RECLAIM CABOOLTURE SHIRE Inc.

OUR SHIRE ~ OUR COUNCIL ~ OUR CHOICE

8 Green Street,
Banksia Beach QLD 4507

3rd August 2017

The Committee Secretary,
Infrastructure, Planning and Natural Resources Committee,
Parliament House,
George Street
BRISBANE QLD 4000

EMAIL ipnrc@parliament.qld.gov.au
Attention Ms Jaqui Dewar

INQUIRY INTO LONG TERM SUSTAINABILITY OF LOCAL GOVERNMENT

Dear Secretary,

This submission to the Infrastructure, Planning and Natural Resources Committee of the Queensland Parliament is made by Reclaim Caboolture Shire inc [RCS]. RCS is a ratepayer association concerned about the delivery of local government, particularly in the now amalgamated Caboolture Shire. RCS is an affiliated organisation of the Queensland Local Government Reform Alliance, which is also making a submission. This submission comments primarily about Moreton Bay Regional Council because of our interests and location.

Would you please thank the Chairman and members of the Committee for receiving this late submission? It is of serious concern to our organisation that you have received only one submission from an individual ratepayer or from any ratepayer association. On the other hand we note that many submissions have been made by councils. Clearly a skewed conclusion is inevitable if the Committee considers only the opinions of the councils, the Property Council and the LGAQ.

Although the amalgamation of so many councils occurred long ago in 2008, there remains a solid 80per cent of ratepayers who felt that we lost too much and gained nothing from those amalgamations. The subsequent de-amalgamation referenda at Noosa, Livingstone, Mareeba and Douglas shires confirm that there remains a significant majority of up to 80 per cent who desire smaller councils. The sustainability of these four, in financial terms, has been very satisfactory [contrary to the dire predictions fed to voters by the then Minister]; and their performance in non-financial terms vindicates the decision of the ratepayers. It also confirms that the question of size should be re-visited. We reject completely the idea that the performance of a council can be judged completely by “bottom line”/financial yardstick criteria.

What is Sustainability?

Sustainability: the ability to be maintained at a certain rate or level. In the case of local government the term has become completely related to financial sustainability, as if financial sustainability is an end in itself; the principal reason for the existence of local government. In reality, financial sustainability is, or should be, a reflection of a council carrying out and sustaining its two primary roles: service delivery and community leadership. The council that focus on and achieves excellent financial sustainability ratios but neglects its service to and development of community is a council that quite clearly fails. Today we see many, mainly large councils that have a very sour, uncaring and impersonal relationship with their ratepayers; that serve interests other than their ratepayers and whose equitable, responsive service delivery falls short of expectations. Perhaps measures of "sustainability" should be replaced with measures of complaint levels, customer satisfaction surveys and an analysis of the costs of services. Perhaps measures of environmental sustainability are appropriate too.

Sustainability also implies an ability to survive for an extended period. In the case of Moreton Bay Region; its three components all had an excellent record of survival and of high sustainability ratio scores: Pine Rivers Shire and Redcliffe City from 1888 and Caboolture Shire from 1879. As amalgamations were supposedly done in order to improve their sustainability, one wonders if that was the real reason.

Major Infrastructure Asset Investment.

In Moreton Bay Regional Council [MBRC] an extra charge, separate from rates, called the Regional Infrastructure Separate Charge has been adopted. It transpires that this is merely a rate rise disguised as something else so that rates appear not to be increasing quite so fast. If the separate charge is to be used for the purposes proposed then one might assume that the income would be held in isolation for use only for those projects specifically identified in the council budget and publicly agreed to be regional infrastructure. That is not the case; there is no separate fund and no list of approved projects. That money is used for completely unidentified non-infrastructure purposes. The possibility of a planned programme of new and replacement major infrastructure is therefore remote under the present arrangements. MBRC has another special levy charged to canal residents, but no plan for management of those levies by the canal residents, or indeed is there any correlation between canal income and canal expenditure. In other councils environmental levies are common but it is not known if the income and expenditure are properly interlocked. Every such specific rate or charge needs its own separate status and accounts. In other jurisdictions for example, water and sewerage services are managed as separate funds; cross subsidies including transfers to and from the General Fund, are not permitted.

Financial Sustainability Ratios/Targets

The concept of financial sustainability ratios and targets is, in theory, a great idea. The whole of a council's performance can be synthesised and condensed to a single set of, say four numbers. It enables us to sit back and assess the council against a set of absolute standards and to compare each council against others and against the norm. It is noteworthy that the school teachers' union consistently rejects a similar method of assessing the classroom performance of school teachers. They argue that each classroom circumstance is unique and that the performance measures are much too unreliable.

Although the ratios are intended to be a measure, a reflection of performance; they in fact become the drivers. In the same way that teachers cram students to do well at the NAPLAN Tests [at the expense of a broader education] so too do councils allow themselves to be governed by numbers which are being used in a way never intended. A clever council accountant can achieve the required results in the same way that a CFO can always disguise the true level of profitability of a company. For example:

- Most works projects have a maintenance/repair element and an improvement/capital/infrastructure component. Acceptable levels of infrastructure replacement are therefore not hard to achieve by manipulation of the numbers.
- The allowable rates for depreciation are not rigid.
- Bad debts can be written off or deferred depending on the result required.

Particularly concerning is the prescribed ratio for borrowing. A certain level is good; too much borrowing is bad and too little is apparently also bad. Again, policy becomes ratio driven. Many conservative councils believe that all borrowing is bad and that a prudent council will have instead some modest reserves for unexpected expenditures or unexpected downturns in income. Those councils are however under pressure to borrow and to take on works and services that their communities do not seek. Nobody could complain about a modest level of debt at the present time; but many older ratepayers remember well the times of rapidly escalating interest rates to the levels of the 1980s. Extended councils may be unable to rapidly pay down their level of debt. For that reason it is suggested that instead of targets there needs to be a mandatory maximum ratio of debt servicing to revenue. That level would be varied as interest rates change.

It is also acutely obvious that an increase in rates allows most of the ratios to be improved. There is more money to spend on infrastructure renewal, the debt servicing ratio is much healthier and the other ratios benefit similarly. Surely this is not the intention...to encourage councils to increase rates as quickly as possible! The rapid rate increases observed in the large councils such as MBRC are almost entirely ratio driven.

The sustainability ratios are a handy tool if used correctly, but not very useful if they become the drivers of policy, or if they are manipulated in order to get the gold star of approval.

Organisational Governance.

The Queensland Local Government Act gives complete responsibility for the budget to the Mayor, but not the monitoring, adjustment and oversight of its implementation. In many councils there is the Mayor’s group and the group who oppose the Mayor. The Mayor is in a position to reward one group with re-election vote winning projects in their areas; and to punish the others. The Mayor also has legislative authority to appoint and direct the CEO; and the CEO has delegated authority to appoint and direct all staff. Therefore, by direct and indirect means the Mayor has control of both councillors and staff. This has two serious effects: firstly it makes the Mayor the target of corruption, particularly in the bigger councils, as has been exposed many times in the current CCC Operation Belcarra Inquiry. Secondly, the idea upon which the local Government Act and all principles of democracy are based is one of “bottom up” control of government. The activities and expenditures of a government should reflect the will of the voters. Given the complete absence of any pre-budget consultation with ratepayers in most councils and the lack of influence of many councillors, the power given to the Mayors in the Act ensures a non-democratic approach to the budget process. The dictatorial powers of mayors and their potential susceptibility to corruption are justification for a review of those powers. Consideration might also be given to the councillors annually electing the mayor from among their number. Prime Ministers and Premiers are not directly elected by the voters. It is possible that the ratepayers could decide the method of election by an advisory poll [Section 268A].

The other aspect of governance that needs examination is the use of "workshops". Some councils discuss the difficult issues in workshops prior to council meetings. Such meetings are entirely outside of the Local Government Act being without a published agenda, closed to the media and public and un-minuted . Therefore there is no way of knowing if interests are properly declared. Likewise decisions and directions given at meetings between Mayor and CEO are un-minuted and not recorded in diaries. If the workshops are in fact "briefings" on some complex matter which is soon to come before the council; and if the meetings are not used as a forum to debate, make or to influence decisions then such workshops could be beneficial to councillors and to ratepayers. Suspicion only arises when meetings are held in secret. The role of workshops could be eliminated by the use of "committee of the whole" procedures where all requirements of the Local Government Act would be enforced.

The organisational structure of large councils does not encourage democratic participation in financial or other matters by ratepayers or councillors.

Budget Transparency

If the MBRC budget process is typical, then it is clear that there is no transparency. The ratepayers and the councillors have little or no input to the process. The previous paragraph describes a legislative framework which requires the Mayor to consult with nobody. Debate on the budget or amendments to the detail are completely unknown. The presentation of the budget has degenerated into a public relations exercise at which the iconic headline catching projects are lauded, there is much self-congratulation for responsible fiscal management and large rates rises are disguised. Also disguised by the fanfare are the extra fees, charges and new levies hidden in the detail of the budget papers. Additionally, both the PR exercise and the budget as published on the council web site are completely lacking in detail. One might expect, for example that an unusual expenditure of $110M spread over three years might be credited with a separate line and an explanation. Much of the lack of detail in local government financial reporting could be overcome by more liberal use of "notes to the accounts", including notes on significant items that are not included in the budget.

Today's technology provides councils with ability to present budgets at multiple levels: for example, a "broad brush" level for councillors and the ratepayers; a more detailed analysis to define the budget responsibility of an individual officer and to assist him to manage that responsibility. The council web site should enable ratepayers to also read down to the detail of individual projects and individual divisions.

Most councils have a four weekly budget review process at which variances from budget are brought to the attention of councillors and remedial action is taken. This process enables councillors to be knowledgeable about the council's finances to manage them and to take responsibility.

Procurement Policy

The trend, if MBRC is a typical example, is for:

- Open tenders to be avoided wherever possible. How often does it occur that only one firm has any experience in the required service or product?
- Negotiations with short-listed tenderers are secretive.
- There is a very relaxed attitude towards failure to declare interest when one of the tenderers is a substantial contributor to the re-election funding of one or more councillors.
- The award of tenders is usually made in closed meetings due to the "commercial confidentiality/sensitivity" of the matters. The confidentiality shield is now being used excessively and unreasonably. If one does business with a government and is paid from public money, then surely one expects that the contract will be public knowledge.

An important role of local councils is to foster the local community. A measure of preference to local contractors and towards nurturing local employment is quite reasonable. In smaller communities the council is usually the largest employer and that is a serious responsibility. Unfortunately however, small low cost local contractors who relied for years on council work have now largely been replaced by bigger companies from the regional centres. Worse, the perception of a potential for corrupt conduct, a perception that perhaps the best value for money is not being obtained and the perception of excessive council secrecy are all present. Long gone are the days when the Shire Clerk would publicly open the tender box on the footpath outside the council chambers and when every other step in the tender process was equally open, transparent and accountable.

The belief that tenderers and consultants produce better quality, lower cost outcomes is often ill-founded. Council staff, indoor and outdoor, are well qualified and skilled and council equipment is modern and well-maintained. There are few tenderers that can provide an equally multi-skilled, comprehensive region-wide service as can council's own staff. The cost of providing multiple depots is usually prohibitive. The in-house alternative should always be costed.

Rate Pegging

It has been noted that sustainability ratios drive up rates. Year after year rate increases, particularly in larger councils, have greatly exceeded the CPI increases. The cost of rates for pensioners has become a burden. In other states, as a measure to control cost of living, governments have pegged rate increases, generally at around the level of the CPI. If the sustainability of councils depends upon higher and higher rate charges then it is time to review the purpose of sustainability and the means of measuring it. If councils are unable or unwilling to curb their expenditure to levels permitted by modest rate increases and modest borrowing, then rate pegging must become an option. In any case an exact definition of the percentage rate rise is required as "spin doctoring" of the numbers is common and comparisons are difficult.

Grandstand Expenditures

The larger councils from SE Queensland are awash with money. There have been excessive rates rises [including separate charges in addition to rates]; excessive charges to developers for applications and developer charges; and excessive profits and interest payments from Unity Water and other utility conglomerates. It is no longer a question of these councils' sustainability; it is now a question of what to spend the money on. In the case of MBRC the problem of how to get rid of the money has been solved by donating it to the state [$110M towards the Redcliffe Railway] or by investing in a university [an unspecified open-ended agreement with the University of the Sunshine Coast to fund a new campus]. Many questions arise as to the legality [sections 9(1) and 10(1) of the Local Government Act] and appropriateness of such expenditures and the QAG has been asked for opinions on both. No opinion has been forthcoming. In the case of the university and the Priority Development Area surrounding it, allegations have been made to the Crime and Corruption Commission. The following questions have to be asked:

- Is sustainability really an issue when such expenditures are possible?
- Could Section 9(1) be clarified?
- In the two examples above, why are the agreements with the state government and with the USC not available for scrutiny by ratepayers and why has the QAG not given an opinion on whether or not the two agreements are sound investments, in the interests of ratepayers?

Size of the Council

It has long been argued that large councils are less efficient in the delivery of services and have a much lesser community focus. For example, in small country shires the outdoor workers are themselves ratepayers, they identify as members of the community and in times of emergency will voluntarily work for days, supporting their community. At the other end of the spectrum we have large regional councils where the CEO and other senior staff work on a fly in/fly out contract; having no personal relationship or identification with the area that they are supposed to serve. The large councils have additional layers of bureaucracy and more time is spent in travelling to and between jobs and in completing the additional paperwork that bureaucracies always generate. Much academic study has been directed at this question [especially Dollery and others, University of New England] and the general conclusion is that "economy of scale" [the much touted purpose of amalgamations] is an elusive goal. More appropriate is "optimum size". There is, as Goldilocks said, a size that is just right for any particular activity. For example, military defence is more effectively carried out at the federal level rather than by local village militias. Pot hole filling on the other hand would not be efficient if managed at national or state level. So it is with the delivery of all government services; some are best carried out at national level, some at state level, some are effective regionally and some are efficient if managed locally. The undoubted efficiency of very local governments to deliver certain services is not, of course, evidence of their sustainability or lack of sustainability. Their longevity without financial crisis, customer satisfaction, their community orientation and their generally much lower charges is, in the eyes of most ratepayers, sufficient evidence of sustainability.

Community orientation implies, among many factors, that there is a focal point for the community. Brisbane City, despite its huge population has a focus. Moreton Bay does not. Fraser Coast has antagonism and rivalry between its two focal points.

It should also be noted that the High Court of Australia has given leave to at least one Sydney council to appeal against a forced, undemocratic amalgamation. As the grounds for appeal [lack of ratepayer consultation, non-disclosure of "expert" reports] are parallel to the 2008 Queensland amalgamations, embarrassing precedents may arise from the appeal.

Competition Neutrality/Return on Investment.

An economic theory in favour at the moment says that a government run service should have no advantage over a commercial competitor, because a "level playing field" will encourage non-government enterprises to enter the market, create competition and drive down prices. Thus, government services have had to add to their costs the full cost of all overheads, and the enterprise must pay dividends to the "shareholders" i.e. the government. Even a notional taxation must be paid on profits. Economics and reality are never good shipmates. The theory certainly breaks down when, as in the case of water supply there is no substitute, the commodity is an essential to life and there is unlikely to ever be a commercial competitor except in the choicest components of the system. The theory also breaks down when the shareholder demands such a high level of return on its investment that nothing remains for major servicing and replacement of aged components.

This has relevance to the sustainability of councils. The Unity Water operation for example pays to MBRC, Noosa Shire and Sunshine Coast Regional Council such extravagant levels of profit and interest that these councils' finances are distorted and the measures of sustainability are artificially changed. The income of the councils is quite different from what it would be if the councils themselves owned the water and sewerage retail business; so all of the ratios are altered. The cost of these services to customers is also altered...very much to the detriment of consumers.

The competition neutrality policy is all pervading. The ultimate outcome is that councils will perform all of their responsibilities by contract, selling off all of the equipment and reducing operational staff in favour of contractors; leaving only a small staff, highly paid to let and supervise contracts. Then again, that too could be contracted out! The problem is that a core of skills and equipment is required to deal with natural disasters, emergencies, to keep the contractors honest and to take over from defaulting contractors.

Compliant Councils

The annual Auditor's report applauds those councils that submit their annual accounts on time and in the required format; and those that complete the recommended level of internal checking and internal audit. Obviously the larger councils which have some "fat" and flexibility in their accounts departments are more likely to be compliant. There is a risk that glowing reports of compliance from the Auditor can be confused with sustainability or with the council's performance and accountability. From the ratepayer's stand point the performance of a council is measured by responsive and efficient service delivery and by cost effective community development.

CONCLUSIONS

It is recommended that the Committee consider:

- That a directory of ratepayer groups be maintained by the state government so that whenever opinions or recommendations on local government are being sought, a broader, balanced view can be obtained.

- That “sustainability” is not the primary measure of a council’s success. Preferred measures would rely upon assessment of a council’s responsive and efficient service delivery plus its achievements in community building.
- That it be noted that current ratios for measuring sustainability are easily manipulated; tend to become the drivers of policy; they ensure that higher than necessary levels of debt are maintained and encourage councils to increase rates much more than would be otherwise needed.
- That the Committee formally note the findings by the Auditor General and the State Treasury that the figures promoted by the then Minister for the sustainability of Noosa, Livingstone Mareeba and Douglas Shires post the de-amalgamation referenda were fiction; and the committee is invited to publicly comment on the success [and sustainability] of these four councils following de-amalgamation.
- That local rates, levies and separate charges be regarded as a part of the overall rates levied, that each such source of income be kept separate from general rates and that those monies be used only for the purposes intended. Lists of projects approved for such expenditure from these separate funds is to be published as part of each budget and that each of the separate funds should be required to have its own balanced budget.
- That all rate increases [including separate charges, local rates, levies etc] where the total increase exceeds the CPI increase for the preceding year must be approved by the Minister after receiving objections and Council’s submission must be published. That a standard definition for percentage rates rise be adopted.
- That the powers of mayors, over and above those of councillors, be reviewed. It is recommended that the mayor’s additional powers be restricted to ceremonial duties, chairing meetings, exercising the casting vote and temporarily acting as the council in times of emergency. It is also recommended that consideration be given to discontinuing the separate election of mayors and instead having an annual election of the mayor by the councillors from among their number, if so approved by ratepayers at an advisory poll.
- That the procedures for pre-budget consultation with ratepayers and councillors be defined, that the information and accompanying notes to local government accounts be much more detailed, clearer and more understandable.
- That procedures for the expenditure of public money be completely open, transparent and accountable AS THE LAW ALREADY REQUIRES. In particular the option to avoid open tenders should be replaced with much more demanding rules; and the use of commercial confidentiality should be eliminated. In other words, if a contractor is unwilling to have his price and contract conditions made public then he disqualifies himself from having dealings with government.
- That any implied preference for contracted services be removed from policies.
- That Section 9(1) of the Local Government Act be amended to prevent the use of ratepayers funds on any expenditure that is not of direct and immediate benefit to the majority of ratepayers in the council area; and also to deter a council from expending ratepayers funds on material, property or services that do not belong to the council without full disclosure and public meetings.
- That a review be made into the pricing of monopolistic public services, the policy on competition neutrality and into the level of profits from government enterprises paid to

or demanded by the “owners”. Of particular relevance is the level of retained profits for long term maintenance and replacements.

- That an independent review be made drawing on the previous work of academic researchers, to determine the benefits and disadvantages, financial and non-financial of larger councils. If there are benefits then what are the circumstances and size limits where such benefits might be maximised?

Yours faithfully,

Chairman