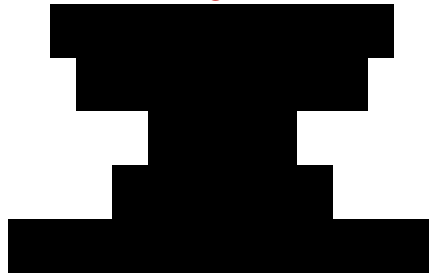


Presentation to Legislative Committee: Environment and Planning Inquiry into Rate Capping Policy - 5 April 2016

Joe Lenzo



Thank you for the opportunity to make this Presentation to Legislative Committee: Environment and Planning, Inquiry into Rate Capping Policy

WHY do we have rate capping, WHY do we have rate capping?

You might be surprised when I say that it is not because of the rise in rates, --- **IS NOT, because of the rise in rates** --- the bigger problem is, without a doubt, the budgeting process followed by most councils – which is being validated by the consultation survey currently underway by Ratepayers Victoria.

The Process is completely void of any of the Principles of the “CAT”:

- **C**onsultation (Collaboration is the purest form of “C”)
- **A**ccountability
- **T**ransparency

Generally, the budgeting process councils employ are arrogant and without collaboration, consultation or engagement, therefore, ratepayers have no confidence that the council is doing the right thing or making the right financial decisions.

The process goes like this:

- The councillors and officers lock themselves up in a conclave and invest thousands of hours developing the “draft” budget with no inputs from anyone.
- The “draft” budget is then presented in a council meeting with 276 pages of notes.
- The councillors, to show that they are on top of things, ask a few questions that they already know the answers to after their huge investment in the “draft” budget.
- The public is not permitted to ask any questions.
- The “draft” budget then goes to S223 submissions.
- Submitters are allowed three minutes to make a presentation but can ask no questions about the budget. The S223 committee does not consist of all councillors.

- The “council” then considers the S223 submissions and goes forward to develop the final budget.
- Seldom are any items from the S223 submissions included in the final budget primarily because of the thousands of hours invested by councillors and officers in conclave who know best.

Then the 276-page budget document is presented to council and approved. Sometime there are one or two who vote against it for political capital, being, as they know it will pass without their yes vote.

- Then the Mayor/CEO spin-doctors go into full steam and tell one-and-all what a great job they did and how important the rate increase was. However, of course, nothing of substance is mentioned.
- Then the rates go up significantly higher than any other sector (pensions for example).
- Then Ratepayers get a little peeved when they see their rate bill.

This, my friends, is the primary reason, THE PRIMARY REASON, we have rate capping today.

Mornington Peninsula Shire with their new CEO (who is, by the way, from the private sector) is changing, but slowly.

This is the third year that the council has asked for submissions before the conclave of councillors and officers meet to develop the draft budget.

- First year was not worth much, the budget process was already well underway.
- Second year was better but the “AT” principles (Accountability and Transparency) were left out of the “CAT” principle and the “C” principle (Consultation) was questionable.
- Third year (this year) we believe the “C” principle was genuine and we are optimistic that the “AT” principles will get a good start.
- Unfortunately, nothing in this process enables ratepayers “challenge” the budget and the assumptions the councillors and officers make about what ratepayers want.

If the third year of this process is successful, then we can start to change the “C” principle from Consultation to Collaboration and then we are on the verge of “Participatory Budgeting”: a process of democratic deliberation and decision-making, and a type of participatory democracy, in which ordinary people decide how to allocate part of a municipal or public budget. It enables taxpayers to work with government to make the budget decisions that affect their lives.

It is distressing that change in local government equates with trying to stop a train at full speed descending a 30 degree 5k slope with 500 cars fully laden with coal and only a single deiseal engine to hold it back.

It is unfortunate that so many councils and their sycophantic peak body organizations think that ratepayers are against them when ratepayers only want a local government that follows the “CAT” and best practices principles. Ratepayers are not, RATEPAYERS ARE NOT, the enemy.

I can find little fault in the initial report issued by this committee and its recommendations. The following comments are relative to the report.

Rate Capping may help solve many of the sins of the state and federal government statutory and overall cost shifting tactics. This may cause local government to challenge this process, rather than blindly accept it, now that they cannot just pass on the cost to their ratepayers. We already see that the Victorian Local Governance Association has taken this issue on. Would expect that Municipal Association Victoria will jump on board soon. My question is where have they been for the last 10 years on issues like this?

No council has had to operate under the rate cap yet and it is already producing positive results and causing local government and their lobby groups to look at things a differently. Those councils with myopic vision will have to have corrective brain surgery to survive under rate capping.

Rate Capping has already triggered a paradigm shift in how local government looks at budgeting and the services it provides

Applying for a variation to the cap should not a problem and being as all councils claim to have best practices financial information at hand, all they need is to do is use this information to present a good business case and achievement of the "CAT" principles.

Having satisfactorily provided this information, I would suspect that a rate cap variation would be approved and the community would, for the most part, support it. Interesting to note that many councils have already dropped out of the rate cap variation process, as they do not have the business plan or community support to move forward.

Significantly, we have to worry about the "Claytons Consultation, process that many councils will use to try to justify rate cap variances. Hopefully, the Electrical Services Commission will be able to sort this out! Ratepayers Victoria is actively addressing this issue in their consultation survey, which is underway.

The National Financial Sustainability Study of Local Government Commissioned by the Australian Local Government Association November 2006 (PricewaterhouseCoopers (PwC) found that not only was a large number of local councils in all Australia financially unsustainable in the long run, but that most councils confronted a massive local infrastructure backlog, regardless of the rate-setting regime in each state.

Moreover, Byrnes, Dollery, Crase and Simmons (2008), Dollery, Byrnes and Crase (2007), and others, have demonstrated that the magnitude of this backlog is so substantial that it is now beyond the present capacity of any Australian local government system to remedy without outside financial intervention.

Since this problem is endemic to all Australian jurisdictions, and does not appear to be comparatively more acute in NSW, it would thus seem that the NSW local infrastructure backlog cannot be ascribed simply to rate-pegging.

The DOLLERY & WIJEWEERA study: Rate-pegging in New South Wales, An assessment of rate-pegging in New South Wales local government as published 06 July 2010 in the Commonwealth Journal of Local Governance: presents compelling arguments in favour of rate capping and the positive effects of the policy.

- Revenue regulation through rate-pegging prevents the abuse of monopoly power in the provision of basic local services;
- Rate-pegging assists in controlling 'cross-subsidization' and imposes restrictions on the 'provision of non-core services and infrastructure that might prove unsustainable to ratepayers';
- Rate-pegging manages the risk of poor governance in the local government sector; and
- Rate-pegging limits the ability of councils to divert funds from essential infrastructure to other projects as well as expenditure on 'marginal services' that are better provided by the private sector

Two further implied arguments for rate-pegging were put forward in the Independent Inquiry into the Financial Sustainability of NSW Local Government (Allan et al 2006).

- Firstly, rate-pegging had worked well, compared with other Australian local government jurisdictions, if its primary aim was to constrain rises in council rates; an observation supported by both the Productivity Commission (2008) and the NSW Local Government and Shires Association (2008), ...
- Secondly, rate-pegging may have forced NSW local government to become more efficient than it would otherwise have been, especially in the domain of corporate overheads and administrative costs.

An additional argument for rate-pegging is adduced later in Revenue Framework for Local Government: Issues Paper (IPART2008:63): This contends that local government accountability is improved through rate-pegging because 'The process of assessing and making determinations on applications for special variation' ensures that the 'reasonableness of all applications is scrutinized' which may 'enhance councils' accountability'. . .

Council cost shifting: is the sleight-of-hand of the future, where councils will shift costs out of rates into special charge schemes and therefore continue to increase the burden to ratepayers by playing financial games rather than addressing the issues.

Thank you for listening: I am now ready for your inquisition.