

Essential Services Commission
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Submission
28 August, 2015

A Blueprint for Change:
Local Government Rates Capping and Variation Framework Review:
Draft Report (July 2015)

1 Introduction

Thank you for this opportunity to comment on this important issue. The Association has previously made a submission, and representatives attended the ESC's recent ratepayer group forum.

The Association strongly supports rate capping, and providing communities with more accountability, transparency, and say over how much they pay and what their money is spent on. We cautiously welcome the Framework's first steps in this direction, and recognise that there are areas flagged for further review and refinement. However, the Association also holds strong concerns with some of the proposal's key components, which we believe are not yet acceptable from a community perspective. Unless made more balanced, transparent and accountable, this will disadvantage community and undermine public confidence in the Framework. Comments on these, and other issues, are provided below.

2 Issues With The Proposed Framework

Issues of utmost concern in the main relate to inadequate standards for consultation and reporting, and a bias favouring Councils over community.

2.1 Community Accessibility

- a) It is critical that the Framework is inclusive, and understood at community level.

MARRA: We request that the ESC / State government publish a plain English, easy-to-understand, authoritative guide to rates capping, variations and monitoring specifically for community consumption, including advice on community roles and rights, and processes available for community input or complaint.

2.2 Framework Principles

- a) Principle 2 (Principles guiding the Framework's design) says: "Local communities and ratepayers are entitled to hold their councils to the highest standards of accountability and transparency when setting rates."

MARRA: Revise "when setting rates" to "when setting and spending rates".

2.3 Rates Capping

- a) We acknowledge that the rates cap is presently proposed to only apply to general rates and the municipal charge, but that monitoring of other aspects will also occur. It is not clear what this restricted rate capping means for municipalities with differential rates (e.g. Macedon Ranges Shire has a General rate, plus five differential rates).

MRRA: Please clarify:

- How the Framework addresses (existing) differential rates, and
- What ensures differential rates are not vulnerable to higher rate increases than General rates?

b) The 'highest' levels of transparency and accountability are necessary for rates capping (and variation) processes.

MRRA: Require Councils to publish **full** information (i.e. all parameters) used to calculate and justify all aspects of rate capping and variations, including percentage calculations to two (2) decimal points.

2.4 Variations

In the Association's view, the proposed variation process is strongly biased in favour of Councils, and lacks the transparency, accountability and accessibility necessary to best serve ratepayers' interests and engender public confidence.

2.4.1 Consultation

Most Councils will consider they consult well. Some do, but some don't.

We consider the Framework's proposed reliance on the "transparent, deliberative and consultative processes that councils advise us they already adopt when setting their budgets and their rates" to be a major flaw. It does not recognise that some councils consistently consult poorly (or not at all), and if actually consulting provide insufficient and/or incorrect information and few answers.

The Association has chosen two examples within our experience to demonstrate why we hold strong concerns about standards of consultation:

Example 1

Results of 2015 Community Satisfaction Survey

The survey confirms consultation is not of a high standard in Macedon Ranges Shire

- Page 17 Macedon Ranges' consultation & engagement *performance* is "significantly lower" than State-wide average.
- Page 19 Community consultation and engagement *performance* falls 21 points below *importance*.
- Page 20 Consultation and engagement – *Importance*: 2015 – **73**, 2014 – **77**, 2013 – **74**, 2012 – **74**.
- Page 21 Consultation and engagement – *Performance*: 2015 – **52**, 2014 – **47**, 2013 – **55**, 2012 – **54**. Ranked "Poor".
- Page 26 Summary: Consultation is an "area for improvement"
- Page 42 Community consultation is the area of Council residents consider needs most improvement (14%)
- Page 50 Consultation *performance* 2015: Macedon Ranges – **52**, Large Rural Shires – **54**, State-wide – **56**
- Page 62 Informing community *performance* 2015: Macedon Ranges – **57**, Large Rural Shires – **59**, State-wide – **61**.

Example 2

Undisclosed changes to adopted 15/16 Budget

The Macedon Ranges Shire 15/16 budget was adopted by Council "without amendment, except corrections to minor errors in the commentary, which were discovered during the public display."¹ Despite this resolution, significant undisclosed changes have been found in the adopted 15/16 budget, including:

- a) A Financial Reserve (Waste Management) deleted, and its \$24,000 funds deleted from 14/15 Forecast Actuals.
- b) Changes at Balance Statement: \$24,000 (funds from the deleted Financial Reserve, above) deleted from 14/15 Non-Current Assets; \$817,000 added to Current Liabilities; and \$321,000 deleted from Property at Non-Current Assets, resulting in a \$1.1 million reduction in Total Equity from that in the exhibited draft budget.
- c) \$500,000 funding for the Gisborne Office Extension capital works: source switched from borrowings, to rates.
- d) The Management Property Disposals Financial Reserve renamed to Commercial Development, a change which allows the Reserve's almost \$3 million funds to be spent on "activities designed to investigate, establish or stimulate demand for commercial activity..."² instead of being expended on capital works on Council land.

¹ 17 June 2015 Special Council meeting minutes, recommendation 5.

² Macedon Ranges Financial Reserves policy, Appendix 1, 26/11/14.

Note: This name change does not comply with Council's Financial Reserves policy.

Not only wasn't the community advised of these significant changes in the adopted budget, it also appears Councillors may not have been advised of them either.

If a Council is left to determine consultation standards for rate capping or variations, it could well result in misleading or even no consultation in Macedon Ranges Shire (and other places). Any potential for such an outcome in relation to the Framework and particularly rate cap variations is not acceptable under any circumstances.

- a) In our previous submission, we asked that the Framework be designed to accommodate the lowest denominator – that is, the worst performing Councils – but find that hasn't happened.

MRRA:

- *The Framework must address and accommodate the lowest denominator. It must set (and provide a means of verifying achievement of) the highest consultation standards. This would have no burdensome effect on those Councils which already consult well, but would be of immense benefit to those communities whose Councils do not engage in best consultation practices.*
- *It is also essential that the Framework provides a mechanism or process for ratepayers to have direct input to the ESC on variations applications.*
- *A mechanism for community appeals against approved variations must also be included.*

2.4.2 Extended Variations from Rates Capping

- a) The Association does not support the proposal to allow Councils to apply for rate capping variations across multiple years. There is an image here of Councils applying for variations in a 'job lot', with aspirations to be on permanent 'bypass'. The ability to obtain variations across multiple years provides little incentive for Council's to improve performance, or for the basis of the variation (i.e. the need) to be reviewed. We believe it also undermines the Framework's primary objective of setting a rate cap, and will leave ratepayers justifiably wondering if there is indeed any rate cap at all.

MRRA: *Restrict variations to a single year approvals only.*

2.5 Monitoring

Monitoring is a critical component of the Framework, and the strong recognition of its importance in the Framework is supported.

2.5.1 Reliance on information in already-published documents

The Framework's intention to "*rely as much as possible on the information already reported publicly by Councils...*" appears logical. However, the Macedon Ranges Shire community's experience is that information from this Council is likely to be unreliable and/or incomplete, including financial information. The Commission will need to make a decision which Council document will be relied on, as major anomalies have been found between Macedon Ranges' Annual Reports and adopted budgets, and indeed, between budgets. Reporting outcomes will vary, depending on which documents they are based on. In Macedon Ranges Shire, for example:

- Some adopted budget figures have been found to be altered in the subsequent Annual Report, and in subsequent budgets.
- Reporting of Financial Reserves has been found to be unreliable. For example, for 30 June 2014, the 13/14 Annual Report total of \$8,688,000 in Reserves was over \$1 million more than the 13/14 adopted budget (\$7,600,056), and almost \$1.5 million more than the Financial Reserves' 1 July 2014 opening total (\$7,218,231) in the adopted 14/15 budget.
- Additionally, budget year-end and following budget year-start totals for most Financial Reserves aren't the same.
- The 13/14 Annual Report says Shire debt at 30 June 2014 was \$2.87 million but the 13/14 adopted budget said it would be \$9,782,452, while the 14/15 adopted budget said debt at 1 July 2014 was \$8,332,452.³

³ The community has not yet been able to obtain consistent information from Council on debt levels

Our local community has learned it cannot afford to accept Council information at face value, and the Association asks the Commission to take this circumstance into serious consideration.

***MARRA:** Reliance on documents already published by Macedon Ranges Shire Council will not foster community confidence in the process, or outcomes. Until this type of situation is resolved, it will be extremely difficult to be confident Framework monitoring is reliable.*

2.5.2 What will be monitored?

- a) At Table 2.4 (page 16 of the draft Framework), lists items of information to be monitored for compliance with the cap and approved variations. From our experience, we feel additional items should be added.

***MARRA:** Based on our experiences, there would be considerable merit in adding revaluations (significant variances especially in a non-revaluation year), number of assessments, borrowings, proportion of budgeted capital works v actual capital works, user charges and 'other expenditure' to the items to be monitored.*

2.5.3 Guidance To Councils On Financing Options

The Association fully supports educating Councils about financing options, but this must be within the context of a municipality's existing financial situation. Macedon Ranges Council, for example, has taken debt from \$4 million at 1 July 2013, to over \$14 million at 30 June 2016, causing high community concern.

Information provided by our Council about loans and debt is circular – it goes round and round. Council says in one place it has approved borrowings of more than \$11.5 million since 2013/14, but in another place says it only owed \$2.87 million at the end of June, 2014, but then also says it took out \$4 million in loans in 2014/15 while saying somewhere else it borrowed only \$1.5 million that year.

Council advised in this year's draft budget it had "borrowed some funds" from the Local Government Finance Vehicle. To date Council has declined to answer community questions about how much was borrowed, what it will be spent on, and the relationship of these funds with pre-existing and new loans it has approved.

- a) The Commission's intention to encourage Councils to use more borrowings and debt as a financial tool is not supportable in Macedon Ranges' circumstances

***MARRA:** We request that a comprehensive report and strenuous audit of a Council's borrowings, debt levels and expenditure of borrowings be a mandatory requirement of applications for rate capping variations.*

3 Conclusion

Some Councils consider themselves to be above and separate from their communities, more a business than local government.

To be successful, the Framework must not only operate but be seen to operate in a way which educates Councils about their responsibilities to their constituency; demands accountability and transparency; curbs excesses; and empowers communities and ratepayers. In the Association's view, it does not yet satisfactorily do this. Without public support and confidence, the Framework will not succeed.

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