

East Gippsland Shire Council

2019/20 Draft Annual Budget

REFLECTIONS & COMMENTS

PART 1 East Gippsland Shire Council budget: A review is needed

PART 2 Supporting Material

Appendix 1 Comments from Peter Nixon

Appendix 2 How are EGSC Rates Established?

John Dahlsen LLB MBA

10th May 2019

If you wish to obtain a copy of an earlier paper:

“Local Government: Is it Broken?”

Please request via email: jdahlsen@dahlsens.com.au or mb: 0418 373 819.

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Dear Gippslanders,

Re: East Gippsland Shire Council (EGSC)

I wrote a paper in April 2019 titled 'Local Government: Is it Broken?' And to my surprise the paper generated much interest.

Subsequent to that, EGSC issued its DRAFT 120+ page 2019/20 Annual Budget substantially increasing rates. We were all stunned. There was universal sympathy for the farmers who have copped during a period of deep distress the highest percentage increase of 12.09%.

Since 2005 EGSC rates have without any explanation or concern increased 48.6% double that of wages 24%, prices 20% and inflation 19%. This rate increase will cause huge damage to our farmer and other ratepayers who generate our economic activity. Notwithstanding the Shire continues to build its empire and people and will not curb its expenditure even though it is easy to do so and it should be done now. It is irrelevant that the EGSC Budget process started in February and involves much time and resources this is no excuse for denying material and urgent change now. Any delay will be seen as political. In addition the culture in the Shire continues to be toxic and unpleasant and needs to change unlike other Shires including Wellington.

I was appalled with the situation as with others and set about writing a paper – Part 1 being Recommendations and Conclusions and Part 2 Supporting Material to these Conclusions. Part 1 is seeking a freeze on all EGSC rates and apply a 50% reduction to farmer's rates after the State Government 20% subsidy is applied. The overall freeze is needed to compensate for the huge rate overcharging that has taken place over the last 15 years. The Shires revised 2.5% recommendation is a token insult; it does not address the fundamental problem.

I also seek the Council engage external Consultants to address the myriad of issues the Shire is facing including the toxic culture that has been entrenched in the Shire for years.

Part 1 was published in The East Gippsland News Wednesday 8 May and in The Bairnsdale Advertiser Friday 10 May 2019 together with comment from The Advertiser. I now attach the paper 'EGSC 2019-20 Draft Budget Reflections & Comments Part 1 & Part 2'. If you would like the April paper 'Local Government: Is it broken?' please email jdahlsen@dahlsens.com.au or call Mb 0418 373 819.

My simple objective it is to create debate and discussion. You may not agree with all of my material but that is not the issue; we want to engage the Council in conversation. Everyone who has been in contact since I published agrees we desperately need reform. The difficulties have existed for years and we need action now. Reform is too difficult internally, the Shire needs external help, particularly as the problems are so long, entrenched, wide and deep. Disruption is needed now, just as we had when Peter Nixon was Administrator reducing staff to 35 as against 340+ today.

I welcome any comments on my material via email (jdahlsen@dahlsens.com.au).

Regards,

John Dahlsen.

PART 1:

EAST GIPPSLAND SHIRE COUNCIL BUDGET: A REVIEW IS NEEDED

My Recommendations

The 2019-2020 rates be frozen at the prior year level, save farmers rates and pending a long dated inquiry (which will take time and may be unsatisfactory), be reduced by 50% after taking into account the recent State Government announcement of a 20% reduction in farmer rates. (Part 2 Appendix 2 of this paper has further detail and explanation on how rates are calculated)

It would be very desirable to seek the assistance of external Consultants to help undertake much needed, long overdue reform.

Accordingly it is recommended that EGSC engage a consulting firm with fees of up to \$750,000 to examine the strategy and organisation of EGSC and in particular productivity and efficiency of services being undertaken, seek what is realistic and in the interests of the community and our ratepayers.

CONSULTANTS SHOULD CONSIDER THE FOLLOWING ISSUES

The EGSC Strategic Planning document is very long (120+ pages), prescriptive and there are some big, deep, hidden issues:

- There is no breakdown of corporate services usually the activity that drives change and innovation?
- Who looks at the organisational structure to ensure it is appropriate and dynamic?
- Where / who is the driver of productivity and efficiency?
- Who reviews and understands the culture of EGSC when we know there are in some parts, departments, silos, staff who are toxic? It seems process overrides outcomes;
- Why is it that some staff are known to be very difficult?
- Is the HR function addressing these issues and is there a culture survey undertaken to better understand this?
- Who is addressing the issue of outsourcing and insourcing to ensure the best outcomes are reached?
- On most organisations staff numbers are reducing and technology increasing. This does not appear to be happening with EGSC;
- How does EGSC Enterprise Agreement assist, inhibit, enhance or restrict the above?
- How do you deal with the issue that Governments fund programs for a limited period

leaving EGSC to carry on the project because often the service is difficult;

- Why doesn't EGSC develop more of its own indicators which are more relevant and not so shallow?

The difficulty for the Shire is the 120+ pages of material is a mismatch of the broad and detailed information that for some confuses if not obfuscates. The document is trying to appeal to a number of different audiences such as:

- Statutory reporting requirements
- Local Government regulations
- Local Government Better Practice Guide 2014
- The community
- Rate payers

These different audiences have different information needs. These could be much shorter, simpler and easier to read and understand.

You cannot argue about the competence of the Finance Manager (Liz Collins) in producing this vast amount of information or the amount of time spent by Councillors and the Shire Audit Sub-Committee:

- The Audit Sub-Committee which comprises 3 Councillors and 4 independents (one of whom is Chairman), spends a huge amount of time on audit issues;
- It is quite a conventional structure where the internal auditor does the detailed work and the external auditor vets, checks the work and reports to the Audit Committee who in turn report to the Board monthly about actuals against budget and forecasts and quarterly on bigger issues and a bi-monthly process on the budget as work in progress.

We cannot criticise the Audit Committee or Council for time spent or commitment but they are not looking critically enough at the overall process and whether their reporting could be more meaningful with different reports for different audiences. Many corporates are going down this track.

Without criticising Councillors the audit budget process is very complex and difficult requiring Councillors to have rare and unusual skills to review. We need external consultants to sort these issues out.

MY RECOMMENDATIONS WERE BASED ON:

ECONOMIC POSITION

EGSC is in very good financial shape. On almost all metrics it is very sound and has the capacity to meet any short or unexpected demands. It has significant financial reserves including plenty of debt capacity and a good surplus.

STRUCTURE & PLANNING PROCESS

The strategic planning process is very detailed but within the detail, issues are obfuscated:

- a rigid and inflexible structure, for instance it has no ability to flex for materially changing economic circumstances,
- the planning, resourcing and budgeting is very inconsistent with the Shire's:

Mission

Goals

Resource Allocation and

Strategic Objectives

There is no strategic intent in respect to ratepayers other than to always charge the maximum amount of 2.5% on all rates and charges so that EGSC stays within the Labour Government Cap.

ORGANISATION

Each silo within EGSC is producing a laundry list of projects and activities so as between the silos there is no proportion. Within each silo there is no sense of priority, proportion, timing or benefit. The result is a long list of activities:

40 broad activities

16 major initiatives

57 other initiatives

The plans describe well the unique characteristics of the Shire but this stress is being placed on rate payers. There is a huge range of activities being undertaken with no sense of proportion or priority to take the stress from ratepayers.

The conclusion can only be if the Shire, in designing plans, is insensitive to the burden being placed on ratepayers. There appears to be no strategic intent in relation to ratepayers other

than to charge the maximum possible rate. There are surveys and research undertaken but there appears to be no concern about ratepayer's burden and capacity to pay.

The Shire is undertaking a number of activities on behalf government e.g. NDIS but it is clear that EGSC should not be undertaking some of these Government projects and it is not clear whether the activities are fully funded. In any event it is not clear EGSC is recouping all the indirect cost of undertaking such activities.

Local Government has not made a statement as to what will be the Shire's core role, what is essential, secondary, discretionary and utopian or a wish list. There is confusion about proportionality and the testing of the above. Not only should they be severely tested but there should be a review of a cost benefit, proportion, priority and timing.

POLITICS

The planning process highlights issues as to the relative power of the Councillors as opposed to the CEO and Management.

The planning process is so detailed and process driven that it is a serious challenge for the Councillors to have any real impact. There is a strong sense from management that this is the way it is always done and will continue to be done. Don't challenge. We, the CEO and management know best and we do not like challenges, changes or reviews as to the fundamentals of our processes.

The status quo is all powerful. The Shire is like a battleship, an immovable object that will not change, but resist change and see innovation as dangerous to our positions. We must protect the status quo.

We must be careful about criticising the Councillors as they are operating at a huge disadvantage. The Councillors lacks the resources, capacity and skill to truly challenge the CEO and management.

Councillors need support to be able to truly represent the community. Councillors are poorly rewarded for their time and effort, and the battles. On the one hand the Councillors serve the community and ratepayers and have to counter the power of CEO and management.

The CEO and management are in a bubble or a very comfortable castle surrounded by a very deep and wide moat where it is difficult to force any change because the bubble might burst or the castle challenged. So the community and ratepayers should do whatever they can to support Councillors in achieving the fundamental changes that are needed.

It is highly likely that some of the issues raised within will exist in many other councils.

PART 2: SUPPORTING MATERIAL

EGSC BUDGET

Our councillors, as our elected representatives, have a huge responsibility. Our Councillors are not well rewarded for the burdens of office and the time spent looking after our community. Our Councillors effect our lives and economic wellbeing in a myriad of ways.

So I appeal to our Mayor, our Councillors and our CEO to think deeply about our difficult circumstances. I am sure they will:

Cr. Natalie O'Connell (Mayor)	Cr. John White (Deputy Mayor)
Cr. Ben Buckley	Cr. Richard Ellis
Cr. Marianne Pelz	Cr. Joe Rettino
Cr. Mark Reeves	Cr. Jackson Roberts
Cr. Colin Toohey	Anthony Basford (EGSC CEO)

I ask our Shire leadership team and those reporting to them to undertake a major review of the EGSC Plan for 2017-2021 to consider the following. The EGSC Vision including its Mission Statement, Values, Goals and Strategies and flowing out of these:

- Supporting Strategies and Plans
- Resource Plans
- The Annual Action and Business Plans
- The Budget

This EGSC plan is underpinned by SIX Primary Goals:

1. PROVIDING A RANGE OF SERVICES
2. SAFETY & CLEANNESS
3. MINIMISING DISEASE, NOISE & POLLUTION
4. PLANNING
5. REPRESENTING LOCAL COMMUNITIES
6. RESPONSIVENESS & SOUND GOVERNANCE.

EGSC undertakes Surveys (agree, disagree and neutral) to ascertain the interests of the community ranked in order of appeal.

While it is useful in ascertaining attitudes and ranking, it is flawed because there is no cost / benefit or priority in pursuing these plans.

The Shire does not have unlimited or infinite resources, so there should be cost / benefit analysis to enable the ranking and if this was done there would be serious change. The same applies to the Values Statement. Nevertheless there is some useful material but with serious caveats.

The Corporate Planning framework is extraordinary detailed but:

- lacks a sense of proportion,
- insufficient cost / benefit analysis,
- insufficient weighing up of relative benefits and costs of a huge range of diverse and varied programs ,
- makes an assumption that there will be no change in the environment so the Shire locks itself into a process which is difficult to change.

Is EGSC straying from its core principles with a lot of fine words, emotions and statements but many would disagree with some of this?

The EGSC should establish what its core activities are, followed by secondary and discretionary activities.

The consequence of the Shire planning is that EGSC rates have increased from 2005 by 48.6% against inflation (19%), prices (20%) and wages (24%).

Strategy planning is dynamic and if not so treated opportunities will be missed and damage its constituents by not being able to make a material adjustments when things change significantly (For example the current crisis with farmers).

Strategy planning creates false expectations and appears as a “be all and end all” which it is not. The answer is not more strategy planning but to create a position where change is possible and where it is highly likely to occur. It is not static process.

Flexibility, ability and willingness to change is in the interest of the Shire constituents whether it be the community or the rate payer.

If the discretionary and many of the secondary initiatives were tested by the community against the rates required to fund the answer would be very different.

To repeat, the values of:

ACCOUNTABILITY

RESPECT

INTEGRITY

INCLUSION

RESPONSIVENESS

are very noble and fine behaviours and values but note that nowhere does it address the welfare or interests of ratepayers who fund 70% of the budgeted 2019/20 income.

The interests of ratepayer's should be one of the main goals as our ratepayers farmers, business and residential workers are a critical part of our community not just providers of money but constitute a large number of our community driving employment and economic activity for the benefit of us all.

EGSC GOALS:

STRONG COMMUNITIES

- EGSC is not a leader in developing an inclusive and vibrant community which the people are proud of.
- It is not just our farmers in distress but the businesses who depend on them who are materially struggling.
- EGSC acknowledges there is a high level of socio-economic disadvantage creating many issues needing to be addressed. Fairness in respect of socio-economic and disadvantaged must include ratepayers.
- EGSC is destroying the connection and inclusion in our so-called vibrant community.

LIVEABLE REGION

- Our region is not enviable partly due to EGSC.
- EGSC has a great disadvantage as it is the second largest Shire with 21,000 km² with huge infrastructure demands to support this including roads, bridges, drains, footpaths and lighting. This puts massive pressure on EGSC and its finances.
- EGSC works program involves \$40.6 million which is a very significant amount.
- Further 83% of the land is in public ownership where no rates are payable.
- EGSC is also facing increasing waste management costs as a result of China actions.

- Some of this should be funded by the State not by ratepayers.
- Our State and Federal representatives do their best but the Shire is not facing up to and dealing with fundamental issues. Darren Chester has been particularly successful in gaining valuable grants and benefits much more than in previous years. Unfortunately Tim Bull is not in Government but historically was also successful.

GROWING THE REGIONAL AREA

- EGSC has to face significant issues. It is only recently that EGSC has improved its planning processes.
- EGSC has had a poor reputation in this area because it is:

Difficult	Slow	Bureaucratic	Process driven
Ridiculously risk averse	and	Always a problem finder	not solution provider.
- EGSC has huge opportunity to make improvements in this direction and there are some easy pickings.
- Does EGSC make enough concessions to attract new business and industry? The planning process would say otherwise.

SOUND GOVERNANCE

- EGSC spends 14% of every hundred dollars on governance. This is extraordinary.
- Governance is not outcome based but process driven. EGSC has lost sight as to why it exists and where it can create value. This explains why EGSC is so unpopular in the community.
- It is form over substance and EGSC misses the reality. It is rule and regulation based. It's our way or the highway. There is no attempt to segment the core, secondary and discretionary activities. The latter of which can be delayed or carried out over a longer period where ratepayers can afford it.

With many of its decisions the Shire places ridiculous demands on the community. There is no real sensitivity toward our citizens.

RESPONSIVE SERVICES

- The Shire is not putting the Customer first as business would understand this.
- Any feedback on individual issues raised with the Shire would expose serious service and staff attitudes.

- Would the Shire be game enough to provide feedback process on material interactions between the community and the Shire?

GENERAL

From the EGSC Mission and Value Statement, EGSC establishes five strategic Objectives and consequent Plans.

This is a stunning list of plans and activities. They are all very worthy and noble as individual projects but there are way too many and it is the underlying assumptions that need to be questioned.

From the broad to the detail, EGSC fails. It looks good but it is simply unachievable:

- There are way too many activities involving huge resources, planning and people
- There is no sense of proportion or priority
- It is simply a wish list, driven probably by staff in the individual silos, who simply put into the system their wishes and compete with the other silos for the best outcomes
- The plan creates a huge menu of activities which of themselves must create a lot of dysfunctionality
- There are some activities that are mandated by Government but that is no excuse for the lack of reality in relation to the projects and the planning involved
- Government often seeds projects for a limited period. The recipient often expects these to continue but the Shire has to fund them. Many are not core to the EGSC.

What is really needed, is a cost / benefit analysis where cost is measured against outcome. By this approach you can compare one project with another and create a sense of importance, relevance, priority and strategic outcomes.

With the lack of proportion or comparison the Shire firing off in all directions and limiting its performance and effectiveness.

Whilst appropriate to test the expectations of the community, it is important to test the attitude and needs of ratepayers. Ratepayers are simply a source of revenue to be used and abused by EGSC with no understanding of their frustrations.

The planning process is flawed but might make staff comfortable with humanitarian objectives. But what about the community and the ratepayers. It explains why there has been a huge growth in number of the Council employees. You need more people to administer these plans.

EGSC needs to review the planning process, all assumptions and conduct a wider discussion with the community and ratepayers about what their core, secondary and discretionary objectives should be.

The difficulty for Council is that historically the CEO and Management are too entrenched, strong and rigid for our Councillors. This is the way it has been done, don't interfere. We have been here a long time and we know what to do and what is important.

EGSC is like a battleship or an immovable movable object. It is extremely difficult to influence.

There are a huge number of regulations and planning processes that make it difficult for Councillors to be effective and the imbalance of power between the CEO and Management, and to Councillors does not help.

The CEO has his own staff to drive and deliver his own agenda. Councillors have no independent source for research, library or advice. It is all contained within Council staff. Councillors are heavily regulated in how they relate to staff. Some aspects of the Code of Conduct are a threat to democracy and the free flow of information and ideas. It's a fake democracy as compared to Federal and State Governments. Many aspects of the Local Government are hypocritical on the part of the State Government.

STRATEGIC RESOURCE PLAN (SRP)

The Strategic Resource Plan contains all the words you would expect:

Stability	Risk	Disclosure
Borrowing Capacity	Surplus	Future Generations

Similarly the financial indicators are all predictable but there are some important disclosures:

Surplus \$14 million (prior year \$0.641)

Rates / User Fee concentration 70% (ie. rate / revenue).

Given the rate dependence the SRP does not:

- review the ability of rate payers to pay
- disclose huge historical increases
- consider the impact of its rates and where 70% of its funding as follows:

Rates & Charges	\$58,629K	57.2%
Fees & Fines	\$ 1,921K	1.9%
User Fees	<u>\$11,294K</u>	<u>11.4%</u>
Total	\$71,844K	70.5%

Even with the Labor Government's wise cap of 2.5% the Shire revises the rates to stay just within the maximum cap of 2.5%.

Staff numbers are projected to flatten but will this happen? With past experience, the answer would be probably not.

Against the surplus of \$13.9M no new borrowings are proposed.

The prior year operating cash flow was \$17M against \$29M for 2019/20 is very sound.

Total capital work is to remain \$40 million but forecast to drop to around \$30 million in subsequent years but will this happen?

Of the prior spend of \$30 million or the capital works of \$40.6 million, only \$8.5 or \$9.2 is recovered by Government grants.

Only \$0.5 million has been set aside for drought relief. The Shire of Wellington has set aside \$1 million.

Note only are some activities are legally mandated by Government and the Shire provides the rest out of its own resources.

There is no real cost / benefit undertaken so we are unable to assess cost / benefit against community needs.

So it is all words. When lining up the five strategic objectives, EGSC is actually working against some of these with an extraordinary long list of activities, pages and pages of projects. The new CEO acknowledges there is a huge range of new enhanced projects and services for delivery in the coming year. The Council has endorsed continuing its significant capital works program. It is not just capital works but over a hundred services.

The CEO states it has a role to focus financial sustainability through sustainable cost reductions and new income opportunities to protect existing services. Note there is no sense of core activity that acknowledges that most of Council services are not legally mandated. There are some fine words about providing value for money and in line with community needs but is this actually happening? The Shire is not prioritising resources.

Projects contain no assumptions about cost / benefit. This is flawed. There should be a greater staging of some of the projects to take the pressure off rates.

Category of Initiatives	Cost \$M	No. of Services	No. of Indicators	Major Initiatives	Other Initiatives
Strong Communities	8.4M	12	4	4	16
Liveable Region	26.8M	12	3	6	13
Growing Regional	2.5M	5	5	3	13
Good Governance	-(9.5M)	4	1	0	8
Responsive Services	7.5M	7	7	3	7
TOTAL	35.4M	40	20	16	57

This is an extraordinary list of activities = 40 in each of the categories with 16 major and 57 secondary issues requiring a total spend \$35 million. This is great for the non-rate paying community but what about the funding ratepayers? Clearly ratepayers would have a different list.

Corporate services at \$13M is extraordinary and contribute to the huge complexity of planning and the vast range of different activities. This requires a huge number of employees. The governance cost \$3.5M with 41 full-time equivalent or 8 part-time. The CEO cost of \$1.1 million with eight full-time and part-time equivalents.

The budgeting process is designed to maximise projects and the number of employees involved. There are 120+ pages of it but there is no mention of the funding stress.

SOME BACKGROUND FACTS

The population is currently 46,142 and is forecast to grow relatively slowly:

- We have the highest level of unemployment.
- Our population is aged with 36.1% over 60 compared to the Victorian average of 21%.
- 6.8% have a disability as against 5.1% for the State. 2.9% are aborigines and Torres Straight Islanders as opposed to 0.08% for Victoria.

Our median income is \$37,835 which is \$10,000 less than the State average.

We have 24,842 dwellings:

- We have a huge number of vacant premises and this will increase as the economy falls. This both directly and indirectly puts a huge pressure on ratepayers.

Gross regional product is 2.304 billion. Tourism generates \$138M with the number of international visitors rising to 39,000 p/year a significant increase on the prior year. 539 planning permits were issued which is not a great number.

East Gippsland as opposed to other shires requires many more programs to deal with the above issues.

Ratepayers compared to other Shires are thus suffering a greater burden. There is a huge imbalance between those with resources and those without.

Inevitably EGSC humanitarian budget is unfair on ratepayers. The very people who are providing economic activity and employment are also suffering and there are humanitarian issues associated with them but this is not recognised. It is easy for those seeking humanitarian support the programs without understanding ratepayer needs.

Note our ratepayers are a significant number in our communities. Our farmers and businesses generate huge amount of economic activity and employment.

Some intuitive information which is not backed by evidence:

- Residential rate payers carry a large burden with the rates;
- Non-residential rate payers are probably about 15-20% of residential rate payers;
- There is a very high proportion of professional farmers as opposed to hobby farmers;
- Some hobby farmers are classified as farming rate payers and have very significant homes on their property relative to the value of the rest of their farm;

- Some farmers with large irrigation rights are coping quite well in the current crisis;
- Many believe that the farm house and curtilage should be rated, not the broad acreage.

RATE REALITY FOR BUDGET 2019 – 20

EGSC has increased the rates by \$3.4 to \$6 million or 8.60%. The dollar rate has increased for all is 1.99%. But the increases have been disproportionate:

Activity	No. of Assessments	% Rate Increase	\$ Share of Rates	% Share of Rates	% Capital Value Increase
Residential	26,969	8.67%	\$32.4M	80.0%	+ 6.55
Commercial	2,053	5.32%	\$ 5.7M	13.1%	+ 3.27
Farming	2,706	12.09%	\$ 5.6M	12.9%	+ 9.91
TOTAL	31,728	8.60%	\$43.272M	100%	+ 6.67

The EGSC decides subject to the Local Government Act what the appropriate contribution will be, having regard to the category but it can alter this. It does not matter where the land is situated once it is in any category it must be consistently rated.

The council's differential rate depends upon an equitable contribution.

The shires allegedly decides with regard to the needs and uses of:

INFRASTRUCTURE TOURISM PHYSICAL BEAUTIFICATION
 EMPLOYMENT SERVICES THE COUNCIL PROVIDES (IN PLAYING GOD)

It needs a drastic review of rating of farms, but this is not the only flaw.

Council depends on Government for grants as follows:

Federal \$22M 88%
 State \$1.9M 8.9%

We can probably thank Darren Chester for the increased Federal contribution but note that Tim Bull is not in Government.

There has been a huge increase in the operating grants to the Shire from Government but mainly Federal, an increase of 75%.

CASH FLOW IS STRONG

The available cash flow is \$29M compared to \$17.1 in the prior year.

The works program for 2019-20 is the same amount of around \$40M for 2018-2019.

All of the financial indicators for the 2019-20 year are strong.

The budget does not reveal any contingencies or reserves except of course, the surplus. It is surprising that even in a one-year period there are no such disclosures. No doubt there will be some built-in contingencies but these should be disclosed.

Budgeting is not a finite art and there should be some flexibility for seasonally and unexpected events.

WHAT IS THE SITUATION WITH OUR RATES?

To repeat, it is quite extraordinary that rates since 2005 have increased 48.6% whilst the rate of inflation has been 19%, prices 20% and wages 24%.

How can EGSC justify placing a double burden on the ratepayers as against inflation, prices and wages. It has no logic. No wonder the Labor Government moved to cap rates at 2.5%. But the damage has been done to the very people who are generating economic activities in our community.

The damage is compounded by the worst drought some say in living memory whether it be a 1 in 50 or a 1 in 100 event. The commencement of the 2019 year has been the worst on record.

We are now facing a trickle-down effect on the other businesses in the community and the following is happening:

UNEMPLOYMENT RISING

WAGES REDUCING

DEMAND FALLING,

VACANT PREMISES INCREASING and

BUSINESS REVENUE FALLING

But what does our Shire proposed for the 2019-20 year?

EGSC acknowledges that local government role and function has expanded in recent times as there is a mismatch between communities needs and how to fund the infrastructure and services. New revenue streams despite the CEO objectives are difficult to find.

The Shire is exposed in that it should only make available the right services at the right time in a coordinated and integrated way, not necessarily when the community needs these services but when they can be afforded.

EGSC is very proud of the hundred services it provides through its vast and disbursed area but is it proud of its treatment of ratepayers?

THE COUNCIL ARGUES

There is insufficient concern about the ability ratepayers to meet these rates and any sense of equity between the various ratepayers and is insensitive to the very people that create value in the community. No mention of any stress that might be occurring in particular rate category.

What is needed is a huge amount of research to understand this in greater detail.

RESOURCEFULNESS

The Council is inflexible, not innovative in terms of the values of ratepayers.

The council is not living by its own values, adopting behaviours that are inconsistent with its values. What is the point of values if they are not pursued? So why take any notice of these values?

LOCAL GOVERNMENT – BETTER PRACTICE & RATING STRATEGY 2014

REVENUE & RATING STRATEGY

No wonder the Shire's Planning processes are so flawed. This document suffers from many of the issues in this paper.

There is no attempt to require the Shire to establish what its core activity should be. The paper raises a number of issues about equity, but equity about what and for whom? The paper neatly bypasses the issue of core activity and what the role of the Council should be.

SHIRE VALUES

There are pages and pages of values and their articulation and how they translate into the plans and the resource allocation process but there is no mention at all of ratepayers.

Comments on each VALUE:

ACCOUNTABILITY	Councillors are not open and transparent with ratepayers.
RESPECT	Council is not showing respect toward ratepayers, at all
INTEGRITY	Council is not being honest & ethical with ratepayers
INCLUSIVENESS	Council is not engaging with ratepayers
PLANS	Ratepayers are not mentioned in the Council plans & how they will achieve strong communities
REGION	Many ratepayers are unable to meet their obligations, some so desperate there is loss of life and huge emotional distress
OPPORTUNITIES	Before promoting opportunities the existing communities should be considered
GOOD GOVERNANCE	Council is not open, welcome, inclusive nor transparent
CODE OF CONDUCT	Questionable constraints threatening democratic principles. It appears that it is more important for the council as to how they relate internally not how they relate externally.

I suspect the CEO, Management and support staff are totally controlling the business planning with little new input from Councillors. How much time does Council give to the 120 plus page report? This would even be a challenge to any subcommittee. What external or independent help is available to Councillors other than from the auditors? How involved are the auditors, internal or external in the budget process? It is dangerous for democracy that there is not a free flow of information from Council to constituents. History tells us that where information is constrained, abuse and corruption emerge. State and Federal politicians are more open and without Council press galleries there is significant opportunity to probe, push and criticise. Even with open seminars and questions, it would not be answered.

It is sheer hypocrisy of the State Government to use the Local Government Act to restrict the activities of our Councils and Councillors. Too much of the Shire's governance is about process and restrictions cutting across the essence of freedom and democracy. There is not a free flow of information and transparency. Councillors are way too controlled and constrained.

Responsive Services are dysfunctional. Customers and ratepayers are not satisfied with many services and the so-called benefits the Shire believes exist.

If interactions with the Shire were monitored and made public it would show an unhappy position. Historically, many staff are considered arrogant, inflexible, ridiculously risk adverse and not outcome focused. Process overrides outcomes. There needs to be huge critical change.

FUNDAMENTALS

A different approach needs to be taken.

In addition to a cost benefit analysis, we need to understand how many people benefit from the plans and where these plans can be delayed for better times.

- What is the benefit of cash flow or project or activity to ratepayers and the community?
- Can the Shire justify spending so much time and causing so much financial distress?
- Do we accept that we should put just as much pressure on the expenditure as on sources of income?
- Is strategy too rigid and is it recognising the present deteriorating economic situation?
- How robust are the assumptions underlying each of the services? Is it really value for money?
- Is the Shire truly being equitable between the various classes of ratepayers?
- Are there some services that should be provided by the State or Federal Government and if not terminated?

- Is the Shire being appropriately compensated for mandated State and Federal programs particularly after the initial grant finishes?
- Is the Shire testing the fundamentals of what is being done?
- Why can't some expenditure be delayed until economic circumstances improve?
- Is the community really having a say; or is it just lip service or a 'Claytons' process which is not really democratic?

WHAT SHOULD HAPPEN?

It is very difficult for Councillors.

Do they have the resources, experience, skills and research capacity to deal with some of the fundamental issues the Shire is facing?

The amount of change required is so profound that can the change be driven by Councillors when it appears EGSC own staff prefer the comfortable status quo and don't make it easy for Councillors.

So EGSC should appoint a Consulting Firm to undertake a strategic review to investigate the:

- formulation of strategy,
- organisation and its silos,
- drivers of productivity, efficiency and deliver better value for ratepayers.

These are all extremely difficult issues and neither EGSC nor council staff are able to do this.

I believe, around \$750,000 should be set aside to engage a tier one Accounting Firm to undertake this work. The Council would get a great return for this. It is likely that any tender for this work would be keenly sought because there is likely to be flow on to work with other councils.

WHAT SHOULD THE COUNCIL DO IN THE INTERIM?

The council should freeze all rates pending the Government review (a good, very limited and slow initiative).

Farmers should have a 50% reduction in rates after the State Government's 20% concession. This should help to keep farmers alive. The farmer rate reduction would cost \$2.24M. Plus an overall freeze on all rates will cost a further \$3.56M, plus a consulting fee of \$750K amounts to \$6.416M.

The Council should review all of its programs so that programs are potentially cut or delayed to fund this consulting work, the concession and freezing of rates.

There are plenty of services that can be cut or delayed until economic times improve. There is of course the surplus of \$14M and the cash flow generated of \$29M as against \$17M for the prior year.

WHY SHOULD THE COUNCIL DO THIS?

The ratepayers will appreciate the freeze and farmers the reduction. This could go a long way to improving relationships between the council and the community.

EGSC should not use the excuse of seeking recompense from the State Government, it has the capacity to meet these concessions.

REMUNERATION

The Council CEO's remuneration is not disclosed but by implication the CEO would be in the highest band of salaries being between \$290,000 and \$300,000. This needs to be confirmed as should the terms of the CEO's appointment, incentives etc. All corporates, including State and Federal politicians make such a disclosure, why should the Shire be any different? There should be full disclosure.

COUNCIL CODE OF CONDUCT

The Council Code of Conduct arising out of the Local Government Act highlights and entrenches much that is wrong with EGSC and why Local Government is broken. Instead of broad principles there are detailed provisions and as a consequence of this prescription you lose a sense of what is important and unimportant and loses sight of the objectives of the Code.

Copious provisions deal with remote issues and risks that could be dealt with by a statement of general principles.

In many ways, parts of the code are a threat to democracy, freedom of speech and action. The Council's role is so regulated that on many issues democracy would demand that the Councillors speak, break out and behave in ways unacceptable to the code. There is a higher principle of transparency, freedom, disclosure and the right of the community to know. Democracy is restricted and we know whenever that happens with a lack of transparency, that the rights of individuals in the community are ultimately diminished.

The community power in relation to the Council is so prescribed, controlled and dumbed down, that it shows a lack of respect and trust for individuals, the community and our Councillors.

The Role of Council and Councillors and its Values has no regard to the wellbeing of rate payers and treated as if not part of the community; they are simply a source of revenue to meet their expanding and uncontrolled decision making to build their empire and staff numbers. The consequence is that Shires have expanded exponentially in services, works and staff without any regard for ratepayer's interests with no desire to curb expenditure against the vision or goals and drive the explosion of non-core activities. Since Peter Nixon, our former Federal Member of parliament, was Administrator of EGSC staff numbers have grown from 35 then to 340+ now, an extraordinary increase.

Too much power is invested in the CEO and staff as opposed to Councillors. It is extraordinary that all contact with staff must be through the CEO. Thus as a consequence this protects staff and there is no opportunity for Council to gauge the effectiveness of staff. In our most successful organisations, Boards allow Directors to contact staff because there is trust, transparency and openness on all sides. Some corporates encourage Directors to talk with staff without any consent, rules or supervision. This is the case with JC Dahlsen Pty Ltd and Woolworths Ltd. To stop Councillors talking to staff is extraordinary; it is like saying you are not up to the role. Councillors are much smarter than that.

This blockage is a threat to democratic principles. Also it is open to the CEO and staff to together weaken the role of Council. The CEO in controlling all Councillor / staff interactions gives the CEO too much power. Of course the mayor should not have executive power or authority but there are occasions when it is highly desirable for a Mayor to intervene particularly where / when a CEO is not performing and require staff to talk. Staff recognise that they are a protected species and so little opportunity for Council to influence the decision making on their future as employees, their capacity and input.

Council need more resources to help them undertake their role. This is a subject in itself.

It is extraordinary that Councillor's mail is subject to automatic capture and monitoring by Council staff. No one in corporate life would accept this. Further Council accessing information from staff is extraordinarily restricted as is the CEO in managing the Code of Conduct when it is his/her behaviour that should be managed. With this principle why should not the Council see communication between the CEO with staff? What is the difference?

The late Media Principles requiring Councillors when communicating with the media to reinforce the effectiveness and cohesiveness of Council. In fact the EGSC is not effective and cohesive but divisive and the community has a right to know. It is a misuse of position to cause any detriment to the Council. If the Council is not functioning properly Councillors should speak out. Again a lack of transparency, openness which is a threat to democracy. In a good democracy this should be raised and known by the community.

It is extraordinary how many provisions are devoted to conflict. Much of this cuts across democratic principles and the right to protest.

Councillors should be able to agree to some but not all parts of the Code of Conduct. Councillors should be able to carve out what they do not agree with provided that is made known to the other Councillors and the community.

Councillor staff relationships are also flawed. Whilst Councillors should not manage, they should be able to probe management and administration and require the CEO to make changes in administration. Similarly Councillors should be able to direct the CEO to make staff changes, including appointing and terminating. If there is no consensus between the Council and the CEO, the Council is dysfunctional and that raises another set of issues.

Is there anything wrong with a staff member getting some private counsel by a Councillor? Again not to allow this is dumbing down and showing complete disrespect for the integrity of the Councillor and the needs of the staff member.

Council members should be perfectly entitled to criticise individual staff performance at council meetings. This should not be limited to private discussions with staff. Furthermore staff should know that staff performance will be discussed at Council meetings.

Councillors should not have to respond to queries raised by Council Officers. If they don't want to respond that is their prerogative.

Finally the CEO and staff in business and Government do not have such a definitive and prescriptive Code of Conduct.

There is so much wrong with the Code of Conduct that there needs to be a very serious conversation. In many respects it is a hypocrisy on the part of the State Government to sanction this Code of Conduct through the Local Government Act.

There is too much opportunity for the CEO and staff to work together, abuse their positions and work against the Council. There is little opportunity for Councillors to abuse their position

because they are restricted and controlled. So the issue is who do you trust most? On balance if there is to be any restriction it should not be on our Councillor elected on behalf of the community but the CEO and staff. Does the CEO and staff have such a prescriptive Code of Conduct?

The result of all of this is the community has little power and there is an imbalance of power between the community and ratepayers on the one hand and the CEO and staff on the other.

It is recognised that the Shire Enterprise Agreement may conflict with some of the above.

EXPLANATION

This paper has been written in haste. The writer commenced Friday 19th April 2019 and with shifting deadlines this paper is due today, three weeks later.

The consequence is that the writer has been unable to interview many people to tighten conclusions and opinions. The writer has not had any editorial or third-party support apart from his PA and Peter Nixon (refer Appendix 1). The relevance is that Peter was an Administrator of EGSC when the Shire then employed approximately 35 staff as against their approximate 340+ today. This is an important observation about the Shire. With Peter's experience as a Shire Administrator and as a National Politician of considerable experience, his views are relevant and very important to this debate.

So this document needs further work and may contain some inaccuracies and material that could be better expressed and structured.

Nevertheless the material substantially reflects the writer's objective of creating a conversation about EGSC to enabling others to have a point of view which may or may not agree with the writer which of course is healthy. It is hoped that EGSC will engage in a discussion about reform. One way of achieving that would be in an open forum, independently chaired, where others could express their point of view.

I've asked The Bairnsdale Advertiser to give some context to the material in Part 1 of this paper only which will appear in the same edition. I felt the best way to lay out my reasons for reform was in an advertisement as our newspapers are unable to cope with the detail. I apologise for the length of my paper but there are many issues to be addressed.

If you wish to add to, comment or would like a copy of this or an earlier paper, Local Government: Is it Broken? Contact me via email: jdahlsen@dahlsens.com.au or Mb 0418 373 819.

John Dahlsen

9th May 2019

APPENDIX 1: COMMENTS FROM PETER NIXON

The Mayor claims the Council is aware I quote “that farm enterprises and families are being adversely affected by an extended dry period across our Shire” End quote. Yet the Council without any consideration of that fact has the temerity to raise the Farm Rate by 12.09 % against a State Cap of 2.5%.

Worse still to point up the sheer hypocrisy of the Draft Budget papers on page 20 an initiative of the Shire is to Quote “Maintain and grow East Gippsland’s traditional economic sector” End quote. But when the oldest economic sector is suffering the worst drought in history the Farm Rate in increased by 12.9% against a State Cap of 2.5%

On page 38 under heading Farm Land, it states and I quote “to recognise and address the special circumstances that impact farm properties including variable income and seasonal fluctuations” End Quote. By putting the Farm Rate up 12.09% against a legislated Cap of 2.5% shows clearly the Council has not honoured the words in the preamble.

On page 21 the Council claims “to provide leadership on issues of importance to East Gippsland.” Under their watch we have seen the decimation of the Timber industry and now the failure to support the rural industries in a time of record drought.

Farm Rates raise \$5.07Million. The Council must recognise that to offer \$500K to farmers spread across the whole of the Shire is an insult to the fine words used above.

There are other peculiarities about this Draft Budget.

P4 the CEO claims: “to maintain financial stability through sustainable cost reductions”. Cutting \$3m out of road expenditure or \$10 m out of infrastructure in a Shire as large as East Gippsland sounds an impossible task, needs transparency and list.

P6 Lists Strategic Objectives. There is no strategy objective to seek to minimise costs either of activities or staff numbers and therefore rates.

P8-11 lists Services provided. Where programs are funded by Govt. the paper does not state if there is any local contribution. It is also difficult to know staff numbers.

P12 Other Initiatives. This is one area that allows the expansion of staff numbers seeking to involve the Council in matters that are the responsibility of either State or Federal Governments both of whom have local MP’s to oversee the implementation of their programs and nothing to do with the Shire whose intrusion leads to confusion. Such duplication is costly.

P14-17: There are many examples of overreach on these pages. Some initiatives are properly Council activities but some are empire building and are out of Council's role. Two Examples:

- Reducing greenhouse gasses, a matter for Government.
- Implement the Renewable Energy Feasibility Study priority for East Gippsland.

Another example of bad policy, "Transition to one landfill site servicing East Gippsland". Has there been a feasibility study in a Shire that stretches from Mallacoota to Bengworden and up to Benambra and Gelantipy.

Two more examples of motherhood statements, among many, that do not show cost or method or number of staff involved. "Foster an environment in which small business can succeed" and "Engage the mind capital of our retired community".

Hon. Peter Nixon A.O.

APPENDIX 2: HOW ARE EGSC RATES ESTABLISHED?

In broad terms there are three things that establish rates:

- future council budgeted expenditure and the rate to be struck,
- the category of property and
- the capital improved value (CIV) of the property.

EGSC can only influence the first two.

When establishing rates, the EGSC prepares a budget before deciding how much (if at all) it should raise rates generally. When reviewing community needs EGSC should consider how rates impact ratepayers.

To determine rates or "the rate in the dollar" the following formula is used:

Budgeted expenditure divided by CIV

of all rateable properties = 'the rate in the dollar'.

Once 'the rate in the dollar' is determined the EGSC determines which property category pays more or less in rates. So are the current allocations appropriate?

Lower rates can be achieved by reducing budgeted expenditure.

The following explains the above in more detail.

1. Each property in East Gippsland needs to fall within one of four categories:

- Residential
- Commercial (Business)
- Farming (Agriculture)
- Exemptions (churches, schools, Government property etc.)

Once the property classification is established, then within each category the Shire must (subject to a few inapplicable exceptions) be treated equally and on the same footing.

2. The calculation of rates within residential, commercial and farm categories is a function of:
 - The Capital Improved Value (CIV) of your property multiplied by
 - The rate which the Council strikes for your category

Example: CIV \$1,000,000 x Farm Rate 0.0038% = \$3,800 rates

The CIV is determined by the Valuer General and so is outside the control of Local Councils. To object submissions are made to the Valuer General.

3. Councils rate each category by a percentage.

The Council does not control the calculation of CIV but Council does give the impression that the resulting rates payable are out of their control. This is not correct. Council is free to change one of the two levers, the percentage struck each year in each category but more importantly Council can regulate its expenditure to hold back rate increases.

4. For the 2019-2020 year, Council has determined the following percentage rates:

- | | |
|---------------|--------|
| - Residential | 0.0040 |
| - Commercial | 0.0058 |
| - Farming | 0.0036 |

Together this is an increase of 1.99% on last year's rates.

5. On the other hand the increases in the CIV by the Valuer General of land is:

- | | |
|---------------|-------|
| - Residential | 6.55% |
| - Commercial | 3.27% |
| - Farming | 9.91% |

It may only be a few property value increases causing the CIV to flow through to all similar properties.

6. The result of the percentage rate struck by Council, when multiplied by the Valuer General's CIV sees the final percentage rate increase as follows:

- | | |
|---------------|--------|
| - Residential | 8.67% |
| - Commercial | 5.32% |
| - Farming | 12.09% |

These are average increases for everyone in that category but between properties in each category the percentage increase could be below or above the average mainly because of an increase in the CIV as calculated by the Valuer General not Council.

It is irrelevant whether the increase say for farmers is caused by the CIV or Council strike rate. It is the end result or net effect that matters in terms of review for the Shire and stress on the farmer and the ratepayer.

When it is the CIV that causes the major part of the increase for the farmers, this is irrelevant to:

- The profitability or revenue of the farm
- The capacity to pay
- Available cash.

The increase of CIV is of no value for farmers. The Council can however compensate by lowering the percentage rate struck and not blame the Valuer General. This may have some anomalies but the problem is way less than recommended rate increases are having on farmers.

7. The 2.5% State Government Cap reform or limit is not just about rates, it includes charges so is irrelevant for present purposes. Ratepayer charges for 2019-20 reduced substantially so putting pressure on the need for a review of the percentage rate struck.

This is a tool the Council can use to influence the percentage rate struck and at the same time, stay within the Government's 2.5% Cap.

The higher the municipal charge, the less the rates need to be. State Government is planning to put a cap of 10% on municipal charges because they are concerned about this getting out of hand. The Government does not seem to be concerned about its other effect on rates.

The draft legislation may never become law but if legislated could not be effective until 2020/2021. So, in the meantime this lever is available.

This 10% cap does not EGSC and it should protest, negotiate or compromise of say 15%/20% or alternatively have the right to gain an exemption.

The other critical tool is a differential rate between the 3 property categories. At the moment farmers have a 10% advantage, the Wellington Shire 20% and other Shires 30%.

Farmers should be increased to 20% and if the overall rates were frozen, the impact on the other 2 categories given their number of properties, would be low and probably acceptable.

It is quite clear to me that at least the business sector on humanitarian grounds and self-interest with the flow on effects, would agree with this. Residential would probably have the same attitude.

8. What I am suggesting is all rates (residential, commercial, farming) be frozen and remain at the 2018-19 rate irrespective of whether there has been any CIV increase or not.

For farmers, the State Government has offered to pay to Council 20% of farmer's rates. After this 20% reduction of the frozen 2018-19 rates a further 50% reduction should be made by the Council, eg:

2019-20 Rates	\$ 10,000
2018-19 Rates	\$ 8,000
Deduct 20% (-\$1600)	\$ 6,400
Half of \$6,400 =	\$ 3,200

So the 2019-20 rate payment could be \$3,200 not \$10,000.

9. General Comments

Council should not seek to rely further on Government help because it will not happen in the short term. A public statement by the Shire about State Government pressure is misleading and not facing up to the issues.

Council is in a very strong financial position and it is easy to fund these freezes and farmer reductions without cutting services or capital projects. In any event, it is easy for the Shire to cut or delay services or capital works. The Shire is overextending itself with over 100 services and a huge capital works program so it is not a problem of rate calculation but the Council retreating to core activities.

In the current circumstances it should not matter whether it is CIV or rate % that is causing the problem, it is the net result that is effecting farmers.

It is a shame that the Shire is not subject to ACCC supervision as some material published by the Shire is in my opinion, misleading and deceptive.

Finally, the Shire has no excuse for not agreeing to the above.