

TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Subcommittee

Inquiry into rate capping policy

Frankston — 5 April 2016

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Mr Joe Lenzo (affirmed).

The CHAIR — Now, do you want to make a short presentation?

Mr LENZO — I do have a short presentation.

The CHAIR — Okay. Thank you.

Mr LENZO — I have to start off by saying thank you for the opportunity to make this presentation on the rate capping policy, and had I known that I was going to have parliamentary privilege, I would have submitted my initial documents that my wife made me change. So, anyway — —

Mr DALLA-RIVA — Send another one.

Mr LENZO — As a pensioner, I would love to have a special CPI basket of goods rate, as do the councils, as my costs go up much faster than the base that my pension is based on. Utilities, home repairs, groceries, health insurance, reduction of the government contribution to health insurance and cost shifting far exceed my pension increase, so I find little sympathy actually with that argument on the councils' part.

I think one of the things, as I hear everybody talk about rate capping, is: why do we have rate capping? It is not necessarily because of the rise in rates. It is not because of the rise in rates. The bigger problem is without a doubt the budgeting processes followed by most councils, which we are validating with our local government consultation audit currently underway by Ratepayers Victoria and the OurSay social media platform. Ratepayers Victoria would be happy to share our results to enable continuous improvement.

Regarding practices, it is early days, but the audit results are dismal, with an overall rating of 1.7 out of a possible 6 in terms of council consultation. The budget process is completely void of any of the principles of the CAT, where 'C' is consultation and collaboration is the purest form of 'C'; 'A' is accountability and 'T' is transparency. Generally the budgeting processes councils employ are arrogant, without collaboration, consultation or engagement. Therefore ratepayers have no confidence that the council is making the right financial decisions.

The process goes like this. Councillors and officers lock themselves up in a conclave and invest thousands of hours in 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 public is not allowed to ask questions. The draft budget then goes to s223 submissions. Submitters are allowed 3 minutes to make a presentation but can ask no questions about the budget. The s223 committee does not consist of all councillors. Seldom are any items from the s223 submissions included in the final budget. I know that because I did that audit for five years on Mornington Peninsula shire. That is changing on Mornington Peninsula, by the way. I do not have time to talk about it.

Then the 276-page budget document is presented to council and approved. 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, and that is the primary reason we have rate capping today, not because of the rate increases. Councils need to move to 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 budget or public budget, and it enables taxpayers to work with government to make the budget decisions that affect their lives.

To keep within my 5 minutes I have not presented the source data for these statements, but they are included in the handout presented.

A large number of local councils in Australia are financially unsustainable in the long run, and most councils confront a massive local infrastructure backlog, regardless of rate-setting regime in each state. 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 New South Wales, it would thus seem that the New South Wales local infrastructure backlog cannot be ascribed simply to rate pegging. Revenue regulation through rate pegging prevents the abuse of monopoly power in the provision of basic local services. Rate pegging assists in controlling cross-subsidisation 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. 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.

Rate pegging had worked well, compared with other Australian local government jurisdictions, if its primary aim was to constrain rises in council rates. 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. 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 scrutinised, which may enhance councils' accountability.

Rate capping will help solve many of the sins of state and federal government statutory and overall cost-shifting tactics. This will 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. We would expect that the MAV will jump on board soon. My question is: where have they been for the last 10 years on issues like this? The rate capping process is already producing positive results and causing local government and their lobby groups to look at things differently. Rate capping has already triggered a paradigm shift in how local government looks at budgeting and the services it provides. Those councils and lobby groups with myopic vision will have to have corrective brain surgery to survive rate capping.

Applying for a variation to the cap should not be a problem. As all councils claim to have best financial practices information at hand, all they need to do is use this information to present a good business case and community support. It is not an issue of getting the community to vote for a rate increase; it is simply a matter for community engagement to understand the need. It is interesting to note that many councils have already dropped out of the rate capping variation process as they do not have the business plan or the community support to move forward. Almost all council complaints about the restrictions of rate capping and community expectations can be resolved through this process but it requires community engagement.

The US model of funding for major new infrastructure, as you may know, is that council cannot just build a pool and then charge you for it — they have to go out and get the public to vote for that pool and to vote for the municipal bonds over 20 years. So it is a matter of community engagement. If you want a pool, you have to vote for it. If 49 per cent of the people vote for it, they do not get a pool, but they just cannot go out and slap it on like they can here, so the variation process does enhance responsibility.

Council cost shifting, a question that you alluded to, is a 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 of ratepayers by playing financial gains rather than addressing the issue. I suspect that my great Mornington Peninsula council is embarking on that as we speak and that when ratepayers get their bills this year they will find out that their rates have gone up 10.5 per cent, not 2.8 per cent. I can tell you how I think they are doing that. Thank you for listening. I am now ready for your inquisition.

The CHAIR — Thank you for your thoughtful presentation and the research that has gone into it. I should pick up on two points. One, which as you correctly pointed out I alluded to earlier, is that it makes little sense if rates are capped over here and councils recoup costs over there, either through, as you pointed out, special charges — my point is also standard charges or other charges — —

Mr LENZO — Usual charges

The CHAIR — Well, even more parking fees or whatever.

Mr LENZO — Yes.

The CHAIR — Or, thirdly, the issue, which we alluded to earlier in the day, of debt. It makes no sense to jack up debt at a council level, which is a deferral of charges onto future generations potentially.

Mr LENZO — Yes. I agree with those statements, and what I have heard, and of course our council and officers are now locked in conclave so we do not really know, is that they are going to roll the municipal charge into the rate, which is where it is anyway really, based on rate capping, so they will take the standard rates and they will take \$180 per year per person, which is a regressive tax of course, and they will roll that into their rate

and change their rate on capital improved value to account for that. So they will get rid of the municipal charge essentially, but they will have a garbage charge of 100 bucks. So when you sort that all out, if the garbage charge is an add-on, which I think is where they are trying — and this is where I talk about cost-shifting by councils — then we are going to get screwed with a 10.5 per cent increase and not a 2.8 per cent — —

The CHAIR — In effective rate.

Mr LENZO — Effective rate, exactly.

The CHAIR — However it is denominated.

Mr LENZO — So they will say, ‘Oh, we got rid of the municipal charge; you’re not getting that anymore’, but we are because they are going to bind it into the rate. Hopefully they are not going to do that, but that is my fear. I have alerted the ESC to that and hopefully they are going to take that on board if those kinds of things happen. So, yes, I am concerned about all of those cost-shifting issues, not only from the federal and the state government but also within the council itself.

The CHAIR — The second point is you alluded to a local charging change, and that is the one you just referred to.

Mr LENZO — Yes, that is the one I am talking about. If I could just talk about the Mornington Peninsula, I think that the Mornington Peninsula would not have to raise rates for 10 years. You heard Alan talk about the million-dollar loss of the pool, which needs to be corrected, but we have something like 4.5 million automobile visits per year that get to park all over the place for free. I have done an analysis. We can collect 10 million bucks from tourists and not charge our ratepayers a nickel and then we as ratepayers will not have to clean up after the tourists when they leave; they will pay their own way. These are things our council needs to look at in terms of how they are going to raise revenue legitimately. So those are issues I think that can overcome rate capping.

I know that a lot of councils do not have that opportunity. Believe me, my heart bleeds for these poor guys up in the north where on an \$800 000 house their rate is five times what it is in the city. I think that is where the state government has to jump in and help.

The CHAIR — There are fiscal equalisation methods in place now —

Mr LENZO — Yes.

The CHAIR — but the question of whether there should be more is a legitimate one. The other point I wanted to get to is this issue of participatory democracy. I agree with you on the principle, but how do you see that actually applying? If I can be unkind for the point of emphasis, some councils go through a process and that does not necessarily overly inform where they actually end up. Equally I am less than convinced about the employment of consultants to date.

Mr LENZO — Yes, I agree with that. Take New York City, for example. What New York City has done, and this is not a huge amount of money in terms of their budget, but they have basically taken 25 million bucks and turned it over to the community to spend. So the community can decide what they want to spend that 25 million bucks on. As I mentioned again in the budgeting process, if I were to do participatory budgeting, the community would be allowed to sit in these conclaves and maybe not ask questions but would be able to listen to these budgeting discussions. Then they could go to their councillor with what they thought needed to be done and in fact possibly they could do a lot of this consultation before they do the budget.

Now what we have started to do for the last three years at the Mornington Peninsula is we have actually had pre-budget submissions. The first year they did it the budgeting process was already underway so it was really too late. The second year they did it we were allowed to make submissions, just like the s223 basically, except before — —

The CHAIR — Tell us what the s223 is.

Mr LENZO — The s223 submissions are where after the budget is in they hold an s223 meeting where you can go in and make your presentation on the budget. That was where I said you cannot ask questions but you get 3 minutes to say, ‘You should build a footpath’ — —

The CHAIR — Or, ‘You shouldn’t build a footpath’.

Mr LENZO — ‘You shouldn’t build a footpath’. Whatever, yes. So what they have done is the second year they did ask for that but it was hard to get any feedback. This year I think they actually had the consultation down and we are working diligently to get them to be accountable by telling us what items were submitted, what got into the draft budget, what did not and why they were not there. So I would say that that is probably a basic form of it that is relatively easy to put. But it really just means that you really get the people involved in developing the budgets. Now I am not going to be happy with every decision they made, but I either have an opportunity to know what those decisions are, what services they are making and that sort of thing.

Mr LEANE — Thanks for your evidence. Tell me if you do not think you need to comment or want to comment, but a lot of councils have given us evidence around an increase in their rate base, as in the growth councils, is more of a problem than a help. With Nepean and coming from Safety Beach — it has been a while since I have driven through there — but I have noticed in the last decade that area has actually been quite developed.

Mr LENZO — Yes, it has.

Mr LEANE — Would you like to comment? Do you actually think it is a fair thing for councils to say that it is a problem? Because before, increasing the rate base used to be deemed as a good thing.

Mr LENZO — Yes.

Mr LEANE — But now we are getting evidence it is a problem.

Mr LENZO — I can see where it could be a problem. I see what is going on on the peninsula of course. We are getting into more dense units — you know, where you had a duplex house, you can get 32 units in now — and of course that raises revenues. I do not see how that causes a big infrastructure problem because you are getting the same thing on the same place. I am not familiar with the real problem, but I can see where it could be a problem. But there again, I believe that can be solved through a rate variance — through going to the ESC and saying, ‘Look, here’s — —

If you have a good business plan — I have done lot of business plans in my life, and I tell you what, I have put business plans together that are not as thick as that one you have got for a million dollars — and I think that if you present a good business case and you have done your consultation and you have got the community on your side, it is all feasible, to build swimming pools and these centres and all that. As I said to begin with, I do not think it is the rate increase because once my council has given me the information I need to evaluate what they have done I can think of two or three projects I would probably jump on the board and wave the flag to get the money. So I think that is what it is really all about — just getting the community engaged to a point where they feel that they are comfortable with it, and they would probably be okay with a 5 per cent increase where 3 per cent of it goes away in five years or something like that. I just think it is a good thing that has happened. It is going to be hard sorting through it to get it right. You know, it is going to take a while to get it right, but I think it is going to change a lot of thinking.

Mr DALLA-RIVA — Thanks, Joe. I am sort of curious, from a more personal observation, your enthusiasm for this issue.

Mr LENZO — Yes.

Mr DALLA-RIVA — It is personal — you are not part of any group?

Mr LENZO — Well, I am a member of the Mornington Peninsula ratepayers group — I am not on the board or anything — and I am also a member of Ratepayers Victoria, and I have been working on the audit, the consultation audit, which we have just sent out. I just get involved in those things where they interest me and rate capping because I have been involved in the Mornington Peninsula aspects of it. When the rate capping came up I made my submissions and got involved in it.

Mr DALLA-RIVA — In regard to your submissions — they are quite detailed, through the use of the English language occasionally, but underlying that there is some good evidence that you can extract out. I think one was the participatory democracy.

Mr LENZO — Yes.

Mr DALLA-RIVA — It was almost Rudd sounding.

Mr LENZO — Rudd sounding?

Mr DALLA-RIVA — Yes, Rudd sounding. So you have obviously given deep thought to this over a number of years. Have you made any submissions to the ESC? Because on one hand you are talking about using the rate capping to avoid waste, and yet we have just seen the submissions and again councils have gone down the path of verbose documentation — —

The CHAIR — Perhaps led by the ESC itself.

Mr DALLA-RIVA — Yes, in defence of the councils, perhaps led.

Mr LENZO — Yes.

Mr DALLA-RIVA — Have you provided any advice to the ESC, or has it not sought public — —

Mr LENZO — No, they have been very involved with the public. The Essential Services Commission, is that what you are saying?

Mr DALLA-RIVA — Yes.

Mr LENZO — They have been extremely involved with the public in developing this. Some of the things that got into their documents were actually things that we had proposed. So we have been pretty involved in it. You know, on that paperwork, I do not know what that is all about, and hopefully that can be shrunk, but every council says, ‘Oh well, we have best practices, financial information blah, blah’ — but listen, I have probably hidden more financial money than any council guy could do in my career and switched it from one account to another. That is how I know how all this stuff works — but legally. I was not sending any money to Panama, by the way.

Mr LEANE — That was the next question.

Mr LENZO — What was I saying now? I have lost — —

Mr DALLA-RIVA — No, no. It was about the ESC.

Mr LENZO — Oh, yes. We have been very involved with the ESC, and they have been very concerned about what the public has to say on this matter.

Mr DALLA-RIVA — Have you provided information or evidence to them?

Mr LENZO — Oh, yes. I have, yes.

Mr DALLA-RIVA — Can we have a copy of that?

Mr LENZO — You have it; it is the same one I gave you.

Mr DALLA-RIVA — It is the same?

Mr LENZO — Yes, 40 pages or something like that. I tried to keep it short.

The CHAIR — There is another submission here, Richard.

Mr DALLA-RIVA — Yes. There is another one attached, sorry.

Mr LENZO — Yes. It is a submission that I made —

Mr DALLA-RIVA — Yes. That is all right if it is here.

Mr LENZO — on the second round, so it is there.

Mr DALLA-RIVA — Thank you.

The CHAIR — Can I thank you very much for your evidence?

Mr LENZO — Oh, yes.

The CHAIR — I think it is a very helpful antidote to other material, and we look forward to having further engagement with your group and with Mornington Peninsula as well.

Mr LENZO — One more thing, I am more a conceptual issue person than I am crossing t's and dotting i's.

The CHAIR — No, no. With concepts, it is very important to have a framework.

Mr LENZO — Thanks a lot for the opportunity to present.

The CHAIR — A pleasure. Thank you.

Committee adjourned.