



THE REX

Failures everywhere

Council Watch inc

Report on the REX Project at Hepburn Shire Council

Introduction

The REX Project at Hepburn Shire Council is a textbook example of gross mismanagement, poor governance, and financial recklessness. What began as a well-intentioned initiative to create a community hub in Daylesford, Victoria, spiraled into a financial disaster, resulting in a cash loss of \$5.6 million, reputational damage, and a failure to deliver on community expectations.

The following is an assessment of the project, including a timeline of key events that highlight the systemic failures and lack of accountability.

Whilst there is much said here, it is not Council Watch's role to accuse nor suggest that anyone in the entire process has committed any crime or acted in any manner contrary to legislation, and that is the key, all the decisions are permitted under the Local Government Act 2020 and those that may have done anything "wrong" are indemnified under the Local Government Act.

Council Watch makes no accusation of any wrongdoing.

Key Failures of the REX Project (in our assessment of public information)

1. **Lack of Due Diligence:**

The project was plagued by a lack of proper planning, inadequate feasibility studies, and no independent valuation of the REX property before purchase. The council proceeded with the project without a clear understanding of the costs, risks, or community needs. This could be due to inexperience in such matters of personnel involved.

2. **Poor Governance:**

The Chief Executive Officer (CEO) Aaron van Egmond acted, making significant financial commitments - there is no public proof that he did or did not have prior approval of the council. The councillors failed to exercise oversight, allowing the CEO to make decisions without (in our view) adequate checks and balances and without proper oversight protocols.

3. **Financial Mismanagement:**

The project's budget ballooned from an initial estimate of \$1.25 million to a final cost of over \$9.6 million, with additional costs potentially pushing the total to \$16-18 million. The council repeatedly approved budget increases without proper scrutiny or justification. Public documents and meeting

notes show very little scrutiny or public questions from Councillors based on the information in the public domain.

4. **Community Disregard:**

Despite extensive community consultation identifying the Daylesford Town Hall as the preferred site, the council inexplicably shifted focus to the REX site, which was ranked 6th out of 8 by the community. This decision ignored community input. There are allegations that the CEO drove this decision.

5. **Lack of Transparency:**

The council failed to provide timely updates to the community, withheld critical information, and **did not disclose the full extent of the project's financial and operational risks**. The Local Government Inspectorate (LGI) investigation, which lasted five years, resulted in no report, denying the community transparency and accountability.

6. **Project Delays and Scope Creep:**

The project suffered from constant delays, scope changes, and cost overruns. The council repeatedly revised timelines and budgets, **demonstrating a lack of control and foresight**.

7. **Failure to Deliver:**

After eight years and millions of dollars spent, the project was abandoned in 2021, with the council selling the REX property at a significant loss. The community was left without the promised facilities, and the council's reputation was severely damaged.

Timeline of the REX Project

2014: The Beginning of the Debacle

- **May 2014:** Council considers the Hepburn Hub project, with the Daylesford Town Hall identified as the preferred site through community consultation.
- **June 2014:** Council votes 4-3 to reconsider the location, opening the door for alternative sites, including the REX, despite its low-ranking in community preferences.

2015: Shifting Focus to the REX

- **February 2015:** Council endorses the Daylesford Town Hall site for the Hepburn Hub, but the CEO begins exploring the REX site allegedly without council approval (no public motion of Council exists).
- **July 2015:** Council approves the Daylesford Town Hall site, but the CEO allegedly continues to pursue the REX option behind the scenes.

2016: The REX Purchase

- **August 2016:** The CEO allegedly secures an option to purchase the REX without council approval, committing the council to a \$6 million purchase. The council later approves the purchase, despite no independent valuation and no engineering reports.
- **December 2016:** The council revises its budget to accommodate the REX purchase, taking on \$3.4 million in new debt.

2017: Scope Creep and Delays

- **February 2017:** The council approves the inclusion of a community cinema in the REX project, adding \$105,000 to the budget.
- **March 2017:** The council approves a 10-year lease for the cinema group, despite concerns about the project's feasibility and cost.

2018: Governance Failures Exposed

- **June 2018:** Interim CEO Bruce Lucas pauses the project and reports governance failures to the Audit and Risk Committee and IBAC. The Local Government Inspectorate (LGI) begins an investigation.
- **August 2018:** Council appoints Crowe Horwath to audit the REX project, uncovering significant financial and governance issues.

2019-2020: Spiraling Costs and Delays

- **February 2020:** The council approves a revised budget of \$6.39 million, with an additional \$3 million in loans required to complete the project.
- **September 2020:** The budget increases to \$7.13 million, with the completion date pushed to June 2021.

2021: The Project Collapses

- **May 2021:** The council holds a workshop to consider all options, including abandoning the project.
- **July 2021:** The council terminates the construction contract with Hutchinson due to delays and cost overruns.
- **November 2021:** The council votes 4-3 to abandon the REX project and sell the property, citing escalating costs and lack of progress.

2022: The Aftermath

- **July 2022:** The council sells the REX property for \$3.735 million, resulting in a **cash loss of \$5.647 million**. The council creates a \$2.135 million reserve for future community facilities.

2024: The LGI Investigation Concludes

- **September 2024:** The Local Government Inspectorate concludes its five-year investigation but refuses to publish a report, citing insufficient evidence of wrongdoing. The community is denied transparency and accountability. The LGI does not reveal WHY the report will not be released.

Conclusion

The REX Project is a cautionary tale of how poor governance, lack of oversight, and financial mismanagement can lead to catastrophic outcomes for a local government and its community. The project's failure was not just a financial disaster but also a betrayal of public trust. The council's inability to hold those responsible accountable, coupled with the LGI's failure to issue a report, leaves a lingering sense of injustice.

The lessons from the REX Project must serve as a wake-up call for local governments across Victoria. Without strong governance, transparency, and accountability, such failures will continue to occur, wasting ratepayers' money and eroding public confidence in local government.

COUNCIL DOCUMENTS AND WITNESS ACCOUNTS (2014-2024)

Information from council documents and witness accounts include allegations that:

- Executives dominated the functions and decisions of Council.
- Executives failed to implement Council decisions where they did not agree and often sat on their hands until they could recommend alternative options or decisions.
- Councillors did not ask enough critical questions over successive years.
- Red flags existed at many points in the process but were ignored or not raised.
- The council's governance and procurement processes were weak and, in some cases, abandoned.
- Some executives had total oversight and did not allow others to see what was happening.
- The properties were purchased without valuations - a massive mis-step by Councillors.
- The properties were likely purchased at highly inflated values.
- Councillors regularly "believed" what they were being told despite evidence to the contrary sitting in officers' reports.
- When the CEO left in May 2018 (resigned in March), he was subsequently hired to "Manage the REX project" - raising questions about the logic of such a decision.

This is an example of why Councillors must ask every question possible when it comes to the use of public money and assets.

THE LOCAL GOVERNMENT ACT 2020

The Local Government Act 2020 is the legislation that enabled this problem, and it continues today. Councillors are routinely denied access to or prevented from asking necessary questions. There is a pervasive belief among unelected CEOs and executives that Councillors asking too many questions exhibit rude and bullying behaviors.

The Local Government Inspectorate (LGI) investigated for five years, only to discover that they never had the power under the LGA 2020 to issue reports or findings. This gaping hole in the key oversight body for local government is unconscionable.

SUCCESSIVE LOCAL GOVERNMENT MINISTERS (2014-2024)

The following ministers oversaw the largest change to local government in its history in Victoria through the development, approval, and implementation of the new Local Government Act 2020:

- Natalie Hutchins
- Adem Somyurek
- Marlene Kairouz
- Shaun Leane
- Melissa Horne

This revolutionary “principles-based” legislation removed hundreds of previous checks and balances for the sector. The LGA 2020 also included an indemnity provision - essentially, all staff and Councillors are indemnified at Council's (ratepayers') expense against any and all actions.

In our view, this legislation has given those who engage in maladministration, misconduct, or inappropriate processes when dealing with public money (but did not commit a criminal offense) a "get out of jail free" card. This is the most appalling indictment of any legislation.

ACCOUNTABILITY FOR PUBLIC MONEY

The REX project shows there is no accountability for public money. Hepburn Council's rates income is only \$26 million this year, and losing \$5.6 million has delayed many vital works and infrastructure spends desperately needed.

While we would ordinarily expect the state to pick up the tab for legislative failures, it will simply mean taxpayers wear the brunt.

CULTURE OF UNELECTED BUREAUCRACY

When unelected bureaucracy is allowed to reign, the REX project becomes the normalized culture of the Council workforce. Allegations abound that:

- CEOs rule with an iron fist.
- Staff are taught never to question executives.
- Councillors are coerced and bullied by other Councillors not to ask too many questions, especially in public meetings.
- Reports and recommendations are routinely “made up” or “interfered with” by executives.

In our view, unless the legislation changes, this is the tip of the iceberg.

RECOMMENDATIONS

1. Legislative Reform:

The Local Government Act 2020 must be amended to restore checks and balances, ensure transparency, and the Local Government Inspectorate must be compelled to issue findings. Blanket indemnity of officers and councillors needs to be reviewed, the public expects accountability.

2. Strengthen Governance:

Councils must adopt robust governance frameworks to prevent executive overreach and ensure elected Councillors have the tools and information they need to hold executives accountable. Councillors need to be

encouraged to ask any and all questions at every opportunity as part of their fiduciary obligations and statutory duties.

3. Community Engagement:

Councils must prioritize community input in decision-making processes and ensure that public funds are used in a manner that reflects community needs and priorities first and foremost.

4. Accountability Mechanisms:

The state government must establish independent oversight bodies to investigate and address maladministration and misconduct in local government.

FINAL REMARKS

The REX project is a stark reminder of what happens when accountability fails. It is time for real change to ensure that such a disaster never happens again.

To the residents of Hepburn Shire, who have always just wanted the truth, we are deeply sorry.

There will be more to come on this topic.