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29 July, 2015
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The Hon Paul Toole
Minister for Local Government
GPO Box 5341
SYDNEY NSW 2000

Dear Minister

I am a resident ratepayer of Eurobodalla Shire and member of the Eurobodalla Ratepayers Association.

I would like to comment to government on the Eurobodalla Shire Council's (ESC) Fit for the Future (FFF) submission. The essence of my comment is that, prior to making a decision on the present council's fitness to continue governing the shire, the cabinet committee charged with considering future local government structures needs to look beyond any narrow IPART financially based recommendation and take into account the lived experience of this council by its ratepayers.

Introduction

Over the last seven years Eurobodalla Shire ratepayers have experienced an unusually turbulent local government administration. During this time the community has had to endure a seemingly endless line of controversies centred on council at Moruya. These controversies have gone well beyond those which would naturally arise from council's role in resolving differences of view of particular issues in a diverse and growing community. They call into question the competence and culture of the council itself. There are too many to list here but they include a 10 year delay in finalising the rural LEP, serious cost over-runs in the building of major local roads, long delays in the approval of major developments and the over-generous remuneration of retiring general managers. The current general manager, who was appointed just two years ago, recognizes that these "legacy" issues have damaged council's reputation and eroded the community's confidence. Our local state member, the Hon Andrew Constance, who lives in the shire and is highly regarded in the community, is well aware of the council's track record. He has recently warned that, notwithstanding the recommendation of the Sansum review, the government needs to consider council's abolition through a boundary change which would have those parts north of the Moruya River merge with Shoalhaven council and those south of the river with Bega Shire.

ESC has brushed aside much of the criticism of its poor performance from ratepayers and the local member and this has led to considerable community unrest. Earlier this year, a petition containing more than 10,000 signatures was presented to the NSW parliament rejecting a special rate variation (SRV) application. Subsequently, the SRV was approved by IPART. A May public meeting to discuss council's performance in Batemans Bay attracted over 500 ratepayers. Local business and rural groups have expressed no confidence in council and the local media regularly reports on poor council administration and behaviour by councillors.

Needless to say, council's FFF submission fails to mention any community concern. Rather, it points to recent financial assessments made by TCorp, the Sansum Review recommendations and the IPART analysis of its SRV application to support its case that it is competent and trustworthy. Indeed, the thrust of the council's submission is that very little needs to change in Eurobodalla because the shire is currently well run and, notwithstanding its inability to do so in the past fifteen years, it will move quickly to a surplus position in its general fund and start looking after the shire's public assets adequately. The catalyst for this sudden change in the prospects of the shire seem to be little other than the recently introduced IPART requirement that to be judged "fit" councils need to demonstrate a positive operating performance ratio within 5 years.

If, in the absence of any significant proposed change, past performance is the surest predictor of an organisation's future performance then I don't buy council's proposal. And, given what the government knows about foot dragging, unresponsive, self-serving bureaucracies, I suggest that it needs to look closely at the council's claims.

Return to surplus

Back in December last year, in the lead up to its decision to seek a SRV, council circulated its Long Term Financial Plan 2015-2025. Among other things, this comprehensive plan informed the community that council could see no hope of the general fund returning to surplus by 2025. Indeed, the modelling showed that even with a SRV of 8% the general fund deficit in 2025 would still be \$4.414m. This number underlined council's message to the community that, because of past neglect of assets and to avoid higher future costs urgent repair of the operating budget was required. At the time council also said there was little chance of further savings through cost savings and/or service reductions. By contrast, the council's FFF proposal suggests that if the proposed improvement program is adopted the operating fund budget returns to the black as early as 2017/18 and stays there for the following 8 years.

So how can the sudden improvement in the shire's financial outlook be explained, should it be believed and, importantly, will the credibility of the new estimates prejudice IPART's and, more importantly, the state government's view of the submission? And, given the magnitude of the change why wasn't the community consulted on the improvement proposal?

The improvement proposal is predicated on the assumption that council has already demonstrated to the satisfaction of the authorities that the shire has the scale and capacity to continue to operate in its current form and within its present boundaries. No evidence in support of this assumption is presented. The emphasis is on improved financial performance directed at demonstrating achievement of the seven criteria set by IPART. It is a difficult document to interpret because it omits important information, particularly the make up of the components of future revenues and expenses and their contributions to the improved budget positions. And the underlying strategy has to be inferred from the mass of detail provided. It looks to me like depreciation practices have been rejigged to allow an immediate and ongoing large improvement in the general fund bottom line and to build on this new foundation by improving the revenue base by investing in profitable businesses and to contain costs through a continuation of current reform programs. The intention seems to be to invest all surpluses in the new infrastructure fund and, in those years in which estimated surpluses are not achieved, to increase borrowings to allow the higher planned levels of infrastructure investment to be maintained. Future rate rises are not anticipated, but neither are they ruled out.

I have sought from council, but have yet to receive, an explanation of the sudden improvement in the council's financial outlook. But, from an analysis of its 2015/16 budget it looks to me like the majority of the improvement will be achieved by the accounting contrivance of a "move from aged base to condition base depreciation" of the \$1.9bn of infrastructure assets now on the council's books.

Apart from this dramatic change in the depreciation method, nothing much in the proposal is new. Rather old practices, such as the internal reviews of services and costs, which have yet to yield significant savings, will grind on at snail's pace and life in Eurobodalla will hardly change for anyone. Despite this, council staff are now confident they will achieve what they have failed spectacularly to achieve in the past - a return to and maintenance of a responsible surplus. I don't buy this claim and I regard the playing of the depreciation adjustment card politically inept and provocative, particularly in the face of IPART warnings to councils to be careful in their treatment of asset valuations for depreciation purposes.

Lack of strategic awareness

It is notable that the improvement proposal has been developed in the absence of any analysis of the commercial and policy environments which the council will face over the next ten years. Change is occurring rapidly in this part of the world and it is not apparent from the proposal how council is planning to adjust to the new environment. For example, the range of social services required by the community from council will be profoundly altered by the introduction of the National Disability Insurance Scheme. Similarly, the future introduction of the National Broadband Network will impact the way many services are delivered. No allowance for these major infrastructure improvements have been made. Importantly, the estimates appear to contain no provision for the increased costs to council associated with sea level rise, notwithstanding the government's identification of Eurobodalla as a major state hot spot for this new environmental hazard.

Furthermore, it is particularly disappointing that council has put neither energy nor resources into the formation of the regional organisation of councils proposed in the Sansum Review. Consequently, the opportunity to gain regional economies of scale in relevant functions are not factored into the estimates. And, the opportunity to bid for Batemans Bay as the South Coast's regional centre appears to be of little interest to council.

Failure to learn from past experience

A related concern is that the forward estimates ignore the reality of expected changes in future demand for services and the availability of funding sources. Given the experience of past cost and responsibility shifting, it is puzzling that council has assumed that these very real drivers of its performance will not change in future. For example, council regularly points out to the community that they now provide 30% more services than it did 10 years ago. This phenomenon is hardly likely to stop and its omission from the estimates calls the conclusions of the submission into question.

Conclusions

Past attempts by individuals and community groups to interest council in real change have not succeeded. Accordingly, I believe that, in view of council's history of poor management and the inadequacy of its proposed improvement program, the time has come for the government to consider alternative arrangements for the governance of Eurobodalla.

I have attended recent meetings where Andrew Constance could not have made it clearer that senior ministers of the government have their eyes on Eurobodalla and their pens poised to redraw boundaries. After many years complaints about Eurobodalla Shire still comprise the majority of his contacts with his constituents. He said he has had enough of the long line of what the general manager is now calling "legacy issues" of poor governance and management arising from an entrenched and defensive council culture. He advised that you and your colleagues will be looking for an assurance that the council has addressed the underlying causes of these past problems and can demonstrate a credible plan for improved future management which has demonstrated community support.

Council's failure to consult the community at all on its proposal is particularly galling. Its suggestion that the extensive consultation in the lead up to the SRV application was sufficient for the purpose is misleading given the major reworking of the assumptions underpinning its financial model. Regrettably, this false claim is entirely consistent with the way this council treats its community with contempt. Its recent appointment of an expensive public relations consultant to repair its reputation is a poor substitute for real change.

In my view, the council's improvement proposal does not come close to meeting the reasonable requirements specified by Andrew and consequently, alternative arrangements must be considered if the Eurobodalla community

is to get the better governance and senior management it demands and deserves. It is particularly important that any future Eurobodalla council has a real capacity to deal with the major threat of sea level rise which threatens the well- being of many local residents through its influence on property market investor confidence.

I suggest that should your cabinet committee be inclined to allow the shire to continue within its current boundaries then it considers ways of inducing a much improved performance and community responsiveness on the council. A management review undertaken by the Auditor General would be a highly desirable way for the government to get real reform started in Eurobodalla.

I look forward to cabinet's decision.

I have copied this submission to Hon Andrew Constance, Member for Bega and Dr Peter Boxall, Chairman IPART for their information.

Yours sincerely

Paul Bradstreet