

# **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 Frank Sullivan, Vice-President, and

Dr Alan Nelsen, Treasurer, Ratepayers Victoria.

**The CHAIR** — Good afternoon. I would like to welcome our final witnesses for today. From Ratepayers Victoria we have Frank Sullivan, the vice-president, and Alan Nelsen, the treasurer. Can I welcome you both here this afternoon. Today's evidence is being recorded. You will be provided with a proof version of the transcript within the next week. Transcripts will ultimately be made public and posted on the committee's website. Can I now ask you to each state your name and position title, please.

**Mr SULLIVAN** — I am Frank Sullivan, vice-president of Ratepayers Victoria,

**Dr NELSEN** — I am Dr Alan Nelsen and I am treasurer of the Victorian ratepayers association.

**The CHAIR** — We have 45 minutes for this session. I now invite you to make an opening statement of somewhere in the order of 5 to 10 minutes. That will then be followed by questions from committee members.

**Mr SULLIVAN** — To start with, we at Ratepayers Victoria consider the present system definitely wants adjusting. We wrote to local government people on 25 August last year to point out that the present system is not working on rate collection. We said, 'I am not sure what the answer is, but in my opinion this present system is not working. Perhaps we should look at another model of rate collection. How do other states collect their rates?'. We did not get a reply from the government. It was probably a bit too hard to answer; I do not know.

As far as we are concerned, on the running of councils, we need to fine-tune it. There has been little or no accountability, in our opinion, at councils up till now. We have got to consider that this local government minister, Natalie Hutchins, is basically making some attempt to address the problem which has been there for a long, long, long time. This is a hearing regarding the rural area, but I think it is all tied in together. The accountability, how councils are run, regardless whether it is in the metropolitan area or the country areas, it is very relevant.

We had recently the Nillumbik mayor, Peter Clarke, was reported on in the *Herald Sun* of 9 May this year. After the elections last year he came in to Greensborough, his council, and he said, 'The running of this council is not good enough'. He put a freeze on salaries. He dismissed the four directors. He put no increases on any of the costs. Then we picked that up, we had an interview with Peter Clarke and we wrote to the 78 councils in Victoria, the mayors, to basically say, 'If this guy at Nillumbik can do this, why can't you do it?'. We never got one reply.

Either you are metropolitan or you are country; It is your accountability at your council level that counts. We do feel at Ratepayers Victoria that the system is ill balanced when you see that 70 per cent of the population of Victoria live in metropolitan Melbourne, so we are looking at 30 per cent in country, rural areas. What the answer is, as we said 12 months ago, we do not know, but country ratepayers pay a lot more in rates than the city people do — and we have had comparisons; we have got a very strong ratepayer group in Mildura, and there is such a variation in the rate system. We know that the state government is trying to encourage people to move to the country. Well, at the moment there is not much incentive in our opinion.

We do feel that the farmers in country Victoria are not getting perhaps the deal they should. As you know, if a farmer has 100 acres of land somewhere and he puts in his spuds — his crop, whatever — and he makes a good profit, he pays to the ATO his profit. On council rates, if that crop fails, he is still committed to pay pretty heavy council rates. What the answer is we do not know, but we feel that a better system should be looked at.

On a rate notice there are many components. We feel the minister should look at having, say, five components on rates right through Victoria and all of them being subject to rate capping. At the moment I think councils can put basically what they like on a rate notice. Some are subject to rate capping; some are not. We feel the rate capping is a good system because if you, a council, feel you have a just cause to get more than what the rate capping says, you have got an opportunity to go to the Essential Services Commission and put your case. You cannot ask for a fairer system than that.

We feel that infrastructure in country areas is a problem. Our local minister, Alan Tudge, out in the east, agrees with me, and we are aware that in recent times the federal government has put a billion dollars into infrastructure around Australia. How much input that would have I am not sure because there are a lot of councils in Australia, but we know there is a problem there, and we have got to try to address it. We are

watchdogs, and we can only sort of put our case to the powers that be and hope that they can address it. So that sort of basically sums up my feelings.

**The CHAIR** — Thank you very much, Frank. In your submission to the parliamentary inquiry into the Fair Go rate policy you stated that:

Most ratepayers view the Fair Go rate policy is working successfully. However there are the few those, such as councils and their peak bodies, who perceive the policy is not working, because they lack the resolve to want and make the state policy work.

So just to be clear, you campaigned and support rate capping?

**Mr SULLIVAN** — We support rate capping. We have had a metropolitan council, Yarra City Council, in recent times put some type of an extra bin charge on their council, and the minister jumped on it. But we feel, as I said earlier in my words, the minister should define five components that you cannot deviate from and they all should be subject to rate capping. At the moment some of those components on a rate notice are not subject to rate capping. Well, it is defeating the purpose in our opinion.

**Dr NELSEN** — Can I just make a comment, Frank? We do strongly support the continuation of rate capping, and I think it is worth pointing out that prior to rate capping, rates across Victoria increased by 100 per cent over 10 years. That was three times more than the consumer price index and the analytical living cost index, two and a half times the increase in wage earnings and approximately double the increase in the age pension for a couple. It was the fourth-highest increase of 40 household expenditures measured by the Australian Bureau of Statistics, 50 per cent more than the actual increase in cost incurred by councils as calculated by the Municipal Association of Victoria.

I think another point worth noting is that, as Frank said, where there are insufficient funds for a specific council's needs the council can apply for a higher rate cap. This year there were only three applications, which indicates that 76 of the 79 councils are managing within the rate cap.

**The CHAIR** — We have heard today about a number of rural and regional areas that are suffering as a result of a shortfall in funding, whether that be for roads, home and community care or preschool education. Is there a particular stream or a particular area you think is fundamentally being harmed?

**Mr SULLIVAN** — A case came up recently in Mildura. They are up there crying poor because there are costs and everything like that, but the same council got criticised heavily by the federal Minister for Regional Development, Fiona Nash. She expressed her disappointment that this council did not put in for grants which were available — \$279 million I think, and they never bothered to put in. To us that is pretty poor accountability. They are letting their ratepayers down, yet the same mayor is in the local paper crying poor. They cannot have it all ways.

What I am trying to get at is that there has got to be more accountability at the council level, mainly in the country. It is more difficult; I appreciate that. The guy from the farmers federation said they are smaller areas and there is less revenue coming in and yet they have got this big infrastructure to handle. But they have got to get their own house in order, and that basically comes down to the minister making these country councils more accountable.

**Dr NELSEN** — Can I just add a comment there. I did a study of rates per assessment for councils across Victoria, and I could not distinguish a trend between Melbourne, regional and rural councils. What I found was that they were all interspersed. It is unclear. I know, certainly, that some of the smaller councils with smaller populations and bigger areas do not have the same revenue, but that did not necessarily indicate that their rates were substantially higher than some others. So I think there are some other factors too that perhaps need to be considered apart from just rate collection.

When I looked at a random sample of regional councils I found that the construction of sealed roads varied from \$15 per square metre to \$100 per square metre. There may be geographical or geological reasons or whatever why there might be some difference, but it does seem to me that there is a lesson to be learned there that some councils and shires are efficient and others are not. Maybe there needs to be some more interchange between the two to see where perhaps cost savings can be had.

**The CHAIR** — Thank you.

**Mr RAMSAY** — Thank you, Mr Sullivan and Dr Nelsen, for your time this afternoon. I note, and I go back to 2014, that the Municipal Association of Victoria's president, Bill McArthur, called your organisation 'misguided' and 'irresponsible'. That was on the basis that you were advocating and telling ratepayers not to pay their rates, despite the fact that you knew interest would be incurred by those ratepayers that did not pay their rates — which happened. I am just wondering about your relationship now with the MAV given at that point in time there obviously was some difference in policy positions.

**Mr SULLIVAN** — Since Bill has gone — Bill McArthur, who was around a long time — there has been a change of the guard to Mary Laliou from Whittlesea. We had the pleasure of having a coffee with Mary, having an informal chat a few weeks ago, so we do feel there will be a change of attitude towards the MAV. At a meeting with Alan and myself certain local government people said there will be quite a change in the MAV in coming times. That is not our call, of course; that is the government's call. But our purpose is to work with groups such as the MAV to see where we can make it a better system. We are here elected by ratepayers. As you know, ratepayers elect councillors, who elect a CEO, who then runs the operations of council. We are trying to make it a better system, and we have got to start somewhere. There has been a culture, in our opinion, which has been allowed to develop over the years in councils, and it is going to be pretty difficult to turn that round.

**Mr RAMSAY** — You have been strong proponents of rate capping —

**Mr SULLIVAN** — Yes.

**Mr RAMSAY** — and your submission indicates that you still are. Our inquiry is looking at the sustainability of rural and regional councils. I am not sure how much of your ratepayer membership is from rural and regional councils, but we have heard today, and this is our first day of hearings, that many small rural councils are unviable under the present system that we have, and that includes the rate capping system. Many have already sought leave from the Essential Services Commission for an increase in rates because they cannot fund the necessary infrastructure needs of their councils.

I am not hearing from your organisation what the long-term solutions, particularly for rural and regional councils, are and in respect of funding, for long-term viability and sustainability. Just imposing a rate cap is not going to fix the problem. It might from your ratepayers association's point of view — they seem to be pretty well city based — but I am thinking from the perspective of out in the rural bushland. What can you offer this committee potentially for a finding or recommendation in relation to long-term funding needs?

**Mr SULLIVAN** — I think we all agree that infrastructure in the outer regional areas is a big problem. Alan Tudge, our federal minister, agrees, and as I said earlier, the federal —

**Mr RAMSAY** — He is not just your federal minister. He might be where you live, but you are representing ratepayers right across Victoria.

**Mr SULLIVAN** — Yes, I appreciate that. But he made the comment that infrastructure is a problem right through not only Victoria but right through Australia. I did say earlier that a media report said there was \$1 billion put into infrastructure in Australia. What impact that has had, I do not know. But in the outer rural areas it is always a problem, as we said 12 months ago when we wrote to the local government people. Basically we do not know what the answer is, but they are the people who are in a position to make changes which can perhaps improve the system.

**Dr NELSEN** — Just a comment there. We note that the commonwealth funding from grants is distributed through the Victoria Grants Commission. We also note that, because of the freeze in 2014, the MAV has reported that Victorian councils lost \$200 million in grants through the freeze. We also note that the funding is based on councils' relative needs, taking into account a range of data. Some councils have expressed concerns at the methodology, and we wonder whether the methodology has been recently reviewed for fairness.

**Mr RAMSAY** — Did Mr Sullivan have a conversation with Mr Tudge about the freeze on indexation I wonder?

**Mr SULLIVAN** — Sorry?

**Mr RAMSAY** — Did you have a conversation with the federal government in relation to the indexation freeze on funding that was vital to local regional councils?

**Mr SULLIVAN** — No.

**Mr RAMSAY** — You talk about your ongoing discussions with Mr Tudge. I am just wondering, did the freeze on the indexation come up in that discussion?

**Mr SULLIVAN** — No.

**Dr NELSEN** — But the point I was trying to make there is that perhaps there needs to be a review of actually how funding for councils is delivered. There is also the Victorian government that provides funding for councils as well.

**Mr RICHARDSON** — Thanks, Frank and Alan, for stopping by today. Two questions — one on the indexation that Simon raised. Do you think that there is more pressure on councils to try to raise more revenue from their ratepayers as a result of policy decisions like the federal government took to freeze indexation that had a \$200 million hit to Victorian councils, as disproportionately filled by regional and rural councils? Do you think that puts more pressure on ratepayers to take up that slack and that burden?

**Dr NELSEN** — Well, I think that is right. I think in our submissions, or certainly in my submission to the Essential Services Commission, I pointed out that there are some very smart, intelligent CEOs and staff in councils, and it would not be too long before they started to find ways of perhaps trying to get around the rate cap. I do not know that they have come to the fore just yet, but certainly I can say that we are monitoring them. There was a well-publicised case in Richmond where the council tried to get around rate capping. Surprisingly at this point in time we have not had a lot of feedback from our members, and we have asked them to keep us informed of that. In the longer term I would not be surprised.

The only other point I would make in relation to that is that with the increases over 10 years of 10 per cent or even higher over 15 years, some people are saying that councils have a bucket of cash. That may not apply to the small rural councils, but certainly perhaps more to the metropolitan councils. Perhaps at the moment they are using that cash up. It might be another two or three years before you really find that pressure will come on to the rate cap. I notice that in New South Wales people up there are not happy with the rate — when I say people, I am not sure who it is. So on the one hand, for a state that has had rate capping for a long time, there seems to be a trend to get rid of rate capping; for a state like Victoria, which has only just introduced it, it is still quite popular, so it might depend on what system you have got whether you like it or do not like it.

**Mr RICHARDSON** — Going to governance, and a key pillar issue in your submission to the Local Government Act review, it was stated that many ratepayers have concerns about poor governance performance in their councils, and there was a statement that there needs to be more policing of compliance with the Local Government Act. Could you talk further about that and that necessity that has been put forward? What are those changes or needs stemming from that Local Government Act review submission that you made?

**Mr SULLIVAN** — Do you mean the review of the Local Government Act, which has not been addressed since 1989? There were a lot of interpretations put in the old act. There were something like 550 pages in the old act, and the new draft is something like 140 pages. There was a lot of interpretation that hopefully will be taken out of the new act to make it clearer, because reading the old act you can interpret so much. I have had individual cases where a CEO has gagged elected councillors over matters due to confidentiality — 77 in the old act. They were doing nothing wrong; it was just the way that the 1989 act was written. In our opinion, it is long overdue to be addressed, and this is a government which is doing that.

**Dr NELSEN** — Can I add to that? I have some quite strong opinions. The Local Government Act requires councils to have various policies. Quite frankly, I think that the policies are ineffectual. There are certainly documents put out on how councillors should behave by the MAV, local government and others. I am unaware of really any effect that that has had. Certainly through my involvement with the Mornington Peninsula ratepayers association we have made a number of complaints to the Ombudsman, to the inspectorate and to the council, and we do not get satisfactory results. When I say ‘satisfactory results’ we are not expecting to get answers that we would like to hear. For instance, when we send something off to the local government inspectorate we get an answer back that the act has not been breached. There is no explanation and no reason. If

you look at the inspectorate's record, I think you will find that probably two or three CEOs have been charged and a few councillors. Most of them seem to relate to things like people not putting their electoral returns in. It is a very disappointing performance if you look at their record over the last seven years.

So I think there needs to be something significantly changed, and we are hopeful that that will occur in the Local Government Act.

**Mr O'SULLIVAN** — Thank you, gentlemen, for coming in. I want to go down a slightly different line of questioning. We are starting to see an increase in terms of councils' activities, and there is no doubt that they have got into a whole range of new service provisions, as we have heard evidence of today, over 10, 20, 30 years, beyond the original scope of roads, rates and rubbish. But if we take that a bit further, we are now starting to see councils get into advocacy and almost verging on activism-type areas. I will give you some examples. You see them involved in the same-sex marriage debate, you see them involved in the east-west link dispute in terms of taking legal action to stop that, and even in the media today we see one council looking to change the name of Australia Day, which is clearly in my opinion outside the purview of what councils should be concentrating on.

Is some of this advocacy-type work that councils are now getting into starting to distract them from their core business, but also using ratepayers money for activities that the ratepayers do not really want them to be spending money on?

**Mr SULLIVAN** — It is a very good point. These are councillors that are democratically elected by the ratepayers. We have not got to name them; we know there are certain councils in Melbourne that seem to be going out a little bit differently on same-sex marriage and those sorts of things. That is probably in our opinion, Ratepayers Victoria, not the purpose of councils.

There have got to be stricter guidelines put in by the minister to control these activities, but we are a ratepayer group that can only recommend. We have got little or no power. The minister is the one who can grab that council by the scruff of the neck and say, 'Hang on, you're out of line'. We have got to be guided by the government's rules.

We thoroughly agree that some of these duly elected councillors do get out of line, but they are duly elected and it is up to the minister to try to bring them into line.

**Mr O'SULLIVAN** — Why does the minister not intervene a bit more in that type of area, because they seem to be freewheeling at the moment?

**Mr SULLIVAN** — Sorry?

**Mr O'SULLIVAN** — They seem to be freewheeling at the moment in terms of councils. It is not just councils in Melbourne; I think there are councils down your way that are getting involved in doing some of this stuff as well, and others around the state.

**Mr SULLIVAN** — You are right. We feel that the minister should be on the front foot more. I do not know her powers regarding this. As I said, we are a group of volunteers trying to make it a better system. There are things which we think are out of line, but it is not our position to pull them back into line.

**Dr NELSEN** — Just a comment there. One of the problems I think in the past is that councils needed more money to meet greater expectations from the community — some expectations are good, some are not perhaps — but it is an issue for council that the community in general is expecting more from them. One of the advantages perhaps of rate capping is that it is going to force councils to make decisions on some of these services and to what extent they provide over and above the type of core businesses they run. But certainly we find that for instance some councillors will want to use council money for services which should be provided by federal and state governments.

**Mr SULLIVAN** — We did notice that there seems to be a trend towards councils, and it started at Mornington, appointing CEOs from the private sector who know how to run a business and to fine-tune it. I read the *Age* on Saturdays; there are more and more of these councils now going to the private sector to get their CEOs, which we think is excellent.

**Dr NELSEN** — Just a further comment to that. The new CEO at the Mornington Peninsula shire is reported to have saved the shire \$5 million per annum. The customer service seems to have improved at the same time, so it is not as if it has been saved by cutting services to the community. The services to the community do not seem to have diminished. One example I am aware of is that a group of councils, together with Mornington through the involvement of this CEO, took out their own insurance instead of insuring with the MAV, and that is saving the shire \$500 000 a year.

I think there is another point there. We would like to encourage more of the councils to take on senior staff and CEOs from private industry. We do think there is an embedded culture that has developed over a hundred years within councils where council staff become so familiar with what is going on that they tend to serve their own purposes at times. That is also a criticism that we have of the MAV.

The MAV is not accountable to the community. It is accountable to councils and predominantly to the staff, I suggest. We note that the MAV has a budget of something like \$72 million a year and employs 50 full-time staff. Our ratepayer organisations consist of volunteers, part-time, and certainly do not have the money to look at issues as, say, an organisation like that has.

**Mr RIORDAN** — Thank you, Mr Sullivan and Dr Nelsen. The work of the ratepayer groups around particularly my patch of Victoria are always very active, and I meet with various groups occasionally. But an overriding theme, and I am getting a sense of it in your presentation too — you alluded to it — of the embedded culture that is in local government now of a very, very strong CEO and perhaps a sometimes at-sea council, is that when people and communities put submissions, query budgets and try and have active engagement in the direction of the council, the accusation is often put that the council will sort of hear them but not listen, that there are very poor feedback mechanisms and that CEOs go along their merry way, being unaccountable, and with recent changes to councillor behaviour, councillors are not supposed to then comment on anything, so it becomes this stand-off in terms of being able to have proper engagement about what budgets are doing and what councils are spending their money on. I wonder if you can tell me whether that sort of fits with your view, or whether you have different view.

**Dr NELSEN** — Can I answer that, Frank?

**Mr SULLIVAN** — Yes.

**Dr NELSEN** — I think it varies widely across councils from what I can see. Some councils have a very good, open system whereby the community can input, even before the pre-budget, and then can make submissions to 223 hearings, and then it is considered. Certainly CEOs, because they have worked in councils for many years — 20 years — rise to those positions because they know how to manage the politics of councillors. So they have become very skilled at presenting arguments and presenting information to councillors, especially new councillors who are very inexperienced.

I have had an experience where our association presented to a 223 hearing. The 223 hearing was in front of two councillors. We seemed to get a good hearing from the councillors. When they went back to the full council, because they did not have any delegated responsibility, the full council considered the issue based on a summary prepared by the officers. It is not that the officers changed the submission in any way, but a particular view I have is that if you are making a presentation to a council, make it to the people who make the decisions — make it to the 11 councillors, not to two councillors who have no responsibility and go back.

So I think there are a number of practices that could be improved, and I hope they are improved in the new Local Government Act.

**The CHAIR** — Mr Frank Sullivan and Dr Alan Nelsen, the committee thanks you for your time this afternoon.

**The CHAIR** — Can I take this opportunity to thank all of our witnesses today, Local Government Victoria, the Municipal Association of Victoria, the Australian Services Union, the Victorian Local Governance Association, the VFF and Ratepayers Victoria; all committee members, Hansard and parliamentary staff. Today's hearing is officially closed.

**Committee adjourned.**