Submission No 183

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

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SUBMISSION TO THE LOCAL GOVERNMENT INQUIRY
BY THE NSW LEGISLATIVE COUNCIL

Submitter and witness: Jude Munro

BACKGROUND

I was on the panel chaired by Professor Graham Sansom into the system of local government in NSW. I have been a CEO of four Councils across three States - Victoria, South Australia and Queensland, specifically, St Kilda Council, Moreland City Council, Adelaide City Council and Brisbane City Council.

I have been a the chair or a member of two panels of review into local government. I was a member of the COAG Task Force reviewing strategic planning in Australian capital cities.

I was the CEO of Councils during times of local government reform in those States, in Victoria in the early 1990's, in South Australia namely the changes to the City of Adelaide Act in the late 1990's and the late 2000's reform of local government in Queensland.

I am now a non Executive board director and consultant to local Councils and other organisations. My client base has included Lockyer Valley Council, Mackay Regional Council, Logan City Council, Townsville City Council, Darwin City Council, Melbourne City Council, Geelong City Council, Whittlesea City Council, Playford City Council, Hamilton City Council (NZ) and Wellington City Council (NZ).

SUPPORT FOR THE SUBMISSION FROM GRAHAM SANSOM

I support the submission from Professor Graham Sansom. Our panel's report was unanimous. We found the NSW system of local government to be in disarray and in serious financial distress. There were signs of governance not working in a number of Councils. It was not just that there were a couple of problems; every domain flaws were evident.

We described what were the characteristics of a healthy local government system and made recommendations which were mostly all directed to enhancing the strategic capacity of local government and its constituent parts. Amalgamation was only one of a number of structural reforms, and was not recommended for all Councils in NSW. Reforms to structure was a subset of of a range of reforms that the panel recommended.

The panel recommended comprehensive changes to state-local relations, democratic governance, regional cooperation, asset and financial management, and local government revenues.

BRISBANE CITY COUNCIL

One submission to the NSW Legislative Inquiry has made a number of claims about the Brisbane City Council which are ill-informed and just plain wrong. These claims are that the City of Brisbane is financially unsound and not particularly efficient. I was CEO of Brisbane City Council from 2000 to 2010. Brisbane City Council at that time had an annual budget of about $2.6B, 9000 employees and served population of about 1.2.million people. In those years we delivered a $2.6B tunnel, a

$300M plus bridge, 10% lift in bus patronage each year for 7 years straight, major water and sewerage infrastructure including 3 new wastewater treatment plants, 2004 national employer of choice across private and public sectors, a world class customer service system, $89M in strategic procurement savings. In other words much was achieved during that time, but those successes built on the achievements of the previous 10 years, and post-2010 much continues to be accomplished. All of these initiatives have been strategically significant for Brisbane. Frankly over the last 20 years, Brisbane has been transformed.

I have approached Brisbane City Council for an analysis which is shown below.

The below information is provided in reference to a recent article inferring Brisbane City Council's (Council's) financial viability compares less favourably with smaller Councils in the southern States. A link to the article by Government News is at the bottom of this document.

The crux of the argument is based on the following ratio comparison:

BCC fell down on the first three indicators with the study revealing:

- *BCC's own-source revenue (43 per cent) is well below the accepted 60 per cent benchmark and below that of COS and the other councils, which gives it less financial flexibility*
- *BCC suffers from "severe liquidity constraints" which the report says could compromise its ability to meet short-term debt. It could also affect whether cash is readily available to meet operational costs and make investments. In contrast, the other councils comfortably meet the benchmark short-term assets: short-term liabilities ratio*
- *BCC's ability to meet its borrowing costs from its operating income was below the benchmark figure and below that of the comparison groups, who have all met the established benchmark for each of the four years.*

<u>Low level of owned source (i.e. rates) revenue:</u>

The proposition that a low level of rate revenue as a % of total revenue is an indicator of poor financial flexibility is a fundamentally flawed premise.

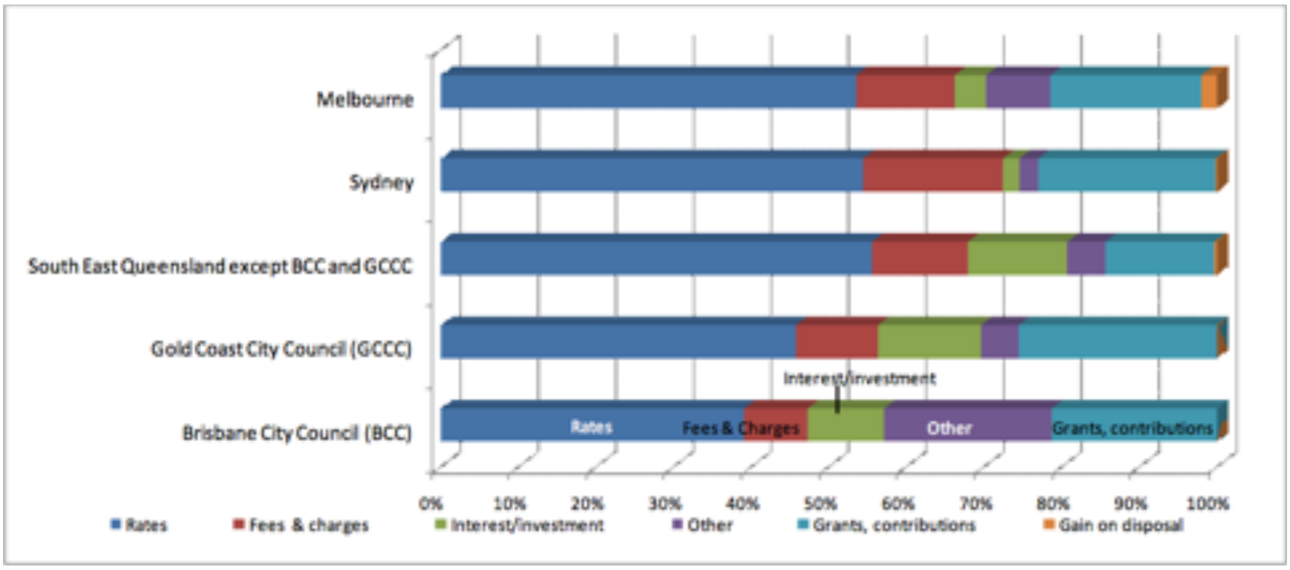
Council's relative low level of rates revenue as a % of total revenue indicates diversity of revenue source. Diversity of revenue sources provides risk mitigation and options to Council to respond to operational cost increases and capital investment requirements. In councils that do not have this revenue source diversity, there is little alternative to meeting adverse cost movements other than via increased rates.

It should also be noted that there is a structural difference as Council has a number of operational activities and associated revenue sources which are not replicated in the smaller southern state Councils, including but not limited to:

- Dividends and interest from QUU (water and sewerage utility);
- Revenue from public transport;
- Revenue from strategic investments such as CBIC;
- Revenue from holding and operating strategic assets such as quarries and asphalt plants.

Dollery et al simply measured own source
revenue[1] incorrectly because they confused rates, utilities and charges[1]
with rates and utility charges[1], and so completely omitted public
transport fares, parking fees, bus fares, dividends and interest from QUU. In other words, it[1]s not just a matter of interpretation, Dollery et al have misunderstood the BCC budget and perhaps should have asked first.

A benchmark analysis undertaken by Corporate Finance Branch in February 2012 indicated that Sydney and Melbourne councils relied on higher levels of fees and charges revenue. Sydney and Melbourne councils generated 10% and 16% respectively of total revenue from fees and charges, compared to Council's 7%.



Notes:

Revenue sourced from 2010/11 annual reports

1. Aggregate of all councils within Sydney excluding City of Botany; includes revenue from child care and aged care services not provided by other councils
2. Aggregate of all councils within Melbourne; includes revenue from child care and aged care services not provided by other councils
3. Parking revenue data not disclosed by all Councils.
4. Rates for South East Queensland excluding BCC and GCCC include water and sewerage charges of $94M of which $78M was from Toowoomba City Council.
5. Other for BCC includes Public Transport

<u>Severe liquidity constraints:</u>

The report extrapolates Council's current ratio (current assets compared to current liabilities) and implies Council suffers from "severe liquidity constraints" which could compromise its ability to meet short-term debt and also affect whether cash is readily available to meet operational costs and make investments.

Such an inference is a sweeping generalisation based on a single point in time measurement. Council maintains sophisticated treasury management systems and well developed capabilities which in part focuses on optimising cash holdings taking into account short term future cash inflows and expected disbursements. This treasury cash management process goes well beyond the 30 June measurement of current assets on hand and current liabilities. For example, the balance sheet at the end of the financial year does not fully reflect the pending cash inflows of the next quarter's rate billing whereas these expected cash inflows are critical to determining the cash requirements at any point in time.

In addition Council has significant funding facilities able to be drawn on in the short and medium term. These include repay redraw, working capital and debt financing. With these facilities in place and able to be accessed, as and when required, it is less than optimal to hold arbitrarily high levels of cash on hand as typically interest earned on short term deposits is less than interest cost of debt.

There is also a structural difference between Queensland and southern state councils in that all Queensland councils access debt financing from the State (via QTC). This is not the case within the southern States who rely on individual commercial arrangements for financing facilities.

Debt servicing capability:

The report questions Council's ability to meet debt servicing requirements from operating income and compares Council unfavourably to the southern states councils.

It should be noted that Council has retained a strong credit rating as assessed by the Queensland Treasury Corporation (QTC) via the annual credit assessment process. The QTC in the credit review has reported that Council "has more than adequate debt servicing capacity" and "new infrastructure has been appropriately financed".

In any comparison between Council and other entities, there should be close consideration of the scale and breadth of Council's operations and investments. Council retains responsibility to maintain and renew significant roads, bridges and cycle paths whereas southern state councils have responsibility for minor roads and footpaths. Brisbane City Council owns and maintains a network of 5,700km or roads within its local government boundaries while the state government has 306km. Council maintains and operates a large fleet of public transport buses, ferries and associated infrastructure including terminals and bus stops. In addition Council has made significant strategic investments in congestion reduction tunnels and toll roads which have been successfully recycled. Major Council delivered infrastructure includes:

- Clem Jones Tunnel (Clem7):
    - 6.8 kilometre toll road including twin, two-lane 4.8 kilometre tunnels
    - the first critical component of Brisbane City Council's TransApex vision addressing deficiencies in Brisbane's city and suburban road network
    - opened in March 2010, six months ahead of the contract completion date
    - avoids up to 24 sets of traffic lights and save up to 30% travel time on a cross-city trip
    - Delivered through a PPP with a D&C contract value of $2billion and Council contribution $503m
- Go Between Bridge
    - 4 lane inner city toll bridge
    - A part of Brisbane City Council's TransApex vision
    - Opened July 2010 on time and under budget
    - Project value $350m delivered through an alliance contract funded by Council
    - Final project cost $307m and $43m saving
    - Transfer of tolling concession rights and operational control to Transurban Queensland has enabled recycling of Council and Federal funding to enable the Kingsford Smith Drive and Wynnum Road upgrade projects to progress
- Legacy Way Tunnel
    - 4.6km kilometre toll road including twin, two-lane tunnels
    - The latest TransApex project
    - Connects the Western Freeway at Toowong with the Inner City Bypass (ICB) at Kelvin Grove
    - Opened June 2015 under budget
    - Project value $1.5billion
    - Delivered under a Design Construct Maintain Operate (DCMO) model funded by Council and a $500m contribution by the Federal Government
    - Transfer of tolling concession rights and operational control to Transurban Queensland has enabled recycling of Council and Federal funding to enable the Kingsford Smith Drive and Wynnum Road upgrade projects to progress

These structural differences in scale and scope of operations results in a fundamental difference in the balance sheet structure with a number of the southern state councils carrying negligible debt on the balance sheet.

REFORMS IN QUEENSLAND

The most important outcome of local government reform in Queensland in the last decade has been the creation of Councils with political clout arising from their size and breadth of regional influence. Mayors are directly elected for a four year term and have been proven to be great local leaders. They have longevity and are seen to be the legitimate spokespeople and advocates for their regional communities. These Mayors have had to contend with a range of crises in recent years and have risen to the challenges ranging from economic downturn to disaster management and recovery. Mostly they have been strong local and regional leaders who have harnessed local resources, businesses and communities to work together for the common good. They are proven advocates for their communities. State Government Ministers and senior officials deal with them as the primary local and regional leaders.

NSW LOCAL GOVERNMENT - GOING BACKWARDS FAST

As other jurisdictions make minor or major improvements to their systems of local government, the NSW system of local government slips ever backwards. Until the weaknesses of the local government system in NSW are addressed, it will be the achilles heel of government in NSW. The competitive advantage of the local government system in other States will become stronger and the reform gap will become ever wider to the detriment of NSW.

Jude Munro
23 July 2015

Google Alerts

brisbane city council + debt

As-it-happens update · June 16, 2015

NEWS

Government News

[Is **Brisbane City Council** further proof biggest not always best?]

Government News

An academic study comparing mega council **Brisbane City Council** (BCC) with ... 10 metropolitan NSW councils and the City of Sydney over four years. ... such as government grants; its ability to meet short-term **debt** obligations; the ...

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