how council's position will be informed by the data. Where is the evidence? Trying to remove some of the politics around that when you are talking about people's lives has been really challenging for us because we have got data here from VicForests and data here from experts, and a lot of it is conflicting about what is a sustainable level of timber that can be offered in perpetuity, if you like.

It has been incredibly difficult for us when we visit small towns like Heyfield and there are people who are losing — I apologise; I am getting off track. It is not only the rates impact. Heyfield is a town of about 1500 people. The timber mill is Heyfield. So it is really, really challenging just to work through the politics of that. To this day we do not have any reports from the state government on the number of possums that have affected their decision. It is just an example of some of the challenges and uncertainty we have got in the context of policy decision at the state level.

The CHAIR — David, Gregory, Matthew and Malcolm, thank you very much. I take the opportunity on behalf of the committee to thank you for your submissions and for the candid way that you have responded to the committee's questions. I think it has been a terrific first hearing in Traralgon. Feel free to stay for some lunch. We will break for lunch now.

Witnesses withdrew.