

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2011–12

Melbourne — 18 May 2011

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mrs J. Powell, Minister for Local Government,

Mr Y. Blacher, Secretary,

Mr G. Forck, Chief Financial Officer,

Ms P. Digby, Deputy Secretary, Planning and Local Government, and

Mr J. Watson, Executive Director, Local Government Victoria, Department of Planning and Community Development.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the 2011–12 budget estimates for the portfolios of local government and Aboriginal affairs. On behalf of the committee I welcome the Honourable Jeanette Powell, MP, Minister for Local Government and Aboriginal Affairs; Mr Yehudi Blacher, Secretary of the Department of Planning and Community Development; Mr Greg Forck, chief financial officer, Department of Planning and Community Development; Ms Prue Digby, deputy secretary, planning and local government, Department of Planning and Community Development; and Mr John Watson, executive director, Local Government Victoria, Department of Planning and Community Development. Members of Parliament, departmental officers, members of the public and the media are also welcome.

In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in any way in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his or her chief of staff, can approach the table during the hearing to provide information to the minister, by leave of myself as chairman. Written communication to witnesses can only be provided via officers of the PAEC secretariat. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council Committee Room, and no more than two TV cameras are allowed at any one time in the allocated spaces. May I remind TV camera operators to remain focused only on the persons speaking and that panning of the public gallery, committee members and witnesses is prohibited. I am also pleased to announce that this series of budget estimates hearings is being audiocast live on the Parliament's website.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. This committee had determined that there is no need for evidence to be sworn. However, witnesses are reminded that all questions must be answered in full and with accuracy and truthfulness. Any persons found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days of this hearing. Unverified transcripts and PowerPoint presentations will be placed on the committee's web site immediately following receipt, to be replaced by verified transcripts within 48 hours after the hearing.

Following a presentation by the minister, committee members will ask questions relating to the budget estimates. Generally the procedure followed will be that relating to questions in the Legislative Assembly.

I ask that all mobile telephones be turned off and/or switched to silent.

I now call on the minister to give a brief presentation of no more than 5 minutes on the more complex financial and performance information that relates to the budget estimates for the portfolio of local government. Welcome, Minister!

Mrs POWELL — Thank you, Mr Chairman. It is a pleasure to be here as Minister for Local Government. It is my first time before PAEC, so I am really pleased to be here. Many of the committee know that I have served as an elected councillor and a mayor — or shire president as they were then — a commissioner and a shadow Minister for Local Government, so I believe I therefore have the knowledge, the experience and the passion for local councils, and I am keen to make sure that councils reach their best potential.

In regard to my presentation today, and in the interest of time, the presentation will be summarised into five parts: election commitments, budget decisions, disaster recovery, government relations, and the local government investigations and compliance inspectorate. Each member has been provided with a copy of the slides.

I am speaking to slide 2. We made three significant election commitments: the ministerial mayors advisory panel; the direct election of mayor for the City of Greater Geelong; and changes to the timing of local government elections. In regard to the ministerial mayors advisory panel, it will be constituted by representatives from right across Victoria and chaired by myself as the Minister for Local Government. It will be established around the middle of 2011.

On the direct election of mayor for the Greater Geelong City Council, the discussion paper on this issue was released on 21 March this year, and submissions closed on 16 May this year. Submissions are now being analysed. As well as the submissions, there also have been 16 public engagements and meetings right across Geelong.

On the timing of local government elections, the government will deliver on its election commitment to bring forward the local government elections from November to October. The change will give more assistance to councillors to settle in before having to make planning and budgetary decisions.

We now turn to slide 3. In addition to Local Government Victoria's operational funding, there are three major budget initiatives: the green light plan, the public libraries capital grants program and the Premiers' Reading Challenge book fund. On the green light plan, the Baillieu-Ryan government is investing \$20 million over four years to assist councils to convert to energy-efficient street lighting. There are some 330 000 eligible streetlights to be converted. Commonwealth government funding towards the conversions will also be sought. We will look to introduce barriers to pursuing reduced emissions and cost savings in this area. It is also an issue that councils have been calling for for many years.

On the public libraries capital grants program, the coalition government is investing \$17.2 million over four years to assist councils and regional library corporations upgrade and build new libraries, which will see at least 40 projects undertaken. Regional library projects will also be eligible under the \$100 million Local Government Infrastructure Fund. The Premiers' Reading Challenge book fund will assist libraries to purchase materials designed to encourage young people to read more.

Slide 4 shows that the government's response to recent disasters has been fairly responsive. In flood recovery, the government responded quickly and comprehensively to the serious flood events of late 2010 and in January and February of this year. A \$5 million local government clean-up fund was established to assist the worst-affected councils. We have yet to allocate \$1.2 million of this fund; however, councils have been contacted and have been asked to apply for this fund.

On bushfire recovery, the government, through my department, is continuing to administer the \$9.7 million special assistance package for the Murrindindi Shire Council, which was so devastated by the Black Saturday fires. Following the devastating 2009 Victorian bushfires, councils required additional support in emergency management. In 2011-12 fire and emergency officers will be placed directly in 25 councils which are identified as high-risk areas. This is to help them prepare for and implement the findings of the Victorian royal commission. The Municipal Association of Victoria was given operational support funding for five staff to assist in coordinating 25 positions.

I turn to slide 5. The government is committing to continuing to work with the local government sector through the Victorian state-local government agreement. This agreement will be renegotiated to develop an improved partnership with local government.

On local government performance reporting, the government is committed to the development of a performance measurement framework for local government that will assist continuous improvement and provide communities with information about council performance. The Essential Services Commission has some ongoing work in this area, as well as reviewing reporting requirements by local government to the state government, on which it is scheduled to report to my department at the end of this month.

The Victorian Competition and Efficiency Commission was asked in 2009 to inquire into streamlining local government regulation. The government will shortly provide its response to the report.

On slide 6, sustainability and asset management, my department is working with the sector to refine better integration of asset management principles within the whole-of-council planning and budgeting programs. To assist in capacity building, local government in Victoria will continue its work with the sector to support programs and build on sustainable local government. This includes identification of service models which will enhance local capacity.

Turning to slide 7, the local government investigations and compliance inspectorate is an independent office which investigates allegations of breaches of the Local Government Act. During 2010 its work included 254 complaints received and assessed; 96 investigations completed; 10 prosecutions commenced; two

sector-wide, topic-based compliance audits; and 14 individual council compliance audits, and the inspectorate continues to work with the local government sector.

To conclude, I would like to thank the members of the committee for the opportunity to make this presentation, and I now look forward to your questions.

The CHAIR — Thank you, Minister. We have approximately 22 minutes available for questions in this portfolio. My first question relates to a key driver for policy in relation to the administration of local government, and that is population growth. How have predictions concerning population growth shaped the budget for 2011–12 and the out years in relation to local government?

Mrs POWELL — Thank you, Chair, that is a really important question because obviously population growth or reduction is really important to the way local councils either prepare their budgets or prepare infrastructure or the services they need to provide to their communities as a whole. While 80 per cent of Victoria's population growth occurs in Melbourne, changing population demographics are of vital concern to the whole 79 councils right across Victoria. Even the smallest rural councils have to deal with ageing populations, and in their case it is often compounded by younger people who move away to the large centres to either find work or they move on to go to school or university.

The changing demographics present challenges that impact on councils' finances and contribute to sustainable issues. These issues are compounded for those large geographic councils with very small rate bases and the capacity for them to raise rates, so the impact is felt more predominantly by those sorts of councils. The government has delivered on its commitment to create the \$1 billion Regional Growth Fund. This fund responds to the local government challenges in rural and regional Victoria through initiatives such as the \$100 million Local Government Infrastructure Fund and the \$100 million Putting Locals First Fund. In addition, the government is delivering on its commitment to create the \$160 million rural roads and bridges fund, which means that 40 councils across regional and rural Victoria will be eligible for up to \$1 million over four years. This will have a huge impact on their ability to be able to maintain their roads and their bridges.

Population is an important consideration for the work of the Victoria Grants Commission. Along with the valuations and road lengths, it is one of the most significant factors that is considered by the commission when they look at distributing their funds. At an environmental level the government, through my portfolio, is providing \$20 million over four years under the green light program to support councils to convert existing outmoded mercury vapour street lamps to energy-efficient fluorescent lighting so as to reduce emissions and reduce costs for councils and local ratepayers. What this means in proper terms is that if councils can reduce their costs, they can spend more money on services and more money on maintaining the infrastructure and providing increased infrastructure.

At a democratic level the changes in population have also had a huge impact on the ratio of local councillors to voters, necessitating in some instances electoral representation reviews and adjustments to ward boundaries to ensure that communities have a fair representation to voters. As an example, I have just directed that a full electoral representation review be conducted to the Latrobe City Council as one of its wards is predicted to be 16 per cent outside of the allowed ratio of councillors to voters by the time of the next council elections in 2012. Three other councils — Knox, Port Phillip and Yarra Ranges — where ward boundaries are projected to be outside the allowed ratio, but to a lesser extent than Latrobe, have been directed to have their ward boundaries adjusted as well through the conduct of a subdivision review. So my department does need to be aware of any population variances to enable us to properly support local councils.

Mr PAKULA — On page 274 of budget paper 3 there are a range of performance measures for local government. One of them, under 'Quality', says, 'LGV's legislative and regulatory change considers stakeholder feedback and consultation with local government', and your target is 100, which is a pretty good target. Given that target, could you advise what consultation occurred with local government on the question of landfill levies before the government decided to bring forward the increase in levies by 12 months?

Mrs POWELL — I thank the member for his question. The landfill levy increases were decided by the former government, so obviously councils were aware that it was coming forward because they were advised by the government that the landfill levies were increasing. This government is bringing forward by 12 months the increases to the landfill levy that were already announced by the Labor government, so there was plenty of

discussion with local councils. They were aware that this increase was coming. The increase set by the previous government, the total average cost per household based on taking about 500 kilograms or half a tonne of waste to a landfill in 2011–12, would have been \$16.82. This is a hard-headed and kind-hearted budget, but at the same time the decision by the Victorian government has been that it will increase the cost by \$2, at an average cost, so by bringing it forward for 12 months it does increase the cost by \$2.

The Environment Protection (Distribution of Landfill Levy) Regulations govern the allocation of the moneys raised, and a significant proportion of the funds will be going towards investment in waste management and recycling at a local level. The funds that are brought forward will be going to the councils, and they will be able to use those for their own benefit. The regional waste management groups, one of the programs funded by the landfill levy, coordinate local government efforts to improve waste management and reduce costs. The government intends to ensure that the reinvestment of landfill levies provides real and lasting differences to the Victorian community.

Mr PAKULA — Just to follow up, Minister, you are right when you say there was quite wide-ranging consultation with councils when the decision to increase the levy was made. My specific question, though, is: what additional consultation occurred when your government decided to bring the increase forward by 12 months?

Mrs POWELL — This question should reasonably be directed to the Minister for Environment and Climate Change. It is under his portfolio. I am not sure if you have had the minister appear before you.

Mr PAKULA — Not yet.

Mrs POWELL — Not yet? That is a question to be directed to the Minister for Environment and Climate Change.

Mr MORRIS — Minister, I would like to ask you about the green light plan. There is an amount of \$20 million over four years in the department's output initiatives and a new performance measure as well on page 274, but can I ask you to elaborate, for the benefit of the committee, on the plan to upgrade existing public lighting to energy-efficient alternatives?

Mrs POWELL — This is an issue that councils have been calling for for quite a number of years. As councils are wanting to reduce their greenhouse gases, they have known there was some lighting in their municipalities where obviously there could be some reduction of costs — and if you can reduce the costs, it means you can spend more on services and infrastructure.

This government has listened to those concerns and committed \$20 million over four years to support those councils and their communities to reduce their carbon footprint by replacing the old energy-intensive street lighting. As I said earlier, the green light plan will begin the process of converting 330 000 street lights across Victoria from the old energy-intensive 1980s-era mercury vapour technology to the energy-efficient fluorescent lighting. The full delivery of this program could save councils and ratepayers in the vicinity of \$7 million a year, which is a substantial amount of money that they will be able to redirect into other areas of their budget. It also reduces their electricity bills. Just as importantly, it will reduce greenhouse gas emissions equivalent to taking about 342 000 cars off the road each year. That is a huge saving, but it is also a great outcome for the environment.

The government will also be examining if councils face any other regulatory barriers to pursuing reduced emissions and associated cost savings in this area, and we will rectify that if it is needed. The government is also looking to discuss with the federal government if there could be some matching funding, which would mean that we could actually have double that amount of funding. That would be great news for local councils.

Mr SCOTT — I also refer to the performance quality measure on page 274, budget paper 3, that measures the percentage of Local Government Victoria's legislative and regulatory changes that consider stakeholder feedback and consultation with local government, and I ask: given the current plight of some local councils facing financial sustainability pressures, will the minister rule out imposing any form of rate capping on councils?

Mrs POWELL — Obviously over the years there has been rate capping on councils, and it is not something we have turned our mind to. As the councils are having their budgets prepared and there are increases in rates, which communities are often concerned about, obviously it is an issue that councils turn their mind to about how high they do raise their rates. I am a former councillor myself, so I understand the budget process and what you have to look at when you are trying to determine your budget. You look at all sorts of things, such as the type of infrastructure your council needs, and then you look at the capacity of your community to pay.

At the end of the day, councils are democratically elected by their communities to make those decisions. I think people elect their councillors knowing that they are the best people to represent them. Councils put forward a budget, and they exhibit that budget each year. The community can have a look at that and determine whether they agree with the budget or whether they want to have a decrease in some of the infrastructure costs or some of the service costs. There is also the issue of concessions. If ratepayers cannot pay their rates, there are concessions for hardship. Councils have a number of options to reduce the costs to ratepayers.

As I said, over the years governments have had rate caps, and they have been removed. In some ways it was seen as an artificial barrier, where councils could say, 'We will change it to CPI' or 'We will have a rate cap of 7 per cent or 10 per cent', and then councils have to agree and the minister has to agree with that. I think it is not a case of one size fits all; with each council it is a matter of the council itself determining what is in the best interests of its community and striking the right rate balance for that community.

Mr SCOTT — I noted the tenor of your answer, and you stated that at this stage you have not turned your mind to it yet. Will you be doing so over the estimates period?

The CHAIR — It is a hypothetical question, I think, Minister.

Mrs POWELL — It is a hypothetical question, and I do not know if I said yet.

Mr ANGUS — Minister, I refer you to budget paper 3, pages 273 and 274, particularly in relation to output measures for local government. I ask you to comment further — because indeed you touched on it in your presentation — on what commitment the Victorian government is making to ensure that the sustainability of public library bring infrastructure is preserved.

Mrs POWELL — I think we would all agree that libraries are really important to communities. Most people who have been on council have been on the library committee, as I have myself. I have been a representative of a library, so I know how important they are to the communities. I know about the costs in public libraries now, because they no longer just lend books. The local library almost becomes the internet capital of that area, because there are internet capabilities there as well. It also becomes the meeting place.

We understand that, and we have made an enhancement to the commitment to Victoria's public libraries. We have committed \$17.2 million over four years towards public library infrastructure from 2011–12. That funding will support local councils and regional libraries in the provision of high quality and accessible public library services and facilities. We are trying to make sure that the libraries are able to strengthen those communities and be accessible to all of our communities. The projects to be funded include acquiring and refurbishing mobile libraries. In some of the small communities mobile libraries are really important, particularly for our ageing population and for those areas that are more remote or where people cannot get to libraries. Mobile libraries become very important to those communities, so we are making sure those libraries are assisted.

There are new facilities in Melbourne's growth areas and also in regional Victoria. Those existing libraries may be refurbished, or there could be some renovations of libraries. I know that is really welcomed by the whole community, and I know communities have been asking for it. I know it is really important. A minimum of 10 Victorian public libraries and mobile services will be built, renovated or refurbished in 2011–12, with a minimum of 40 projects over the four-year term. All Victorian councils and regional library corporations will be able to apply for funding from July 2011.

As well as the \$17.2 million, public libraries in the 48 rural and regional areas will be able to access funds from the \$100 million Local Government Infrastructure Fund. That is part of the \$1 billion Regional Growth Fund. We are making sure that libraries continue to be the focal point of communities, particularly in regional communities. People who cannot afford computers or who do not have the internet are able to use them. They are also meeting places. Libraries are now no longer just lenders; they have rooms where young people can go

to study, because in some places there might not be quiet places for them to study. They become areas that are not just about information technology, they are also knowledge centres. This government is making sure that libraries continue to grow and add value to their communities.

Ms HENNESSY — Minister, I refer you to the performance quality measure on page 274 of budget paper 3. That is the one in respect of LGV's legislative and regulatory changes that consider stakeholder feedback, essentially. I want to ask whether you could outline what proactive steps you have taken as minister to assist the many councils that face a large call on their unfunded superannuation liabilities through the established defined benefit scheme.

Mrs POWELL — Councils have known for quite some time that they would have to pay for those unfunded liabilities, so they are aware of the issue. I am aware of the extent of the unfunded liabilities in Victorian councils. Unlike the Victorian and commonwealth government superannuation scheme, this scheme is seen as a non-exempt entity under the commonwealth legislation, which means it is required to meet its unfunded liabilities when they arise. The impact of the global financial crisis and rapidly changing economic conditions have resulted in a call of unfunded liabilities to the tune of \$71 million across the sector. This last occurred in 2003 with a call of unfunded liabilities of \$114 million.

I understand that there was some discussion in the papers about the unfunded liability and the shortfall of some \$71 million. I understand that in the article Rob Spence, who is the chief executive of the Municipal Association of Victoria, was quoted as saying that councils face payments of between \$30 000 and \$3.5 million to meet their funding shortfall in relation to the defined benefit scheme.

The LASF is a non-profit industry fund for Victorian councils. The trustee of the fund is Vision Super Pty Ltd. The defined benefits section of the fund was closed to new members on 31 December 1993. The fund's operations are governed by commonwealth legislation, and they are regulated by the Australian Prudential Regulation Authority, or APRA.

In accordance with this legislation, it is a requirement that the fund be kept in a sound financial position and be fully funded. The trustee is required to complete an actuarial review of the superannuation fund every three years to ensure that current assets are able to meet future liabilities. When assets are insufficient to cover liabilities, there is then said to be an unfunded liability or a shortfall. A deficit of \$71 million was highlighted in the actuarial investigation in 2008, and councils were aware of that. Vision Super met with the councils in 2008 to discuss that shortfall and to develop a five-year forecast funding plan to return the fund to surplus in 2013.

No funds were requested of councils at that time. While Vision Super has advised that there is no immediate cash flow problem regarding the fund, it is anticipated that councils will be invoiced by Vision Super in late May, with payment options outlined. Obviously there are a number of ways that councils can pay that. They can either borrow the funds or pay it off in instalments. There are a number of opportunities for councils. Some of the large councils will be able to pay it up-front, but obviously it will be an issue for some of the small councils, and we will be working to support those small councils.

Ms HENNESSY — Just to clarify, Minister, I am interested in what you see your role as being in dealing with the issue of unfunded superannuation liability. Is it that you say in your answer that this is really the responsibility of Vision Super and individual councils? What exactly do you see the role of state government being in respect of unfunded superannuation liabilities?

Mrs POWELL — I guess my role would be to make sure that the super funds — the actuaries — make sure that councils are aware of their obligations, so that they are aware of all of the issues and the details that they need to know. But that is about as far as my role goes. I do not have a personal role in that. It is up to the fund to work with the councils and to let them know what the outcome is and what the shortfalls are.

Mr O'BRIEN — Minister, I also refer to the output measures for local government on pages 273–4 of budget paper 3, and to your presentation on key achievements and emerging priorities, in which you touched upon flood recovery. I am particularly interested in and ask the minister to comment on what the government has done and what plans it has for those affected by flooding in Victoria in January and February this year.

Mrs POWELL — I thank Mr O'Brien for his question. This has been a really devastating time for local government. I take this opportunity to congratulate councils across the state for the work they have done. I have

visited probably 14 of the worst-affected councils and spoken to them. They are still trying to bring their communities into recovery mode, because the effects are still being felt right across Victoria — not just in regional Victoria; there are some metropolitan councils that have also been affected.

In September there were floods. There were also floods in November–December last year; there were also floods in January and February this year. Unfortunately some councils were hit by all those floods; in some areas some of those councils have been hit by wave after wave — in fact, a number of those councils were also hit by the Black Saturday bushfires. A few of the small rural councils have been devastated by natural disasters, and it was up to the government to support them in whatever way they could.

I know that this government acted quickly and responsibly in making sure that councils knew that we were there to support them, and also to let them know that it was not just in-kind support; we were going to support them in the way they needed most. In January the Premier announced a cabinet flood task force made up of all the key people to make sure that we were all aware of the issues facing councils and all the emergency service areas. I was a member of that task force. One of the first announcements that the Premier made was of a \$5 million local government clean-up fund, because as we saw in Queensland, one of the biggest issues that communities faced after the floods came through was pulling up their carpet and removing furniture that had been waterlogged and putting it out onto the nature strips. There was a need to remove that in a timely manner and to get rid of the waterlogged household goods.

The \$5 million local government fund assisted with that. We wrote to 16 of the worst-affected councils and immediately offered them funds; we electronically provided them with \$100 000 each. That was to allow them to remove the rubbish to landfill — I might say the landfill levy was also waived during that time, which was less costly to councils. Those councils were given \$100 000, firstly, and that was very well received. We then followed that with a further amount of money. There is about \$1.2 million in that fund, and councils can apply for that funding.

As well as that, on behalf of the government I wrote to Simon Crean and asked him to bring forward the commonwealth federal assistance grants, because councils were in a situation where they did not have enough cash flow. I asked Mr Crean to bring forward the February funds, which he very kindly did, and that gave about \$92 million to Victorian councils. I further asked for the May allocation of federal assistance grants to be brought forward, which were also brought forward. This was to assist those councils. They were pleased about that, but obviously there is more funding needed, because those councils still need the natural disaster funding, which will go to those councils.

Again, we have done all we can to make sure that councils, particularly those small councils — and it is not just money; it is also providing personnel and the skills that they need to make sure their communities can move forward and recover from some of the really bad natural disasters they have experienced. We are trying to do everything we can, knowing that they are going to need assistance probably well into the future.

The CHAIR — Regrettably that brings to an end the time available for the local government portfolio. I thank Ms Digby and Mr Watson for their attendance.

While officers from the department are changing seats, I advise the gallery that discussion in the gallery is not appropriate and is distracting for the committee.

Witnesses withdrew.