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In Summary: The Essential Services Commission has done an excellent job in their initial proposal and with a little “tweaking” it will present a great start to the process of holding local government accountable.

Periodic Reviews will continue to refine the process until it works flawlessly.

Realizing we never all get what we want; if nothing changed for the better in the proposal, I would be disappointed but pretty much content.

Below are some Risk Factors that I have identified. I believe you have addressed many of these and I only present those again to challenge you to make sure you have done the best job possible in establishing prescriptive and measurement procedures to avoid these, and other, pitfalls.

- ***The cap need not apply to special rates and charges and revenue in lieu of rates because there are adequate checks and balances already in place in the current legislation for these rates and charges:*** Unfortunately, IGA1989 is not prescriptive in these categories. When reviewing the “rules” there is great latitude in interpretation of what can go into these accounts.
- ***We are recommending that the rate cap should apply to general rates and municipal charges only — noting that these two rate bases account for about 88 per cent of the total rate revenue raised by councils:*** We must be aware that some councils will simply move “costs” to other areas in order to circumvent the rate cap. These non-included categories need to be rigorously monitored to prevent this from happening.
- ***What gets measured gets done:*** But not in the way you might expect. It is easy to get the “right” answer by simply changing the allocation of financial numbers from one account to another while doing nothing to “fix” the problem itself. This is a big concern and a very prescriptive chart of accounts for local government must be established to make sure all comparisons are the same.

- **Administrative costs are not defined in the Local Government Act 1989:** Treatment of this item been a big problem on The Mornington Peninsula. There are many methods of allocation of “administrative” costs and ESC should be proactive and prescribe a preferred method to prevent abuse.
- **Special Rates and Charges** is another potential “dumping ground” for councils. LOCAL GOVERNMENT ACT 1989 - SECT 163 Special rate and special charge is basically an open book for councils to find reasons to dump projects into this classification. ESC should be proactive and prescribe a reporting mechanism to prevent this. It should be a compilation of special rate charges for the previous five years and then that should become the basis for comparison to look for rate cap “dodgers”.
- **Service rates and charges:** Another potential dumping ground for costs to be laundered out of the rate capping equation. Must be monitored. What is not there now should not be allowed to be “laundered” into these accounts.
- **The risk that in order to avoid the variation process, councils may reduce their expenditures on services and critical infrastructure following the introduction of the framework:** Yes, a great possibility where councils might continue to overspend on non-essential services and then justify a rate variation based on infrastructure needs.

As with CPI, we propose adopting the Wage Price Index (WPI) increases reported by DTF as the benchmark rate of increase for labor costs in the rates capping

Framework: Why should wage increases be higher than those included in CPI? The public sector should not offer more than competitive wage rates and should be subject to the same wage pressures as in the private sector.

Draft recommendation 2: revenue from general rates and municipal charges should be subject to the rate cap: Absolutely brilliant. Keeps councils from using municipal charges as rate capping avoidance “dumping ground”

Working Groups: All working groups must include representation from Ratepayers and the groups should be balanced. Current working groups are set up in a non-balanced way being as councils have many “peak bodies” with access to big \$\$\$ looking after their interests while Ratepayers have only one, and it is poorly funded. The Fair Go Rates Reference Group, for example, is loaded with council sycophants with only one ratepayer representative; it is an unfair bias towards council inputs at the expense of ratepayers.

TABLE 4.1 FRAMEWORK REPORTING: This leaves out one important step and that is submissions from ratepayers on the rate variation asked for by their council. This step in the procedure would insure that the council is serious about public consultation and does the best job possible to gain consensus with ratepayers.

We have also considered whether ‘rebalancing constraints’ should be applied. These constraints would limit how far above (or below) the cap an individual ratepayer’s rates could be increased (or decreased) in a particular year. For now, we are not proceeding with this idea on the basis that we expect the cost of implementing the required changes to councils’ billing systems would outweigh any benefits produced by doing so.

This should be reconsidered being as the revaluation, which is required by law, penalizes those that cannot afford this increase in rates. Take Rosebud on The Mornington Peninsula for example. Rosebud is considered one of the top disadvantaged areas of the State. Many areas on the peninsula are doing well and more affluent ratepayers are buying up properties and driving up the values through redevelopment and rebuilding expensive properties in low income communities.

Properties in Rosebud are adversely affected by the revaluation and values increase at a greater rate than other areas. This means that while more affluent properties rates paid increase might be in line with the rate capping guidelines, or even lower than the rate capping guidelines, these properties in Rosebud could (and have had) an increase in the rates paid by 30% where the Mornington Peninsula Shire has claimed a 7% increase overall. At the same time properties rates paid in the high end of town actually decreased.

Without some “rebalancing restraints” this will continue under rate capping and those who can least afford these increases are penalized and, in some cases, have to sell up to get out from under this burden.

Rate Variation: The operative phrase here is: ***“subject to community consultation”***.

We cannot allow this to be the normal “Clayton’s Consultation” that councils employ today. It must be serious consultation and the reviewing panel must look at that consultation.

Ratepayers should be able to make submissions on the propriety of the application to the approving authority and also comment on the community consultation process the Shire uses.

Table 3.1 is a good Start but the process must be transparent and monitored to best practices.

The Commission recommends that the Government consider making a formal review of the rates capping and variation framework a statutory obligation. The review should draw on all relevant information including the data and trends identified through the ongoing monitoring regime. All interested parties should have an opportunity to provide input to that review. Elsewhere, similar reviews are programmed into legislation for periods of varying length ranging from 3 to 10 years. We consider a review period of 4 years to be appropriate in this case. I would suggest that the first period of review be 6 years in order to iron out the kinks of the system and it also allows time to identify the “rate cap dodgers”. From that point 5 years might work.

Victorian Local Government Association and Municipal Association of Victoria have accepted that a cap will be applied and have now changed tactics and are doing all they can do to discredit any attempt of Essential Services Commission to build measurement and accountability into the system.

The financial reporting recommendations made by Essential Services Commission are only basic financial information that should be readily available in the first place to insure transparency and accountability.

The argument that it is too hard is absurd. The accounting systems available 25 years ago allowed cost reporting to accommodate this reporting. It is not rocket science.

Actually if councils are following LGA1989 their data should be readily available in order to report this information.

Municipal Association of Victoria suggested to the Legislative Committee on rate capping (07/05/15) that the Essential Services Commission suggestions are so difficult that they should set up a consulting company to give advice to councils on how to administer the policy. Hopefully this advice would be of a higher standard than their management of the Super Fund which just cost our council 10 million \$\$\$, the interest rate they wanted to charge our council to borrow the money to pay off the \$10 million (1.5% higher than the quote the council got on the open market), and the cost for the insurance they offer to councils which when our council went out for competitive binds and saved \$700,000 by not using Municipal Association of Victoria insurance.

Cost Shifting: All cost shifting to date from Federal and State governments are included in the base budget period so have no bearing on the ability of the Councils to manage them. The only consideration is how to manage them within the cap and how to ask for and justify variations.

Future cost shifting must be controlled and only passed on to councils with permanent funding and increases in line with rate capping.

Chart of accounts: It is essential that a standardized chart of accounts is developed for local government if comparisons of data are going to be meaningful at all. This is not only important in this instance but also for reporting across all comparisons. This was mentioned by the Auditor General in his submission to the Legislative Committee on rate capping (07/05/15) and has been mentioned by Auditor General on previous occasions.

The UK Model: it was suggested to the Legislative Committee on rate capping (07/05/15) that the UK model of rate capping should be investigated and over the long term this is a good suggestion.

The USA Model: In the USA, major infrastructure projects by local government must be approved by a vote by the ratepayers. This insures proper consultation to get the funds approved. This would include swimming pools, city hall expansions, sports grounds, etc.

The project is then financed by issuing municipal bonds (which is what is approved) and these bonds are paid off through a rate increase which goes away when the “contract” period is complete (bonds paid off).

Yes, it works and many projects are approved by the ratepayers due to proper consultation. Must convince public it is good or it does not get done. Can't just raise rates to do whatever comes to mind.

Public consultation processes for variances should be conducted with the USA model in mind.

Where can \$\$\$ come from??? Within Mornington Peninsula Shire there are rafts of opportunities to create “income” and make it easy to fit in the rate capping parameters.

In fact the Mornington Peninsula Shire has the opportunity to end up with a bundle of cash in hand if they take appropriate actions, some of which are listed below (from 2015-2016 budget base): these are items that can be identified without even breaking a sweat :

- Mornington Peninsula Shire is paying of its \$10 million super liability created by gross mismanagement by Municipal Association of Victoria in three years and that is included in the 15-16 budget. This means that at the end of these three years approximately \$3.5 million of cash will be released for “discretion” when interest is included.
- Cut the \$1 million annual losses at Hastings Pool by selling the pool to a private operator.
- Add \$10 million cash upon sale of the Hastings Pool. Use these funds to eliminate debt which would free up \$2.5 million a year in interest payments
- Work with and encourage private enterprise to build pool slated for Rosebud would avoid having to raise rates to pay for a \$50 million monstrosity as envisioned by Mornington Peninsula Shire.
- Not proceeding with the \$150 million city hall and refurbish current facilities and constructing low cost pre-fab structures like is done in the public school system. This would avoid a rate increase to pay for this Taj Mahal.
- Insure that no public undertakings compete with private business and therefor private sector would grow and additional revenues.
- Identify opportunities to work with private enterprise (see LGA1989) to achieve goals at cost effective results.
- Differential rates are big \$\$\$\$. Mornington Peninsula Shire has one of the lowest farm rates in the state. Just bringing them up to an appropriate competitive rate would add many millions of \$\$\$\$.

- “Tourist Tax” Would add estimated \$10 million in additional annual revenues to the Shire.
- Competitive wages vs. government wages would add lots of \$\$\$\$. This is no more apparent than at the Hastings Pool that whenever alternate management options were looked at it was found that the wages paid by Mornington Peninsula Shire were significantly higher than the private sector and presented a problem.
- Camping fees could be increased.
- Proper maintenance management of assets would avoid huge requirement of capital
- Getting back to basic local government responsibilities and stop thinking like multinational companies when looking at capital improvements
- Proper management of the capital programs where carry forward is obscene; thus increasing costs. Projects are shuffled at a whim without a minimum of proper control and then capital projects that are cancelled are put in the budget a second time. Funds are diverted to projects that were not approved in the budget without proper oversight.
- One program that other councils could emulate that Mornington Peninsula Shire is undertaking with great success is to restructure the organization to greater efficiency. To take a new look at responsibilities and how to become more efficient. This will also add \$\$\$ to spend from base budget once completed. These are true “cost Reduction” items.
- Enforce conditions in planning permits where they are violated and fine for violations and collect the fines.
- Actually go out for competitive bids and include local labor in the bidding process. Footpaths, for example, could be built at half the cost.
- Consult with community on major projects for community input before any consultants are hired hundreds of thousands of dollars are spent and then the community is consulted as to which way to proceed. Find out if the community even want these projects and at what cost before spending any \$\$\$.
- Include the community in “briefings” and the budgeting process and listen to what they have to say. Mornington Peninsula Shire actually has two submission sessions on the budget: one while the draft is being developed and then after the draft budget is compiled (required by law). The fact is that these submissions have almost no effect on the budget items and amount to Clayton’s Consultation at its best.

If The Mornington Peninsula Shire is not in a positive cash balance, of at least \$10 million, in 6 years and free of debt under this proposed rate capping regime, the Council and CEO should be sacked and an Administer brought in.