

ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE

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

Shepparton — 24 October 2017

Members

Mr 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

Ms Geraldine Christou, Acting Director, Sustainable Development, and

Mr Greg McKenzie, Manager, Environment, Greater Shepparton City Council.

The ACTING CHAIR (Ms Halfpenny) — Good morning, and thanks for coming here to submit evidence to this inquiry. For the transcript could you give us your titles.

Ms CHRISTOU — Certainly. Geraldine Christou, acting director, sustainable development, Greater Shepparton City Council.

Mr McKENZIE — Greg McKenzie, manager of environment, Greater Shepparton City Council.

The ACTING CHAIR — Before you start your presentation I will go through the formalities around parliamentary privilege. The committee is hearing evidence today in relation to the inquiry into the sustainability and operational challenges of Victoria's rural and regional councils. The evidence is being recorded, and you will be sent a proof of the transcript to check for accuracy before it becomes public. All evidence today is protected by parliamentary privilege. Therefore you are protected in terms of what you say in here, but if you make similar comments outside this hearing they will not be protected by parliamentary privilege.

Welcome and thank you for coming. It is up to you to provide a presentation after which committee members will ask you a number of questions.

Ms CHRISTOU — Thank you very much. I would like to start by welcoming you to Shepparton and thanking you very much for the opportunity to talk to our submission. Our submission forms part of the Hume Region Local Government Network (HRLGN) submission, and we were asked to come here to present from Shepparton's perspective. I would like to start by updating some of the statistics in that submission that was put forward by HRLGN. That was done in September 2016. Our population has changed from there. It is now estimated at 65 076. Also, our unemployment rate has changed and is now 6.26 as of the March quarter this year.

The ACTING CHAIR — The previous presenter talked about the growth rate — 0.4 per cent. Is that up-to-date?

Ms CHRISTOU — Yes, that is right.

The ACTING CHAIR — That is current, yes.

Ms CHRISTOU — I would just like to start off by talking about funding and budgetary pressures. Greater Shepparton City Council has an annual operating budget of \$120 million and capital expenditure of \$39 million. In developing the annual budget and modelling its long-term financial sustainability, Greater Shepparton aims to achieve three underlying financial principles, and they are generating an operating surplus, fully funding asset renewals and borrowing responsibly.

For Greater Shepparton rates income equates to approximately 52 per cent of our total income, highlighting the importance of alternate sources of income such as government grant funding and user fees. Recent research conducted by Arup on behalf of the Essential Services Commission found that regional and rural municipalities are likely to be even more constrained in their ability to generate revenue from user fees. Arup provided an example in their research where inner urban councils can reduce their budgetary pressures, noting that, for instance, parking charges can be a sustainable income stream, highlighting examples such as the City of Melbourne and the City of Port Phillip. The City of Melbourne receives around about \$50 million from parking fees, and the City of Port Phillip about \$7.5 million per annum.

The research further highlighted the view that the socio-economic distribution is likely to have some effect on councils, but if anything, this is an impact felt more in rural and regional areas than growth area councils, and regional-rural municipalities are likely to be even more constrained in their ability to generate revenue from user fees, hence the reliance on rates. According to the Australian Bureau of Statistics, in 2011 Greater Shepparton was ranked as the 13th most disadvantaged municipality out of 79 Victorian local government authorities. Not only does Greater Shepparton face budgetary pressures on income, council also faces particular expenditure pressures specific to the local government sector.

One specific example exists with historical developer contribution plans. Recent reforms in 2016 will help reduce those pressures in the long term. However, a number of historical developer contribution plans continue to place added pressure on Greater Shepparton's budget, most specifically the risk of escalating costs of the

infrastructure with no recourse for council to recoup the difference between contributions already collected, and they will continue to exist for Greater Shepparton for a number of years.

Mr McKENZIE — Another area where we face a few issues too is the impact of the Victorian floodplain management strategy. Under that strategy councils have been given the responsibility for management of urban levies. One of the things we are also concerned about is council's liability for those levies. Currently we have no protection. We need to undertake some significant engineering assessments of the urban levies that we do have to determine their structural integrity. We have done a bit of a report back to DELWP on this, and we estimate that annual maintenance on urban levies will be about \$15 000 per kilometre. If we need to construct new levies or reconstruct levies, we are estimating that at around \$1.5 million per kilometre.

One of the other things that the impact of the modernisation of the irrigation system has seen is that some irrigation channels have been taken out of active service, but they did have a dual role and that dual role included acting as a levy for some urban areas. We have not quite yet worked out what the impact of that may be, but there may be a requirement to maintain those as a form of levy as well. That is just another area where we face financial pressure.

Ms CHRISTOU — Just moving on in relation to fairness, equity and adequacy of rating systems, we support the MAV's submission in regard to this aspect, reinforcing MAV's words. Rates are very complex to understand and explain, and are often subject to negative media. Members of the community do not understand, I guess, the breadth and the depth of the services that council provides in return for the rates. We agree with the MAV that a more hands-off approach from state legislation associated guidelines will assist regional and rural councils to establish ratings strategies that match their own views on rating equity and are customised to the own circumstances of the individual municipalities.

A challenge facing Greater Shepparton's sustainability and operations is rate capping. The Essential Services Commission has been consistent in its response to the local government sector in advising that councils can apply for variations to rate capping. However, in practice the level of community engagement required to support such an application, whilst understandable, is really restrictive to a council's chances of obtaining a variation and challenges its political willingness to do so and what the community feedback in relation to that will be.

A recent customer satisfaction survey that was undertaken of Greater Shepparton ratepayers suggested that 32 per cent of those surveyed are dissatisfied — with another 50 per cent who were neutral — that the annual property rates are fair and reasonable. As noted by the MAV in their submission, there is an argument that ratepayers underestimate the value for money they receive from their rates. The MAV quite rightly point out that there are a large number of services ratepayers benefit from, such as public safety, public open space, traffic management, arts and cultural events, which are not free but are not considered as part of council's value proposition and are not obvious to the average community member. With such a disconnect the application of the rate capping framework does place additional budgetary and operational challenges on regional and rural councils, especially when councils are subjected to volatile costs — for example, energy costs and petroleum costs.

The ACTING CHAIR — Just in terms of the ratepayers not understanding, the previous presenter talked about private valuers. Whether the allegations are correct or not, the point was that private valuers who also have interest in property development within the area can look not very good for ratepayers. Do you think there is some merit in the idea that you remove the valuation from council and individuals that are developing property in the area, or is there governance and various levels of oversight so that that can occur?

Ms CHRISTOU — I think that there is enough governance and oversight in place with the valuation process to ensure that it is legitimate and it is right. The process allows for objections to the valuations, so I think it is a sound process. As with any council processes, there is always going to be some level of scrutiny and discontent depending on what the outcome is. I think we do see that in the community, but I think it is a minor part of the community that has that understanding.

The ACTING CHAIR — That it is not right?

Ms CHRISTOU — Yes, exactly.

The ACTING CHAIR — Or that the valuations are not correct?

Ms CHRISTOU — That it is not right.

The ACTING CHAIR — The other thing was around the issue of growth. The view of the previous presenter was that it is not really about rate capping and whether you can actually continually put rates up. I think the Greater Shepparton council has been increasing rates 6.7 per cent per year prior to rate capping, but the way to really sustain a council is that ongoing growth. Do you agree with that?

Ms CHRISTOU — I do. To a certain extent I do, but there is always — like with any business, a council is no different — going to be a fixed amount of overheads, and we already talked about the volatility in relation to energy cost and petroleum cost. I think the council, particularly in a rate-capping environment, apply a lot of scrutiny to our expenditure, and we are extremely open and transparent with our expenditure as well. The previous speaker talked about having difficulties obtaining answers from council. The method that he talked about in terms of retrieving information from council is one way that you can receive information from council, and that is through public question time at a council meeting. There is some scrutiny and process, or some process around that, to stop it being such a tedious process at the actual council meeting. There are a number of other ways that people can ask questions. The information that he was seeking is available in the annual report, and also he can write a letter to council at any point in time and have a response to those questions.

To answer your question, in terms of growth sustaining council rather than increases in rates, I think that is certainly part of it. But we will always have fixed overheads and you cannot rely on growth all the time, particularly for regional and rural councils, because there are a number of other factors that affect growth as well, which are outside of local council control. One of the things that would assist us with growth, I think personally, is if we had increased passenger rail services here. We only have four services a day at the moment. If we had similar services to those of Bendigo, Ballarat or Geelong, then our opportunity to be able to increase growth here would be much more favourable.

The ACTING CHAIR — Just one other quick question: in terms of the financial situation of the Greater Shepparton Council, reading in the background notes, about 26 per cent of the budget is government, state or federal, funding; is that correct?

Ms CHRISTOU — That sounds about right, but I do not have the figures on me at the moment.

The ACTING CHAIR — Has that increased or reduced over the last couple of years? I know the federal government has reduced or put a freeze on federal grants, but in terms of the state, has there been —

Ms CHRISTOU — Look, I would not like to quote those figures. We are always advocating for more funding from state and federal government, but I must say that quite recently we have been very fortunate. We have got a crane here at the courthouse. We have got a \$73 million courthouse being built. We are about to embark on a \$34.5 million Shepparton art museum, and we also have the redevelopment of Goulburn Valley Health about to start. There are peaks and troughs with state and federal government funding. We do believe that there is some inequity in some funding that is provided to councils or to this community, and rail services is a really good example of that.

Mr O'SULLIVAN — Thank you for presenting to us today. I just wanted to expand on the growth theme that the Acting Chair asked questions about. If you look at what is happening here in Shepparton, both in a historical sense and what is on the future horizon as you have mentioned, you made reference to Bendigo, Ballarat and Geelong as having better passenger train services than there is here in Shepparton. I think that is probably something that everyone would agree with. In terms of the model for creating growth in terms of population, you have got to make the place an attractive place to work and to live in and an attractive place socially. In a cultural sense, if there is an opportunity to come here for work, you think, 'Okay, yes, there's a job there, but do I want to actually live with my family in this community?'

You have mentioned a couple of things in relation to the trains. But you also mentioned the upgrade to the health service, that is going to be a positive into the future. You also mentioned the new arts museum that is going to be created. I think that is going to be a very good attraction. Obviously the bypass has been spoken about, which is going to take away some of the time lost in production in terms of getting goods to market rather than having to go through the town or out to the east. Obviously there are issues around water. You guys

are presenting to us in relation to water, so we can perhaps talk about that in that space. What are the other things that the community of Shepparton requires from state and federal governments to actually get some of this activity and attractiveness for the region going again?

Ms CHRISTOU — The first thing we have recognised that has been barrier to growth for us is self-belief in the community. There has been a lot of negativity and a lot of negative perceptions, particularly when SPC were looking for funding, the \$22.5 million with Coca-Cola Amatil to revitalise and innovate their operations. There was a lot of perception in the community that SPC were closing down and what a dramatic, negative impact that would have on our community. Out of that situation obviously SPC is implementing \$100 million worth of innovation at the moment, so they are going very strong. But what we did find was that the negativity and the question mark around SPC was still lingering.

Behind you there are a couple of pull-up banners that say, 'Greater Shepparton: great things happen here'. The reason that campaign was born was that we recognised that that negativity still existed. It was a barrier towards new investment coming in and it was a barrier towards businesses that are already here having the confidence to expand. Also we had, as you mentioned, the water situation — the impact of the implementation of the Murray-Darling Basin plan. The GMID water leadership group has done some work in relation to what are the social and economic impacts of the implementation of the Murray-Darling Basin plan and talking about 2000 jobs and \$550 million per annum.

With all of that hanging over our heads we decided that we needed to do something about it, because there are a lot of great things happening here. We mentioned three of the projects previously, but we have got the second-biggest Bunnings in regional Victoria that has just opened here. We have got a number of businesses that are expanding. Pactum, with their new UHT milk, export 85 per cent of their milk to China, and they are undergoing a \$40 million expansion at the moment. These things were largely unknown both in the community and external to the community. So we embarked on this campaign, 'Great things happen here', and we have Charles Woolley as the ambassador. We are rolling that out incrementally.

We started off with a general campaign, which was educating the community about what was happening here and starting to instil the pride back in the community. We found that that has definitely had an impact, both locally and externally. There is further rollout of that, and we are doing a 'Great careers happen here' campaign at the moment, which is about attracting skilled workers to Greater Shepparton as well, because that can quite often be a barrier to employers. But the main things that are constraining that are things that state and federal governments can have influence on — it is the rail services, it is the bypass, it is the hospital and it is water. Agriculture is the backbone of this community, and if we do not have certainty and confidence in water security, then that is going to have real detrimental effects on a community, and we have seen that to quite a large extent in the dairy industry.

Mr RIORDAN — Thank you for the presentation. We have been talking a lot about an increase in cost burdens. You raised the ad hoc energy costs, and I would like to seek some comment on what that actually means for Shepparton in terms of your budgeting. As you answer that, I also would be interested to know, in the cost-shifting merry-go-round that local government seems to always end up being the last man standing on, could you give us a sense of what services, as worthy as they may be and as important to the community as they may be, really should not be the purview of local government and should be the responsibility of either state or federal government? If you had a magic wand, you would give them back. Can you give us a sense of what they might be?

Mr McKENZIE — I can give you a couple. There are two ways of looking at it. When you look at some of the things that have been legislated for by the state either as direct legislation that impacts us or regulation that we have to carry out, we are probably the best form of government to carry that out because of our closeness to our communities. The perfect one is tobacco. We are responsible for going out there to ensure that people are adhering to the state's laws and requirements, which places a burden on us in terms of providing resources to be able to do that.

Mr RIORDAN — Are you funded for that?

Mr McKENZIE — We get a small amount of funding for that, but certainly not enough to cover our costs. That is just one off the top my head that I can think of.

Mr RIORDAN — I guess with that tension with ratepayers, do the ratepayers really want you going around policing cigarette laws or would they rather you laid a road and fixed a levy?

Mr McKENZIE — Obviously it is the state government's mandate to protect the community from a health perspective, to have these rules and regulations in place, and we do not disagree with that —

Mr RIORDAN — But you would like to be paid for it.

Mr McKENZIE — We are the ones who have to implement it. Similarly, the issue of weeds and pests on roadsides. Local government is now responsible for dealing with weeds and pests on roadsides, which we have not had in the past. I think you have probably already heard from other councils around the state that if they were to do that correctly and properly, they would be up for millions of dollars per annum just to do that alone.

Mr RIORDAN — It is made even easier with all the new rope-wire barriers along the edge of the road.

Mr McKENZIE — That is another example. I guess the other thing is too — and I have been in local government for a long time, probably too long really — over the years the government has provided new services that local government has rolled out and has done with financial assistance at the start, but then that financial assistance tends to drift away and your community has got used to the provision of that service. That is one of the things that we see in local government now. We provide a huge range of services across the board that our community relies on, and as I said before, we are probably best placed to provide those services, but our financial capability to do that is lessening all the time.

Mr RIORDAN — And the question on the energy costs, how has that affected your shire?

Mr McKENZIE — I think along with quite a number of other councils we are about to start looking at new contracts for energy provision. I think the estimates are somewhere between 50 and 60 per cent potential increase, maybe more than that.

Mr RIORDAN — What sort of dollar figure does that look like?

Mr McKENZIE — I could not hazard a guess on that to be honest, I am sorry.

Mr RIORDAN — Into the millions?

Mr McKENZIE — It would certainly be the high hundreds of thousands I would think.

Mr RIORDAN — Increase?

Mr McKENZIE — Yes.

Mr RIORDAN — Unbudgeted — just a complete hit to your bottom line?

Mr McKENZIE — Yes.

Mr RIORDAN — And the range of energy consumers — you will have libraries, public buildings like this, swimming pools?

Mr McKENZIE — Swimming pools.

Mr RIORDAN — Just the one?

Ms CHRISTOU — No, we have pools out in the smaller townships as well.

Mr McKENZIE — Public halls, sporting facilities.

Mr RIORDAN — So there are minimal opportunities for cost recovery on that.

Mr McKENZIE — We have embarked on a program over the last few years to try to limit our use by our bigger users — for example, at this building here, Aquamoves. With our bigger users we try to implement solar, for example, or energy management within the facilities, so we try to limit things that way, but it is still a significant cost.

Mr RIORDAN — It is just another cost pressure.

The ACTING CHAIR — Thank you very much.

Ms CHRISTOU — Our pleasure.

The ACTING CHAIR — We will see you after a short break.

Committee adjourned.