

ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE

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

Melbourne — 15 August 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

Mr Rob Spence, Chief Executive Officer, and

Mr Owen Harvey-Beavis, Manager, Insurance, Research and Strategy, Municipal Association of Victoria.

The CHAIR — I welcome Rob Spence, chief executive officer of the Municipal Association of Victoria. Today's evidence is being recorded, and you will be provided with proof versions of the transcript within the next week. Transcripts will ultimately be made public and posted on the committee's website. Can I ask you to state your name and job title please?

Mr SPENCE — Robert Norman Spence; I am the CEO of MAV, and this is my assistant on this matter, Owen Harvey-Beavis — I said 'on this matter'.

The CHAIR — Thank you for being here. There will be a 45-minute time allotment for this session. I now invite you to make a brief 5 to 10-minute opening statement to the committee, which will be followed by members questions.

Mr SPENCE — Thanks for the opportunity to speak with you today. We have made a comprehensive submission which is based on the pace of change that is occurring in Victoria. It is probably out of date now; we made it in September last year. I think one of the things that has challenged us in looking at the issues you are considering is the scope, the width, of the issues you are looking at. You are dealing with regional cities, you are dealing with small shires, medium-sized shires, shires with capacity and shires without capacity, so it is quite a challenging proposition to work through the scope of these.

Our take on the way things look in rural and regional Victoria is that the larger regional cities sit very much like metro councils. They have got growth, they have got capacity and sometimes challenging issues to deal with, but they are reasonably well placed moving forward, and I think as Melbourne gets to 7 million or 8 million we are likely to see a significant trend into regional Victoria, which will see those cities develop quite significantly.

The issues that constantly confront us are the ones around the small shires, those with low populations, well-distributed populations, usually agriculture-based industry, not much in the towns and an ageing population and extreme road lengths relative to the rest of Victoria. They are the ones that present us with the greatest challenges I think around sustainability. Whilst the MAV has put a lot of effort, particularly in the last 18 months to two years, into trying to deal with the issues as a consequence of rate capping and other challenges — we have made some headway on things like SES funding, planning fees, school crossing funding, maternal and child health funding and kindergarten funding — the big beasts that sit there and have yet to be dealt with effectively are the clawback of the loss of financial assistance grants through the freeze on indexation from the commonwealth, which has been a big setback to rural and regional councils, particularly the smaller councils.

The loss of the country roads and bridges program from the previous state government to this government has had a significant impact on the sector. The message we are getting out of councils across rural and regional Victoria, but again particularly the small ones, is that as we see growth of over 2 per cent in library funding, the significant proportion of the growth funding is going into growth areas around outer Melbourne and so on, and so the smaller shires are receiving in the low 1 per cents in terms of increases in library funding.

I think the big beast that is in the room for consideration is in relation to these smaller shires and the issues around the aged-care reforms, NDIS and what is going to happen in these areas where we expect there will be market failure in the capacity of the commonwealth to find organisations that can deal with dispersed communities, low-population areas, both for aged care and NDIS. We are already getting feedback from NDIS that in the more remote areas that they are currently dealing with with the rollout they are struggling to get providers.

The councils in Victoria have always been the fallback for this stuff; they have filled the gap when the market has failed. We had our rural and regional forum of councils last Thursday in Melbourne, and the very clear message from almost every council in the room — I think we had 35 or 36 — was they are looking to move out of aged care and they have no interest in NDIS. Now, that sets a big problem I think for rural communities going forward, if there is not a service provider there. The councils say, 'We're not going to get into this space if the pricing is something that requires cross-subsidy from our other areas. The pricing needs to be appropriate for us to deliver these services'.

There are a lot of challenges I think that are occurring on a daily basis almost for these smaller shires. One that has been floating around between the last state government and this state government is beneficiary pays, so in small shires beneficiary pays on things like flood plain management and rural drainage represents an issue for

them, because has the community got the capacity to pay? There is a need for proper flood plain management arrangements and there is a need for sensible rural drainage arrangements, but can that all be borne out of a local community that is relatively low resourced?

The last comment I would make is that I think one of the perverse outcomes of rate capping has been a strong message coming out of the small shires now that the community cannot afford to pay anymore, and so there is an acceptance that sort of staying within the cap or at low numbers is going to be necessary for them going forward. That has an obvious consequential issue for both commonwealth and state, because who is going to pick up the gap if the councils are unable to raise the revenue locally and are not willing to raise the revenue locally? I have travelled across a bit of country there, but just to give you a bit of a feel for what happened between September last year and now — a lot. I am happy to take questions.

The CHAIR — As the committee chair I will take the first question. You spoke of the pace of change, the scope and the challenges that you have obviously seen since September last year and before that. I just wanted to tap into your knowledge and experience; you have been in this job for quite some time. I just wondered if you could give us some reflections on the original amalgamations that happened 25 years ago and whether you think there was enough foresight given to those at the time in terms of particularly rural and regional councils and their financial sustainability?

Mr SPENCE — When you go to the pre-amalgamation period, we had councils that had budgets that were about the equivalent of a primary school. They were tiny — very small staff numbers — and this is at the bottom end, the low end, in terms of size. I think the amalgamations brought the councils up to much more sensible numbers in terms of population capacity, I suppose. Whether that outcome in 2017 is the right outcome, you could debate until the cows come home I think. One of the great challenges when you think about amalgamation is that the governance entity of a council is an important component that connects well with the local community. The way I always look at this is I do not think you need to play with amalgamations or were they effective in relation to the governance entity; it is really the back end of the business and the way the back end operates that drives the efficiencies. We are going to be, I think, in a situation in the next few years, brought on by rate capping and financial assistance grants clamps and so on, that is going to force change in the way councils actually do business. In my view, you will see the back ends of the business become shared services, really. That will have a number of councils clustered together to provide the administration and resources necessary to deal with the governance entities, and you could have maybe four or five governance entities with a shared service in the back.

The other sort of stuff we are seeing at the moment is in Gippsland. There has just been a road maintenance and construction tender that is for a large proportion of the region, which follows some work that VicRoads had done, but this is for councils. What that has delivered is an enormous upside in terms of the quality of outcomes and the pricing. It has created a much more competitive environment, as I understand it, for construction and maintenance. These reforms I think you will see flow out across the sector as they become better understood in the way they work in an operational sense. There is a lot happening.

The CHAIR — As a follow-up, the freeze on the federal assistance grants, what are you hearing in terms of the practical implications of that?

Mr SPENCE — It has taken a lot of money out of the sector. Even though the state grants commission, I think, have done an amazing job in the last few years in repositioning within the national framework of what you can do with the financial assistance grants, biasing as best it can to rural Victoria, the fact that that money has been dragged out of the system and is staying out of the system is a drag on the small councils. It is not going to affect the big councils much, but it is a real drag on the small councils.

Mr RAMSAY — Thank you, Rob and Owen, for your time this morning. In fact I think you have both sat on many committees dealing with council activities — rate capping and a whole lot of other — —

Mr SPENCE — Someone suggested as we were sitting outside that this was my three-millionth performance.

Mr RAMSAY — And your performance is improving every time, I must say. I just need clarification on the FAGs before Mr Richardson runs out with a press release about the \$65 million loss in revenue to councils that we heard about from a previous witness. The fact is that the government foreshadowed a two-year freeze on

indexation, and that has been removed. So my understanding is that the FAGs now are coming through the Victoria Grants Commission as they were prior to the indexation.

Mr SPENCE — That is correct, yes.

Mr RAMSAY — Also, to be fair to the federal government, they still provide rural councils with supplementary funding to help and support them with the freeze on indexation. I know many councils — Corangamite and around my area — receive hundreds of thousands of dollars in lieu of some lost revenue through the FAGs, and also they put \$100 million into a roads and bridges program to supplement the loss of the \$160 million of state funding that was withdrawn from country roads and bridges, so fair play, if I may —

The CHAIR — I ask you to come to your question.

Mr RAMSAY — to the Chair and to Mr Richardson.

Mr SPENCE — Can I respond just on one point on this. The lag of that loss of revenue will stay there forever now. If I live for 100 years, we could come back to this table and, unless there is a change in commonwealth policy, the multipliers of that loss will still be sitting there in 100 years time.

Mr RAMSAY — I think the country roads and bridges program —

Mr SPENCE — I know they gave some sweeteners at the front end to make you feel good — drop the frog in the boiling water and boil the water slowly — but the lag in this stuff will be there forever unless it is brought back to where it was.

Mr HARVEY-BEAVIS — Effectively the point that Rob is making is that \$65 million reduction is a permanent reduction in the base, so that is seen on a year-to-year basis.

Mr RAMSAY — You can say that about state programs like the country roads and bridges —

Mr HARVEY-BEAVIS — Absolutely.

Mr RAMSAY — which is a \$160 million loss, and we will not retrieve that either. So we can get into rhetoric about that. But I will move on — —

Mr SPENCE — No, just let me debate this with you. We absolutely support the view about country roads and bridges, but when one government brings in a program you know there is always a chance the next one will change the program, like country roads and bridges. But the financial assistance grants is a model that was brought in by Gough Whitlam and has been the basis of the development of local government in Australia, and when you play with that it can damage the whole of the sector. That is the point I make.

Mr RAMSAY — It brings us to the reason why we are here — to look at how we actually provide funding ongoing for sustainability and viability particularly in small regional and rural councils. FAGs are one part of that, and then you have got the state grants commission money and other things.

I am interested in your view. There seem to be a lot of activities running parallel to this inquiry, and we just heard from a previous witness about similar work being done by the department in relation to the sustainability project, which seems to have all the sorts of references that this committee has as well, so no doubt we will be running alongside each other in relation to that work.

But there is also the Local Government Act review, and I note in your submission — and thank you for your submission — that you make mention of concerns around potential new structures that local government may be working under with any changes to the act itself. I am just wondering if you would like to tell us more about your concerns or what possible changes you foresee under the review process that might create new legislation under this act?

Mr SPENCE — There are proposals in the legislation to add new requirements on councils in relation to consultation and reporting and so on. Our perspective on this is that the councils are being loaded up with red tape. We have estimated that there is something in the vicinity of \$40 million or maybe a bit more a year in red

tape required through reporting and so on into local government. If you could pull that back by half, that is \$20 million that could be used more effectively to benefit ratepayers.

What we are saying is that when you are thinking about legislation or regulation in our sector be careful about loading the system up with additional costs, administrative and other burdens, that actually the ratepayer ultimately has to pay for, because it is either going to come out of financial assistance grants or our rates. We need to make sure constantly that the system is as simple and as efficient as possible and as low cost as possible in relation to reporting.

The CHAIR — A brief follow-up.

Mr RAMSAY — As part of the compliance issues that councils may well have to adhere to with that new red tape, the issue around planning is an issue that comes to me regularly through my ongoing engagement with local councils. They are now having to do more and more work in relation to planning compliance on a whole lot of overlays that have been put on councils now — biodiversity, wastewater and a whole lot of stuff that you would be familiar with. So do you see a way that small rural councils can reduce the cost of that compliance, particularly on planning, whether by investing in flying planning squads that the previous government provided to local councils or by the sharing some of the planning work come by planning officers?

Mr SPENCE — I think all of that. The loss of the flying squad has been a great disappointment because it really helped small councils to deal with planning issues. The planning system is complex, and getting strategic planning right is a big task for small councils. The capacity of state government to provide support to allow them to work through the issues is an important one, I think. We thought we had a deal that the flying squad was going to continue, but it has not actually occurred, which is a great disappointment.

But across the local government sector in the small councils there are a whole lot of issues like planning that are a burden in terms of workload and capacity in these councils — whether they have got the complete skill set to do it. That is why ultimately I think the shared service model will work more effectively for them.

Mr RICHARDSON — Thank you, Rob and Owen, for popping in today. I must confess I am married to a town planner at a metro council, and going to Simon's point about federal and state, when talking around the dinner table she is frustrated with both spheres of government from time to time.

Mr SPENCE — I wonder, is she in local government?

Mr RICHARDSON — Yes, she is, out in the south-east, so interesting conversation.

Mr SPENCE — Not in Frankston?

Mr RICHARDSON — No, Casey, so an interface council.

I am not sure if you are familiar with it, but the Local Government Victoria presentation before related to the relative social economic disadvantage measures, and one big concern was the small rural councils. I think it goes to the point of rate capping, because there are significant concerns from rural councils but then the Essential Services Commission's ability to then lift that if required. But it shows, particularly in your context of the NDIS and aged care, a substantial issue in terms of grants being delivered to councils and the inability of people to pay. So it gets to that prism, I guess, about collaboration between councils. Not talking necessarily about mergers, how effective are councils at collaborating on their services; and is there an ability to encourage more of that, rather than the merger or amalgamation-type conversation?

Mr SPENCE — There are some regions that are better at it than others, and the Gippsland region has been pretty effective, but it is a large area with some reasonably sized councils in it and then some small ones, but they collaborate very effectively, and they are doing some pretty amazing stuff. There are other regions like the north-east that it is happening to in some areas, so it is starting to bloom. The thing that rate capping does is it actually increases the speed of those actions, but there will be a point where rate capping bites really hard, I think.

Mr RICHARDSON — Yes, and a very concerning emerging challenge with the NDIS and aged care is how, then, are councils placed in those areas to respond to that service burden, and if not, what are some of the things from MAV's perspective in trying to deal with and address some of those concerns?

Mr SPENCE — I think it is pretty clear that the smaller councils are going to really struggle to deal with it on the pricing model that is in place at the moment. We are in discussion with DSS from the commonwealth, Premier's here, DHHS and NDIA to try and work our way through these issues, because having a market is going to be really important for people living in remote areas who have a need for disability support or aged-care support. Some of the things we are looking at are: is it possible to create a vehicle within local government or within a region that can actually provide the services, where you are actually aggregating up the staff numbers and so on to do that.

As I say, the discussions are continuing with the feds. I think they are starting to recognise the market failure question. When you think about Victoria, with its relatively small size, imagine what these market failure issues are going to look like in Queensland or Western Australia. So for the rurals it is going to be all about price, and what we are trying to do is find a way to get them together where the service can be provided off a local government base.

We also do not want to lose the strength of having, for example, aged care sitting in local government and the knock-ons. If you lose that, then the knock-ons, if there is an emergency — the connection to the aged community and how you can get them out of an area if it is not safe — all of that stuff gets destroyed if you are running a completely disaggregated model, which is something we are very concerned about.

Mr O'SULLIVAN — Thanks, Mr Spence. I just want to ask you a question about the smaller rural councils, and it sort of builds in part on some of what Mr Ramsay said but also part of what we have heard in previous presentations, plus what you have already said. We are finding in the small rural councils we have got declining populations. We have got farm sizes that were once 640 acres now getting into the tens of thousands of acres in some of these areas. There are fewer people around, and there are fewer people who are being asked to contribute more in a whole range of areas, not just in a local government sense. Then we can look at some of the issues that we have heard about in terms of the country roads and bridges program going, the flying squads going and the freeze in relation to the federal government's aspect of it as well. We saw that across the rural councils they are experiencing losses of on average about \$14.4 million, I think, last financial year.

Going forward, are these councils actually viable, or do we need to look at potentially — particularly when you look at the larger rural councils, and you made the comment yourself that they are going reasonably well, and the problem is definitely in the smaller rural councils — rolling them in with the larger councils, or as part of the reform of the Local Government Act do we need to look at some slight amalgamations in areas?

Mr SPENCE — I am not a supporter of amalgamations because I think there are other ways to deal with improving the operating model in local government without changing the government structures; it is the point I made before. One of the pieces of work we are just turning our mind to with a couple of outside consulting firms is if Melbourne is going to go to 8 million, what would happen if 1 million of the eight actually went into rural and regional Victoria, maybe into the regional cities, and then what is the spill-on effect into all of those towns and communities that are around them? That is a piece of work we want to undertake because we think you could see the potential to revitalise rural Victoria with a population shift that could ultimately be driven by congestion, land prices and so on in Melbourne, but we are going to do the modelling of it just to see what it would look like if you went with half a million, a million —

Mr O'SULLIVAN — Would that work in your West Wimmeras, your Bulokes and your Yarriambiacks?

Mr SPENCE — Well, maybe not, but what is the opportunity for them if there is more population in the region in a shared service model? If you look at West Wimmera, what is the advantage of sticking it with Yarriambiack or something? You have just got two that have got exactly the same problem. You have got one council, you have got one CEO, so you have saved not much — 300 000 bucks — and that is about it, and you have basically destroyed — the issue that Kennett had when he brought in the amalgamations last time was how it changed the community make-up in rural and regional Victoria. It did not affect metro Melbourne. Most people hardly know in some areas which municipality they are in, but in rural and regional Victoria it was a significant issue. That always sits in my mind as you would tread carefully in amalgamations from that viewpoint. I look at them a bit like schools. If we close schools and then we find the population booms for another reason, then you have got to build another school. Tread very carefully, I would say, before you go into that process.

Mr O'SULLIVAN — Off the back of that, what is the future of those local councils if they stay the way they are financially?

Mr SPENCE — You take Loddon; Loddon is I think one of the little champions: a big area but not much horsepower, but they have always managed to keep the community happy and they have done a phenomenal job off not much revenue, and they are an example I think of how successful you can be if you tailor your services to your capacity. Maybe we need a bit more of that.

Mr RIORDAN — I must be channelling my colleague here, because we are on the same page a little bit, but I am looking at it differently to the amalgamation option. One of the concerns I have got is — fully hearing your message about the severe income side of the ledger problems, but I have got six shires in my electorate and I have heard them all and they have all told me about their income problems — I am not hearing a lot about their expenditure management issues. I seek your comment on where the governance skill set is for local councils largely. Particularly in my patch we saw a large turnover of councillors. We are now seeing a large turnover of CEOs. A common complaint in rural communities is we all remember fondly the old pre-amalgamation shires where the town clerk was there for 100 years and his engineering manager was too. They knew every creek and culvert that flooded, a whole bunch of things; just everyone knew how they worked.

We now have a situation where if you get someone in a senior position in many of the rural shires for longer than two or three years, you have done well, but the larger rural ones are seen as career stepping stones with fly-in fly-out people that by and large do not move to the community. They keep living in Brunswick and then drive up for the week and drive back again. So you have got a lot of disconnect in the management. You have then got a high turnover of — well, not necessarily a high turnover but a turnover of councillors that really have no other skill than that they were able to get elected. I wonder where that sits, so my question is: is there an opportunity to codify more clearly what the roles and responsibilities are of local council so we do not, every time we have a four-year election cycle or a new CEO, go off on another whole new tangent of new ideas, expenditures and commitments that are not necessarily in the long-term best interests of that shire, because I think if you sit down with a whiteboard you will soon fill it with 'what the heck?', 'what is that all about?' sort of approaches that many regional shires find themselves in.

Mr SPENCE — There are a whole lot of issues in that question. I think one of the great challenges for a new council — local government rightly or wrongly is a pretty pure form of democracy.

Mr RIORDAN — Apart from declaring war they can just about do everything else.

Mr SPENCE — But also you get a whole lot of individuals elected with no party links necessarily. They might have, but it is generally not the case. You get them into a room and then you have got to work out your strategy going forward. I think some of the challenges for the act are about the timing required to put the strategy together. Immediately they get elected they are basically into the four-year plan. You induct them. They get excited about their new role — quite understandably. They have got these ideas that they want to put away, and then they are straight into a planning phase without I think enough time for there to be proper consideration of where the organisation is going, how their ideas might fit into it and how they can get others to support their ideas.

It is not like state Parliament or federal Parliament where you get elected as a party, you have got a mandate arguably, and away you go and try to deliver it. In council you have got seven mandates, and they all think they have got the right to go and deliver it, and they have got to come together in a room with the CEO and try to nut out what the game plan is, sometimes with people who have not got a well-developed skill set at that time. So it is quite a challenge. I think more time embedding and just getting them there and getting them settled in, then move into the planning phase would be helpful. That is in issue I hear regularly from the councillors — the speed at which they have got to build a plan for the next four years, when in fact they are learning about the business.

Mr RIORDAN — So what about the concept of codifying more clearly what their role is — so that you do not have those seven new councillors coming in and going off on seven different tangents — to prioritise and keep them more focused on what their responsibilities are?

Mr SPENCE — They have attempted to do that through various iterations of the legislation. It sort of works sometimes and sometimes it does not. You still get councillors moving into the area of management of staff

when in fact the act is pretty clear that they should not. It then requires intervention to deal with it. The more straightforward and clear the messaging is about the role, the powers and the authority — my message to them always is: you have no power unless you are in a formal council meeting, and your only power is when you vote; if you are not in the majority group with the vote, then you have no power at all, but at least you had a vote. But there is a misunderstanding that power sits outside that structure, and it does not.

Mr RIORDAN — As a supplementary question to the turnover of senior staff particularly — the churn — I draw on the analogy of one shire in mine where on average senior to CEO level would all be on pay rates and scales that far exceed private enterprises in that area. I think if the shire has a \$40 million turnover, I could think of three industries that would be \$100 million-plus and do not pay their senior executives the same rate. I thought GSERP or some other authority would have been responsible for monitoring that. To me there seems to be a growing disconnect in the value of senior council staff for organisations that in some areas are not as grand as they think they are.

Mr SPENCE — We have just done a survey of CEO salaries and it is really interesting. Owen is the one who has done the numbers, so he can talk to the detail of it, but we have actually seen the salaries flatten out, have we not, Owen? Do you want to talk about it?

Mr RIORDAN — Well, they ought to have.

Mr HARVEY-BEAVIS — This is a piece of work that was previously done by LGV. They concluded that work in 2014, and we are doing our second iteration of that survey. By and large the numbers actually track a direct linear relationship to population size. There is a very, very strong relationship in CEO salary as against the council population size. By and large we see the salaries all fall within — this is across the whole of the sector — the executive officer bands as a state equivalent salary. The small rural councils will pretty much all fall within the lowest rank of the executive officer salary range within the state system, and the large metros will fall into the top rank, so the deputy secretary level.

Mr SPENCE — And there is only one position I think in Victoria that would sit at the secretary level, and that is City of Melbourne.

Mr HARVEY-BEAVIS — By and large we have seen the rate of growth fall as well, so in terms of the annual increases we do not have a consolidated statewide figure on that at this point in time, but we have seen that fall away.

Mr SPENCE — I take your point about local industry because what the sector is doing is basically tracking against the sector and against the state bureaucracy.

Mr RIORDAN — Yes. It goes to highlight that growing country-city divide, and when we are talking about financial stability — when you have this sector clearly outstripping what is going on in the region.

The CHAIR — There is some work being done in the local government review around reducing red tape. Can I just get an indication of how they have tracked compliance and red tape for our municipalities?

Mr SPENCE — What we have done is undertake a bit of research by going out to the councils and asking them what the cost is of undertaking particular functions. We have not done it for about 12 months now. But we could do it again if there was an interest in us doing a bit of a test. We are regularly connected and work with the red tape commissioner in trying to solve problems for the red tape commissioner and the small business commissioner and so on with local government and to solve issues before they have to turn their mind to it too much. So we have been working with the red tape commissioner just working through these issues because of the knock-on to small business and so on of these costs getting loaded onto the councils.

Mr RAMSAY — Just a quick question — in relation to point 10.5.3 of your submission, under ‘Ministerial guidelines for the use of differential rates’, I wonder if you would care to comment on the current controversy up at the Ararat Rural City Council, where there has just been a review by the local government minister in relation to decisions made by that council in removing a differential against a group of ratepayers that were paying in excess of 400 per cent more in average rates than the average across that shire. Were you giving any advice to councillors in that council in relation to their position on the use of differential rates in their budget?

Mr SPENCE — They have not asked for advice. The mayor had, yes, but the majority of the group had not asked.

Mr RAMSAY — Do you have a comment about whether you think the council's decision fits in with the ministerial guidelines for the use of differential rates?

Mr SPENCE — The council's decision to remove the differential?

Mr RAMSAY — In that instance.

Mr SPENCE — Well, the council has got the capacity to make a decision on whether it has a differential or not. The issue in this case was whether the process had been run properly and whether there had been appropriate consultation. Our view is that the recommendations of the inquiry, the review, were on the money — that this needs to be a matter that is properly considered by the community and that there should be proper consultation and then the council can form a view on it. But to move from where they were to a flat structure was a massive step when you had farms on — what? — 55 per cent or something and commercial industrial above the 100. My view, as distinct from the MAV's view — I will call the old age rule here. I have been around for a long time.

Mr RAMSAY — It gets you into trouble now and again.

Mr SPENCE — It does, Simon. I think councils should be required to do a bottom-up rate review every five years, minimum. You go back to the basis of the policy as to where your rating strategy is at and to build the rating strategy up.

Mr RIORDAN — So you mean establish the principles first?

Mr SPENCE — Establish the principles first, and then work it up from the bottom up. Because what happens is that you end up with all these prehistoric remnants of decisions that have been made years ago in terms of the way the rate is structured that carry through. It is important because it is such an important tool for councils but also because its effect on the community is significant. It is important, I think, that the community see how it is built up and you actually build it up from a policy base. That would be my recommendation.

Mr RIORDAN — Just getting back to the effect in rural towns again, we have with Mr Ramsay touched on the farmer issue. What is the MAV's view? The analogy I would use is considering the vast majority of farmers are essentially small family businesses, as are many of the ones in our country towns, you can compare it to an average successful small business in a country town, which will be making a similar sort of income to what a farm does, but there is a substantial rate difference. An average commercial site might be about \$3000 but for a farmer it might be up around \$40 000. Country shires have very few options there. You cannot equalise them that way. What is the MAV's view on the value of rating farmland in such a way? At the end of the day is that the way the system has to be?

Mr SPENCE — I think it comes back to building your rating strategy off a sensible policy base. It is reaching agreement on what that policy is as a starting point and who is going to be affected by what — so who has got capacity to pay. That means you have got to look at the farms and see whether they are commercially viable or not. All of those issues need to be considered as the baseline.

The challenge in Ararat is that you have got a very poor community in the urban area. We have not done any analysis on the farm side to see how they are travelling, but I would argue that some of the commercial space in Ararat itself is travelling okay, but a lot of it looks like it is struggling. It is quite a complex issue, but you have got to get your rating strategy built off a properly researched and thought-through base and not thought bubbles. That would always be my starting point. I might not have answered your question, but I skirted around it pretty well.

The CHAIR — And you are pretty happy with that! Mr Spence and Mr Harvey-Beavis, I thank you both for your submission and your time today.

Witnesses withdrew.