Ratepayers Victoria Submission to Parliamentary Inquiry of the Fair Go Rate policy

**Inquiry Term of Reference:** The outcome of the State Government policy of local government rate capping on councils’ viability, service impacts on local communities and impacts on the provision of local infrastructure

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**Introduction**

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.

**Local Government Systematic Gaps: Causes & Effects**

**Causes**

For decades, local government has been operating in its own vacuum, as the decentralised units of the Victorian State Government’s Local Government (LG) portfolio. The LG portfolio works under the discretionary operations of 79 councils, each with different appetites for budget and operating models for localising state services and managing local liveability.

A major overhaul of the LG Act took place in 1989, implying the Act is more than twenty years old. Since then, over 100 *band aid* amendments were added. We also observed many discretionary variations when councils interpret and practise compliance to the legislated rules, including handling non compliance.

Unsurprisingly, many councils and their peak bodies are still in the mind-sets of the eighties, their legacy to current practice norms cultivating:

1. Self-directed operating autonomy that duplicates and increases inefficacy in the LG system
2. Growing appetites for escalating rate rises, without adopting more modern practices of budget planning and management
3. Leadership cultures often lacks practice competency of good governance principles in council conduct, decision making and implementation.

**Effects**

These practice discretions explain why the current and legacy business models and work cultures of many councils are out of date and out of touch with today’s generations of ratepayers.

Today’s generation of ratepayers and their advocacy groups:

- are more well informed and professionally astute;
- have higher expectations of democratic civil participation and rights
- want to see more transparent good governance compliance evidence in council affairs;
- expect to see more socially responsible and *best value for money* community-outcomes resulting from council decisions and service provisioning.
When councils and ratepayers disconnect, the "best" outcomes for local communities is easily dictated by those who hold decision making power and the capacity to ensure legislated objectives can be easily construed by discretionary and subjective decision arguments, politicised agendas and autocratic leadership styles.

Inquiry Reports: Analysis Shortfall & Gaps

The first and second inquiry reports focused to summarise the face value findings of submissions from stakeholders who primarily resist the rates capping policy, because it threatens the autonomy of status quo and/or because of politicised reasons. Conclusions are made on the basis of submissions' summary highlights. The reports lacked deep analysis of the findings to investigate the motivation and causal drivers underpinning the strong consensus resistance against the rate capping policy. Neither do the reports address the prevailing systematic issues that require short to long term reform interventions, such the rate capping policy to contain current and sustain future rates affordability & equity for local communities. This example has trade-offs that councils and their peak bodies dislike, because the tradeoffs disrupt status quo domination of power in LG.

Legacy Systematic Municipal Financial and Service Management Gaps

If there is optimisation of economies of scale and scope, there is no need for rate capping. A system that is guided by a rule-book (the LG act) that is more than twenty years old and especially when its compliance policing is discretionary, loose and subjective, resulting systematic inefficacy is a natural given, further worsen when there are 79 decentralised and autonomous councils doing what and how they like. Therefore, it is not difficult to see why systematic cost-shifting blames occurs, when operational duplications and decentralised autonomy are the real structural barriers to economies of scale and scope and they increase system management complexity.

Claimed uncertainties in budget planning is not due to rate capping, but competency gaps in zero based and scenario budget planning, risks management and total lifecycle cost of ownership in assets management, financial management alignment to councils' strategy cycles and the lacking clear definition and hence integration of service management structures in councils' charts of accounts.

When councils complain they have hundreds of services, their complaints reveal there is no understanding of service management and lacking capabilities, which affect the integration of service and financial management structures in charts of accounts that are crucial for effective management and reporting.

Reforming systematic change is inevitable to improve the situation. The previous Liberal State Government started the journey of reforms, by introducing the development of LG Performance Reporting KPI framework (LGPRF) and making short term legislation changes to fix growing conduct issues. The present Labour Government is intensifying this change journey and the resistance to change is very real and strong, coming from councils and their peak bodies. Both previous and current State Governments have their heads and hearts in the right place, to reform the LG system in the interest of current and future communities.

Peak Bodies Self Interests

Councils' peak bodies rely on councils to bring in their revenues through membership fees that are calculated based on the financial capacities of councils. MAV also earns big money from councils
outsourcing their procurements. The worldview is escalating rates are good, because they pay every provider stakeholders very well and always increase.

The LG Index was designed to justify ongoing uncapped rate increases, only supported by evidence of uncontested common practices, and ignoring good practice design and program logic evaluation principles.

This year, MAV also initiated an advocacy rates capping program for its members to contest the policy.

Self interests and preservation are the key providers’ motivators for resisting change, especially rate capping that hurt their real hip pockets badly.

Rates Affordability: A Needed Social Responsibility
If rates are not capped and councils are not made more accountable for increasing operating efficacy, ongoing and escalating rate rises will make owning properties unaffordable for most and exclusive to the rich, often overseas investors.

A fairer rate system that ensures rate affordability is not unreasonable but a social responsibility necessity.

Councils and their peak bodies are failing to meet their statutory obligations to ignore this growing ratepayers’ dilemma by insisting rate capping is detrimental to their operations and autonomy in local municipal service provisioning. We witnessed in a MAV meeting this year, one socially responsible Council, ie the Colac Otway Shire, asked other council attendees have they checked with their local communities if they want rate capping and many chose to ignore the question asked and supported the MAV lead rate capping program.

Most ratepayers, especially if they don’t work in the LG sector, will want rate capping to continue, even more having higher future rate caps until they can see KPI evidence that their councils have optimised their operating and service provisioning efficacy. Today service management and accounting is a dog’s breakfast and while LGV is working on improving KPI reporting and performance transparency, councils continue to winch about good governance and compliance obligations as bureaucratic waste of time tasks.

Creative Cost Shifting Games
The first year of rate capping only applies to the general rate and municipal charges components of council budgets. Other expenditure areas of councils are not affected. We have received cost shifting reports from our members that some councils are reducing general rate and municipal charges to other expenditure areas, to be less constrained by rate capping. We also observed the sector wide trend in increasing fees and other charges, and differentiate rates, to compensate the financial impacts of rate capping.

Councils are now cost-shifting to their communities and yet they complain about costing shifting from the State Government. Cost shifting may be a contributor of insufficient funding of councils’ expenditures, but operational inefficacies and lacking systematic economies of scale and scope are the larger and higher impact causes.

Such practices are not kosher, especially when statutory financial indicators reveal many and often metro councils have large reserves of unrestricted case, over geared working capitals and long standing underperforming asset renewal ratios (that have been prevailing for many years when rates were not capped). The patterns of news media reveal that there is implicit collaboration to use
the media to discredit rates capping. The common media manipulation is publically complaining that rate capping is hurting communities because councils have to cut services (selectively), such as school crossings. The tactic is when one lies enough and the lies become reality, often used by social engineering rogues.

**Infancy Good Governance Competency**

The rate capping policy provides councils the choice of increasing rates above capped levels through a rate variation process. The process requires them to consider a strong business case, show good explicit decision making traceability and demonstrate genuine community engagement. This process integrates good governance principles - especially concerning transparency, accountability, community responsiveness and inclusiveness, efficiency and effectiveness. Accusing the rate variation process is bureaucratic and consumes unplanned and large resources and money, only reflects the real good governance competency of winching parties, also their capability-level to write business cases, or some other sinister reasons.

One would squirmed even to think the future fury reactions of councils and their peak bodies when future rate caps can be further increased and efficiency factors integrated in the rate capping formula. Does LG serves in the interests of councils and the peak bodies first before local communities - the new black in LG?

**Conclusion**

What this inquiry’s submissions and reports have not revealed are the legacy leadership cultures and systematic issues in councils and their peak bodies that are blocking the rates capping policy and compromising its long term implementation sustainability. Concluding the inquiry findings, based on summarising the common themes of submissions (which are mainly from stakeholders who oppose rate capping) at face value, lacks substantiation of deeper analysis to identify the real causal barriers to rate capping and consequently system efficacy improvements.

If councils are tactically persistent to discredit and remove rates capping, they may as well include the LGPRF improvement program and cancel the modernisation of the LG Act. They can also consider restructuring the State Government, to remove the LG portfolio. These cancellations and state government restructuring would allow councils and peak bodies to:

1. continue their legacy status quo and without a good governance conscience when monopolising and dictating municipal service provisioning and pricing;
2. jeopardise very quickly rates affordability and equity for many Victorians.

Then the rule of law principle of good governance, which relates to complying to the LG Act, can be bent, not breached, to fulfil the wishes of the exclusive few before interest of local communities first?

Cutting to the chase, the policy is working now. If councils and their peak bodies redirect their energies and resources to ensure the success of the policy, there will be greater systematic improvements and many longer term benefits arising from rate capping.