

WINDOURAN SHIRE COUNCIL

PUBLIC INQUIRY

JANUARY 2000

WINDOURAN SHIRE COUNCIL PUBLIC INQUIRY

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The Hon H F Woods, MP
Minister For Local Government
Level 2, 151 Macquarie Street
SYDNEY. NSW 2000

Dear Minister

WINDOURAN SHIRE COUNCIL PUBLIC INQUIRY

I refer to the Instrument of Appointment dated 16 November 1999 appointing me to conduct a Public Inquiry in terms of Section 740 of the Local Government Act 1993 into Windouran Shire Council.

I have completed the Inquiry and the report is attached for your consideration.

My recommendations are on pages 11 and 12 of the report. I believe that Windouran Shire Council's financial viability is most unsatisfactory and is not truly represented in the public documents prepared by Council so as to adequately inform the local community or the State Government as to the state of affairs.

These documents fail to clearly identify, in my opinion, the liabilities for future expenditure inherent in Council's ageing and deteriorating assets and accumulating liabilities to restore them to a satisfactory condition.

This situation has arisen through council and management's apparent reluctance to seriously face the difficulties they identified in 1991 and which continue in Windouran.

It is partly due to council's failure to increase rates to an appropriate level which in turn was influenced, to a large degree, by the economic conditions faced by the local community, comprised mainly of primary producers.

It is also due to senior management's lack of forcefulness in pushing for change. Poor financial reporting processes and what seems to be a lack of knowledge of Local Government procedures added to this situation.

My recommendations include the appointment of an Administrator to council charged with doing what is necessary to restore Windouran to a reasonable financial position.

During my Inquiry I obtained views on the attempted merger with Conargo Shire. Some comments are made on this matter on pages 30 to 32 of the report. My conclusion is that while both parties entered voluntarily into the negotiations I am not convinced the opportunities and benefits from the potential merger were sufficiently explored by either council.

My recommendations include a proposal that the Administrator enter into negotiations to achieve a merger with either Conargo or Deniliquin Shires or both.

I would like to acknowledge the assistance of the Department of Local Government officers and in particular Mr. Grahame Gibbs. I also appreciate the opportunity given to me by the appointment to this role.

Yours Sincerely

S.J.Droder
Commissioner
21 January 2000.

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PUBLIC INQUIRY INTO WINDOURAN SHIRE COUNCIL.

Terms of Reference

On 16 November 1999 the Minister for Local Government approved the appointment of a Commissioner and the terms of reference for a Public Inquiry under section 740 of the Local Government Act 1993 into Windouran Shire Council. The Instrument of Appointment reads:

APPOINTMENT OF STANLEY JOHN DRODER TO CONDUCT AN INQUIRY

I, HARRY FRANCIS WOODS, MP, Minister for Local Government, in pursuance of section 740 of the Local Government Act 1993, do hereby appoint Stanley John Droder as Commissioner to hold a Public Inquiry with the following terms of reference:-

To inquire, report and make any appropriate recommendations regarding the short term and long term financial viability of Windouran Shire Council.

The Inquiry will have particular regard to:

- *whether the council has exercised reasonable financial management in carrying out its functions;*
- *whether the local community and State Government were kept informed about its financial position; and*
- *the ongoing ability of council to provide services to the community*

The Commissioner may make such recommendations as the Commissioner sees fit.

.....
Signed at Sydney
This 16th
day of November 1999

Notices to Public, Councillors and Staff

Public Notice of the Inquiry was published in The Sydney Morning Herald and the Deniliquin Times on 19 November 1999. Advertisements advising the location and scheduled times for the hearings were ordered to be published on 1 December 1999.

Letters were issued to all councillors and council management staff on 7 November 1999 advising of the timetable for public submissions and the intention to hold hearings. They also provided information on the procedures and other details of the Inquiry.

In carrying out the Inquiry I received written submissions from the council, councillors, council auditors and members of the community. In addition I have received and reviewed copies of documents that I requested including 1998-1999 Annual Financial Statements, the 1997-2002 Management Plans and the council's Annual Reports for 1996-1997 and 1997-1998.

Public Hearings were held in Deniliquin on 13 December 1999 and 20 December 1999 at which Windouran councillors and staff together with representatives of Conargo Shire, Windouran residents and the Auditors gave evidence.

Assistance to the Commissioner

Mr Grahame Gibbs and Mr Jeffrey O'Neill were authorised by me to assist in conduct of the Inquiry under the provisions of section 12 of the Royal Commissions Act 1923.

Both Mr Gibbs and Mr O'Neill were involved in all phases of the Inquiry process. Its smooth function was, in large part due to the efforts of both of them in preparing and processing data, managing the hearings and assisting in preparing this report.

Procedure at Hearings

Sections 740 (2)-(4) of the Local Government Act 1993 set out the powers of the Commissioner in the following terms:

"(2) For the purposes of any inquiry under this section, any person appointed to hold the inquiry has the powers, authorities, protections and immunities conferred on a commissioner, and:

(a) if the person is the only person appointed to hold the inquiry – on a sole commissioner, or

(b) if the person is one of two or more persons appointed to hold the inquiry and has been appointed as chairman of the inquiry – on a chairman of a commission,

by Division 1 of Part 2 of the Royal Commissions Act 1923.

(3) The provisions of section 152 (Contempt of court) of the Justices Act 1902 apply to any witness or person summoned by or appearing before the person so appointed in the same way as they apply to witnesses and persons in proceedings under that Act.

(4) The provisions of the Royal Commissions Act 1923 (section 13 and Division 2 of Part 2 excepted) apply, with any necessary adaptations, to and in respect of any inquiry under this section and to and in respect of any witness or person summoned by or appearing before the person or persons holding the inquiry."

The procedures adopted in an Inquiry of this nature are not fixed and the Commissioner is given a wide discretion. At the outset I indicated my preference for the Inquiry to proceed on an informal basis as far as possible.

All evidence was taken on oath or affirmation.

Other Matters

In addition to the terms of reference I consider that I should have regard to whether the council fulfilled the charter, provisions and intent of the Local Government Act 1993 and otherwise fulfil its statutory functions.

The council's charter is set out in section 8 of Chapter 3 of the Local Government Act 1993.

"8 The council's charter

(1) A council has the following charter:

- to provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively*
- to exercise community leadership*
- to exercise its functions with due regard for the cultural and linguistic diversity of its community*
- to properly manage, develop, protect, restore, enhance and conserve the environment of the area for which it is responsible*
- to have regard to the long term and cumulative effects of its decisions*
- to bear in mind that it is the custodian and trustee of public assets and to effectively account for and manage the assets for which it is responsible*

- *to facilitate the involvement of councillors, members of the public, users of facilities and services and council staff in the development, improvement and co-ordination of local government*
- *to raise funds for local purposes by the fair imposition of rates, charges and fees, by income earned from investments and, when appropriate, by borrowings and grants*
- *to keep the local community and the State government (and through it, the wider community) informed about its activities*
- *to ensure that, in the exercise of its regulatory functions, it acts consistently and without bias, particularly where an activity of the council is affected*
- *to be a responsible employer,”*

The requirements of the Local Government Act are supported by a framework of Regulations, Practice Notes and Codes, some of which are mandatory and some of which are adopted voluntarily by councils.

SUMMARY OF FINDINGS

Council's financial viability has been diminishing since at least 1991 from when it has progressively been unable to provide or maintain the quality of services at the level previously delivered to its community.

At the beginning of year 2000, council has no financial reserves, a comparatively low general rate regime, ageing plant and equipment, a minimal workforce and a deteriorating road network.

Action has been taken in the 1999 calendar year which will improve the short term position but will do little to redress the issues of a deteriorating road network, ageing plant and a minimal workforce.

In the long term the poor financial viability of the council will be exacerbated unless further action is taken to substantially increase council revenue and gain efficiencies in the use of plant and the workforce.

Council in its response to the department of Local Government on 1 November 1999 proposed the following actions:

- "a) Approve a rate increase in 2000/2001 substantially above the rate-pegging limit. The precise percentage increase would be considered in conjunction with the budget for that year.*

With the Minister's approval council will continue to seek substantial rate rises in subsequent years to improve its financial position.

The additional revenue derived from approved rate increases would be set aside in a reserve, and not used in the normal day to day running expenses.

- b) A moratorium on plant purchases for a period of 12 months and rationalisation of plant and equipment to match the workforce.*

- c) *It is the intention of council to look at the spread of working hours for the works staff, and implement where possible the better spread of the fortnightly hours to maximise the use of its plant and improve its efficiency. The Shire Engineer has been asked to prepare a report to present to council at the November meeting providing details on the options in relation to the flexibility and spread of hours over a fortnight, within the limitations of the Award.*
- d) *In August of this year all staff were approached and asked to submit indicative date for their accrued annual leave to be taken. Council also intends over the next year or two to encourage employees with long service leave, to take their entitlement in accordance with the provisions of the Award.*
- e) *Council has instructed the Shire Engineer to provide it with a priority categorisation of its road network (most of this information has already been prepared) the purpose of which is to determine the level of service that can be expected in respect of each category."*

The increase in general rates for the 2000-2001 year of upwards of 10% above the permitted rate-pegging increase with projections of a further large increase for the 2001-2002 year is in itself, a self admission by council that they have failed to carry out their charter in terms of:-

- ensuring the services to the community have been managed efficiently and effectively
- having proper regard to the long term and cumulative effects of its decisions
- properly managing the assets for which it is responsible
- raising funds for local purposes by the fair imposition of rates, charges and fees
- keeping the local community and the State government fully informed about its activities
- being a responsible employer

In regard to the particular items within my terms of reference I make the following comments:

1. Whether the Council has exercised reasonable financial management in carrying out its function.

In my opinion council and its management have not exercised reasonable financial management in carrying out its function. Council was made aware by management in 1991 of concerns as to its longer term position yet chose not to fully address the issues and thus allow its services and assets to continue to deteriorate.

Management having raised these concerns in 1991 did not on the evidence provided to me continue to push for change in subsequent years until April 1999.

Council also recorded operating deficits of \$841,000 in the two years 1997-1998 and 1998-1999. The magnitude of these figures did not appear to be of great concern to councillors or to its auditors who advised council that:

"Council is living within its means and the financial position is sound subject to receiving approval for the grant moneys referred to above from the block grant; however it is important to build reserves to cover a reasonable level of plant replacements and to cover a portion of employee leave entitlements".

The attitude of council and management that came through to me was a reluctance to face major decisions such as applying for significant general rate increases or advising the community that services would inevitably decline.

In summary the decision was essentially to do what they could with what they have in the hope that the future might fix the problem.

2. Whether the local community and State Government were kept informed about its financial position.

The Government requirements as to an Annual Report, Annual Financial Statements and a Management Plan have been prepared except for the 1998-1999 Annual Report which has not been completed as of 31 December 1999.

These documents are the prime source of information for the local community and the State Government.

In my opinion these documents provide information in a manner which puts form above substance. They omit important information as to the condition of the council's assets and claim adherence to important financial and other policies and treatments that are not in practice followed by the council.

In addition the council's auditors did not, as independent reviewers of the Financial Statements, in my opinion, properly discharge their responsibilities to the Windouran community.

There are instances where these documents could be said to be misleading.

The content and information within these three important documents is such that that it is my opinion that neither the local community or the State Government were adequately informed about the council's financial position.

3. The ongoing ability of council to provide services to the community.

The council has no financial reserves, depends largely on Government grants and contributions to finance limited community services, has a minimum workforce, ageing plant and deteriorating assets.

Without a significant increase in revenue the quality and volume of services to the community will diminish significantly.

The ongoing ability of council to provide services to its community depends in it obtaining Ministerial approval for a significant increase in the general rate and achieving better efficiencies from its assets and workforce through the conversion of roads from sealed surface to gravel surface.

RECOMMENDATIONS

1. The council's Annual Report for the 1998-1999 year be completed and provided to the Department of Local Government and made available to the local community forthwith.

2. That an Administrator be appointed to Windouran Shire Council as soon as possible. In addition to managing the council's normal operations, the Administrator should :-
 - (i) Prepare and expose for public comment an amended draft Management Plan for the period 2000-2003 that fully discloses the current condition of all council's assets and proposes actions and strategies to respond to that condition.

This draft Management Plan must include projected financial reports prepared in the same format of the principal schedules required for the Annual Financial Statements. These are the Operating Statement, Statement of Financial Position and Statement of Cash Flows for the three years to properly reflect the cost of the proposed actions and strategies.

 - (ii) Dispose of all assets determined as surplus to requirements as quickly as possible.

 - (iii) Prepare an application to the Minister for Local Government to approve a special rate increase for the years 2000-2001 and 2001-2002, based on the projected financial results for those years, plus additional amounts to establish financial reserves so as to restore council's current ratio to a ratio of at least 2.5:1 by June 2001.

3. The Administrator open negotiations with Conargo Shire and Deniliquin Shire aimed at achieving a merger with one or both councils.

4. As an alternative to merger the Administrator negotiate with either Conargo or Deniliquin to provide administration and engineering support services to Windouran Shire.

5. New auditors be appointed to council at the end of the term of the existing auditor's current contract.

OUTLINE OF THE REPORT

Windouran Shire is predominantly a rural community. It covers a land area of some 5092 sq km, has a population of 387 people and 410 kilometres of road of which 200.1 kilometres are sealed to varying widths.

The Shire council has 6 councillors, with two appointed by the residents of each of three Wards. Councillors are primarily land owners and farmers residing within the Shire.

The Shire has three small towns or villages. These are Pretty Pine, Wanganella and Booroorban. The largest commercial centre near Windouran (but not within the Shire) is Deniliquin which is also the location of the council offices, and a depot for plant equipment.

Council offers to its community general services expected of a council, such as a water service to Wanganella residents and in conjunction with neighbouring councils, services such as library, counselling etc. The major activities in terms of expenses are general administration and road workings. These two expense areas account for some 89% of total activity costs of the Shire.

Income comes from general rates, 35%, and Government grants and contributions, 61%, leaving just 4% of revenue being generated from other sources.

Government grants and contributions have declined over the past few years and in the 1998-1999 financial year general rates as a percentage of total revenue increased to 34.7%. General rates are estimated to contribute \$521,558 in the current year 1999-2000.

The council and senior staff appear to work well together with no evident friction between them. In the main they appear to have common objectives, have concern for the interest of their community and are committed to the Shire. I believe that they are conscientious in carrying out their role.

They appear unanimous in their belief that it is in the best interests of the Windouran community to merge with another adjacent council provided it is similar in the profile of it's own community and culture of service to rural property owners.

The General Manager and Shire Engineer are the two senior officers of the Shire and both have long experience in local government. The remaining employees as at December 1999 are primarily engaged in road maintenance or maintenance of the Shire's plant and equipment.

Labour turnover is relatively low with 10 employees out of 13 having been employed by council for over 10 years.

In 1991, the General Manager and Shire Engineer reported to council a view of the future faced by Windouran Council. It was a very perceptive report and a copy is attached to this report (Attachment 1).

In essence the report predicted that in the long term, council's financial position would result in a need to merge with another council to ensure continuity of service to its community.

The long term has now arrived with the council having as at December 1999 a small number of employees and staff, a deteriorating road network and in the main ageing plant and equipment and inadequate reserves to fund employee entitlements or replace plant.

Some strategies have been instigated and actions taken. Staff have been reduced by the non-replacement of voluntary resignations and in some past years additional grant revenues were gained as a result of representations to Government.

None of these strategies have been able to prevent a continuing deterioration of the road network thus creating a large backlog of maintenance or the inability of council to fund plant and equipment replacement through its own resources.

The current ratio as reported in council's 1998-1999 Annual Financial Statements is 1.3032 down from 1.9025 and 2.1062 in the previous two years providing evidence of a steady and serious decline in council's financial strength.

Without disputing the treatment of employee entitlements in the 1998 – 1999 Financial Statement this figure of 1.3032 in 1998-1999 would reduce to 0.4879 if all accumulated but unpaid benefits to employees were classified as current liabilities. A current ratio of 0.4879 is a very worrying figure for any business.

Council decided in 1997 and 1998 to acquire two major items of equipment by lease arrangements being a Freightliner Truck and Trailer and a Caterpillar 12H grader. Lease payments on this equipment amount to \$54,941 per annum over a period of 5 years. In January 1999 council also decided not to replace two employees who left voluntarily, they sold the tractor (bulldozer) to an employee made redundant in mid year and offered voluntary redundancy which was accepted by two administration staff and a mechanic. These people left council's employ in November and December 1999.

In 1999, negotiations to merge with Conargo Shire were initiated however Conargo withdrew from the negotiations claiming they were concerned as to the financial position of Windouran and the impact that a merger would have on the ability of a newly merged council to service the residents of Conargo Shire to the standard they currently enjoy.

So at the start of the calendar year 2000 Windouran Council's financial existence largely depends on employees not taking their backlog of employee benefits in a lump sum. It has a road network, which has been seriously deteriorating over the last 5 years at least, ageing plant and some surplus equipment.

It has a low general rate base and a high dependence on Government grants and financial assistance.

Council now seems to have agreed, at least informally, to dispose of surplus plant and allow a proportion of its sealed road network to be gradually converted to a gravel surface. They will encourage all employees to take a proportion of their accumulated leave entitlements and intend to apply to the Minister of Local Government for a special rate increase of between 10% and 12%.

They also appear willing to reopen negotiations with Conargo Shire to achieve a merger. Conargo Shire continues to have concerns about Windouran's financial situation and negotiations are likely to be difficult.

An alternative merger possibility is Deniliquin Shire Council. Deniliquin is a 'town' shire, which according to evidence given at the inquiry and my own perception is the primary business, commercial sporting and cultural centre for Windouran residents. It is the centre from where many of the joint venture council services are delivered to Windouran residents.

Discussions have not been initiated with Deniliquin Shire as on the evidence given to me, Windouran Councillors believe that such a merger is not in the best interests of their residents.

The following addresses in detail the terms of reference of the inquiry and important factors that has led to my findings and recommendations.

Short and Long Term Viability of Windouran Shire Council.

When considering the question of the short and long term viability of council, regard must be had for the total management of the operations within the Shire.

In this case I have chosen as a starting point, 1991 when the General Manager and the Shire Engineer advised council that in their opinion the Shire's financial situation and condition of its assets would decline slowly and remedial action, such as a merger with another council, would become necessary in the future. [Attachment 1]

Management of council is a team effort between the councillors providing an oversight of the operations including the identification of community expectations, the adoption of the Annual Management Plan and Financial and Operations reporting against that plan. The General Manager as the key implementer of the plan is part of that team and must be heavily involved in these processes

It is my opinion that council sees the processes involved in the development and implementation of the Management Plan as a control device imposed by the Department of Local Government

This imposition on them is compounded by the need to prepare Annual Financial and other reports to account for their operations, which is also seen as just another imposition by the bureaucracy.

They see no obvious or specific connection between this process, the objectives in the Management Plan and the performance and employment contract of the General Manager.

Council approved the issue of a draft Management Plan on 15 April 1999 and adopted that plan on 20 May 1999 for financial periods 1999-2000, 2000-2001 and 2001-2002.

On the same day the Draft Management Plan was issued for public comment council considered a letter from the General Manager advising of his concerns about the deteriorating financial strength of the council (Attachment 2).

The adopted Management Plan did not acknowledge the points raised by the General Manager or telegraph any changes to the operations of the council.

In short, warning bells were ringing loudly but were not heard.

I believe that council had deep-felt concern for their fellow farming constituents within the context of the poor economic state of the local farming industry. This

deep-felt concern affected their judgment as to the need to apply for special rate increases and make other cutbacks to address council's problems.

The attitude was largely to *“do what we can with what we have and the future may fix the problem“*.

On the evidence available Windouran Shire Council will struggle to provide community services in the short term during which the condition of its road network will increasingly deteriorate and its major capital equipment will age further thus incurring higher maintenance costs and down-time through mechanical unreliability.

In the long term, the backlog of costs will make the Shire financially insolvent leading to a position of continuing deterioration of community facilities and a higher burden of rates to the Windouran Shire Community.

Council have been aware of the evolving condition of its finances and infrastructure since 1991, however has chosen a strategy to date of making small cutbacks designed to delay the inevitable in the hope of receiving significantly higher grants from the various Government agencies which have not materialised.

The following comments on particular items covered by the Inquiry. They are not an exhaustive list of points made or issues raised;

- **Department of Local Government**

The Department of Local Government in reviewing the 1998–1999 financial statements for Windouran decided to write to the council expressing concern as to its future viability. The response from the council argued that the position was not as expressed by the Department and that council was proposing a number of strategies to redress the situation.

Mr. Gibbs (Manager, Finance Management Branch - Dept of Local Government) in giving evidence stated the following;

“The Department of Local Government considers that Windouran Shire Council’s current financial circumstances are very poor and that the council is not financially viable. Over the last 4 years the council has reported operating deficits which have reduced council’s net worth by 25 percent.

The council is reliant on grants and contributions for about 60% of its income. Only 35% of income is derived from rates and charges, which is a more secure form of income. There is no guarantee that the grants and contributions will continue at the same level. Windouran has been fortunate in that its grants have been increasing, for about 10% this year, and the State average is only about 3%.”

He went on to say;

“To rectify the problem, the General Manager proposed:

- a large unspecified increase in rates*
- a reduction in the council’s workforce, through redundancies*
- The sale of all non-essential plant and equipment*
- A 12 month moratorium on plant purchases, and;*
- Reverting some sealed roads to gravel.”*

He then concluded with

“In my opinion these are measures which threaten to severely reduce the council’s service levels to the community. Furthermore, the ratepayers are being asked to pay higher rates. In short, it does not provide the necessary assurance to the Department that the council is financially viable and that it can continue to provide services to the community.”

The intervention of the Department of Local Government in the second half of 1999 and the establishment of this inquiry encouraged council to make changes to its administration personnel through voluntary redundancies and to focus on other strategies to recover the situation.

Council, its auditors and other submissions put a view that the Department of Local Government's intervention was an unreasonable action yet in my opinion without this intervention council would have continued to stumble on without addressing its major issues.

- **General Rate increases.**

I asked the General Manager, Mr. Conallin,

"Why has the council apparently not considered that they should apply for a general rate increase to the Minister for Local Government in the past?"

The General Manager answered

"Look, I'm only surmising because they're approving decisions. I would imagine that, bearing in mind that it's a rural area predominantly, I think the capacity to pay may have been some particular part of the reason why not".

I then asked,

"Have you put that possibility to the council and how many times?"

Answer was

"No, I haven't. I don't think anybody likes rate increases".

As noted previously, council has now indicated that, effective for year 2000-2001, they will apply to the Minister for Local Government for a special rate increase of between 10% and 12%.

They also indicated that further special rate increase applications in future years are likely. Mr. Gibbs asked the following question of the General Manager;

"You mentioned that you would need a 10% or 10% to 20% increase in rates and that would raise about 50 to 60 thousand dollars per annum and then there would need to be a further increase the following year, so after two years, you're looking at an increase of around 20%, in round terms."

The response was;

“Yes. Mr. Gibbs, that’s right.”

In submissions to the inquiry many councillors indicated their agreement with the proposition of a 10% to 12% increase in rates for the 2000–2001 year. Yet in answer to the following question;

“It seems to me that your strategies for handling the problem have changed since the Draft management Plan. Have you put together another management plan with associated financials and whatever?”

The General manager’s response was;

“No, I haven’t, Mr. Commissioner”.

A comparison of general rates applicable to farming properties with other neighbouring Shires show that Windouran is 0.3% below Conargo Shire and between 29% and 79% below those levied by Hay, Murray or Wakool Shires.

It is unfortunate that the need to seek a special rate increase of some magnitude was not realised before that Department of Local Government queried the financial position of the council which in turn led to this Inquiry.

- **The road network.**

Turning now to the road network council has an expressed policy to reseal roads every 10 to 12 years. I understand that within Local Government this is the expected time period over which it becomes economically justifiable to reseal as opposed to continuing to patch and repair.

I asked the General Manager how long has it been since that policy has been achieved. He answered

"I say years, I don't know precisely how many but certainly a long time".

Later from evidence of the Shire Engineer I was told that the reseal 5-year plan approved in 1994 had only been achieved to the extent of 18%. In fact, according to reports to council, of the projects proposed in 1994 only those scheduled for 1993 – 1994 were actually completed plus 1.46Km. of a road resealed scheduled for 1997 – 1998 year at a cost of \$14,720.

Further the 1997 – 1998 Annual report indicated that some \$3.2 million was required to restore council roads and infrastructure to a satisfactory standard.

The report comments from a review of the roads and I quote

"Undoubtedly there are some roads which require large sums of money to be spent particularly on reseals however generally the road network is in a satisfactory condition."

This same report quotes the Shire Engineer as reporting the road network generally:

"...in a satisfactory safe state. Some roads require attention:

208Kms of sealed road – 80Kms reseals required to bring network up to standard. Estimated total cost \$2.575 million.

Bridges are satisfactory except for Windouran Bridge, which needs major repairs."

It is noted that these bridge repairs are estimated to cost \$600,000 although the 1997 – 1998 maintenance budget for the bridge was just \$3,023.

Given that expenditure on roads over the past 5 years has only managed to reseal 18% of the roads detailed in the 1994 road maintenance plan the ability to fund \$3.2 million is unlikely to come from the revenues currently generated by council.

Council has advised that they have determined to gradually convert a percentage of sealed roads within the Shire to gravel surface by allowing some roads to deteriorate to a stage where there is no alternative. This conversion will reduce ongoing maintenance costs substantially at the expense of a lower quality of road surface inherent in unsealed surfaces.

I also note that road costs do not include the lease payments on the grader and Freightliner truck and trailer or the cost of the Engineer and his office which appear in the Financial Statements as Administration costs.

- **Plant and Equipment**

In respect of plant and equipment, council has a policy of replacing major plant and equipment every five to seven years. This is but another policy that has not been followed for some time and a list of the ages of certain plant given below is evidence.

Part of the reason for this is that for some years, and contrary to the accounting policies, council has not generally depreciated its plant and equipment at depreciation rates recommended by the Department of Local Government and thus restoring its capital. It has chosen to make what was advised to me as arbitrary depreciation provisions, the result of which is difficulty providing the necessary funds for replacement of the ageing plant items.

To assist councils to determine appropriate depreciation rates the Department of Local Government provides indicative lives of assets [Section 9 of the Local Government Asset Accounting Manual] for depreciation calculations. Mr. Gibbs

gave evidence that these indicative lives are a result of consensus estimates of a number of Shire councils and the representatives of Conargo Shire also gave evidence that they apply these indicative lives to calculate depreciation.

Windouran's Financial Statements state that they use these indicative lives for their depreciation calculations but in practice these are not followed. The General Manager in a letter to me stated in respect to plant & equipment;

"The depreciation rate varies according to the value and age of the item. In most cases arbitrary rates were used".

- **Plant Utilisation.**

I have been advised that the following equipment is now considered surplus to Council's requirements or incapable of being utilised considering the current level of manning.

Equipment Item	Model [year]	Book Value - \$
Champion Grader	1994	111,000
Prime Mover	1984	17,000
Pacific Roller	1970	7,600
Semi Water tanker	Not known	4,290
Low Loader	1969	4,520
Dodge Tray Truck	1979	1,000
Fuel trailer [Grader]	Not known	1,500

Council owns another grader much older than the Champion grader listed above. The decision that this Champion grader is surplus is based on the Shire Engineer's estimate of its usefulness compared with the older grader.

Notable from this list is the age of the surplus equipment except for the Champion grader. The Shire Engineer when asked to comment on plant utilisation said;

“Because of our staff numbers – there’s a total, if you like, of 13, there’s the General Manager and myself and then there’s 11 outdoor staff, if you like. Of the 11, there’s a mechanic and the foreman. That leaves what I call 9 troops in the field, and we’ve got, at the moment, two casuals. It’s not possible, I don’t think, to utilise or fully utilise the plant we have. Depending on the type of work – well, three graders normally - depending on conditions normally, you’d have a grader, a water cart and a roller that work together.

That takes care – if you had three graders operating, that takes care of nine people straightaway. That doesn’t include, you know dirt carting, you know, other types of work. It’s not possible, with the number that we have, to fully utilise the equipment we have.”

Subsequent to the hearing I have been advised that as of December 1999 the leased grader and Freightliner have only been used to the extent of 61% and 63% respectively of the usage level allowed under the individual lease agreements before additional charges are levied by the owner.

COMMUNITY INFORMATION

- **Whether the local community and State government were kept informed about its financial position.**

The methods available to the council to inform the public of its financial position are many. They include individual meetings with the community and the formal reporting processes required by Government.

These formal processes include the Annual Financial Statements, the Annual Management Plan, and the Annual Report.

It is difficult to find in these documents any clear warnings to the Community or State Government instrumentalities of the deteriorating position council has been facing since at least 1991.

These statements together with the yet to be completed 1998–1999 Annual Report are, I understand, the only formal source of information available to the local community and the Department of Local Government on which to make a judgement on the council's performance and financial viability.

The Department also has access to the Management Plan of council. However as noted earlier this document does not clearly outline the future costs accumulating through the deterioration of the road network or the ageing plant and equipment. Indeed the financial tables attached to the Management Plan omit charges for depreciation on major assets including roads.

These documents could in my opinion be assessed as sending false messages to both parties. In saying that I do not necessarily believe that this was deliberate but was largely due to the attitude that these were obligations imposed by the Department of Local Government and were to be honoured in form but not necessarily substance

- **Key information and Reporting Documents.**

Following are specific comments on the three key documents, which are required as a means to inform the local community and the State Government of the financial position of the council.

1. Annual Financial Statements and particularly the 1998 – 1999 Statements.

In the submission by Windouran's auditors it appears they have little regard for the worth of the Annual Financial Statements when they state in their formal submission;

“Herein lies a problem; the General Purpose Financial Reports should not in our view be used as the primary indicator of the appropriateness of council's financial management and its ability to sustain its operations.”

There are many issues in the 1998 – 1999 Financial Statements that indicate a lack of care in their preparation. For instance;

i. Statements of Significant Accounting Policies.

Note 1 to the Financial Statements detail 3 pages of accounting policies of which eleven statements are either not applicable to the council's operations or are not reflected in the Financial Statements.

ii. Financial tables

Certain information in these Financial Statements are incorrectly tabled or do not relate to the council's operations and therefore are either unnecessary or if required by the Department of Local Government are inappropriately completed.

iii. Corrections.

The 1998 – 1999 Financial Statements were amended in October 1999 to correct certain details after the Department of Local Government made queries on these Statements

I find it difficult to understand how the Auditors can attest to the Financial Statements that disclose accounting policies that are not followed in the Financial Statements.

Given the number of errors and incorrect statements within the Financial Statements, I am also concerned that the auditors may not have maintained a proper level of independence in carrying out their responsibilities.

It is also of concern that the auditors were not able to find the time to attend a meeting with council to discuss matters of concern they may have had with the Financial Statements. It is of equal concern that the council also did not deem a meeting as necessary before signing the Financial Statements although both parties had met in previous years.

I am left wondering whether the view of the Auditors as to the usefulness of the Financial Statements is part of the reason why these documents are presented more in form than in substance.

2. Management Plan

The Management Plan is an important document designed to inform interested members of the Community as to the intentions of the council for the forthcoming 3 years of operations. It outlines certain policies so that the interested members of the Community can understand the planned expenditure of their rates and for the Government to understand the planned expenditure of the various grants and other contributions made to council to provide or maintain community facilities.

The Management Plan for years 1999 – 2000, 2000 – 2001 and 2001 – 2002 was prepared and approved in the context of serious reduction in revenue. The gross revenue of council in 1997 – 1998 was \$1.845 million and dropped to \$1.606 million in the 1998 – 1999 year a reduction of \$239,000. In that same period costs were reduced by \$42,000.

Other advice was also available to council. On 15 April 1999, the same day council approved the draft Management Plan for display to the community, the General Manager advised council of concern he had as to its future viability. One month later council approved the Management Plan without any change or reference to the issues or advice contained in this report.

All the information I have obtained indicates, to me, a lack of involvement in the planning process by councillors. It also indicates a reluctance by management to use this same process to properly communicate their concerns and major issues either to the council, the local community or the State Government.

It illustrates overall a lack the commitment to the process by those who are in the best position to identify issues and make improvements.

- **Services to the community.**

Council has major problems in continuing to supply the existing services to its community at the level previously or even currently enjoyed in that the assets of the council are either ageing or seriously deteriorating to a level requiring large expenditures to restore the assets to the condition of years past.

The primary cause of this position is the extent of the road infrastructure within the Shire, reduced revenue to spend on maintenance, the lack of appreciation, or acceptance, of the need for better planning to respond to economic reality and the failure to adequately provide for the replacement of council assets and liabilities.

Contributing to this lack of resources is that council's rating structure has not kept up with other councils [excluding Conargo]. Earlier in this report I noted that Windouran's general farming rate is between 29% and 79% less than the rates applied by other adjoining councils. In raising this issue with the General Manager he commented;

"Windouran would be the lowest rate based council in NSW; I think in this current year we are anticipating \$512,000 in rates, and that is certainly well below the next council that I am aware of."

He then said

"It certainly isn't operating with surplus staff, it's cut to the bone and I think the ratepayers appreciate that."

And then,

“When you’re working from a low rate base, one of the things you must look at is to increase the particular rating area. For this to happen, a 10 per cent, or 12, or whatever, does rely on Ministerial approval, and without that I think it would make life very, very difficult.”

The major service provided by council to its community is the maintenance of the road network and which accounts for some 91% of council total revenue in 1999 and 84% in 1998.

This plan for 1999-2000 repeats policies that have not been achieved or followed for some years. The underlying financial statements attached to this plan essentially accept that these policies will not be achieved in 1999-2000 and in my opinion will not be achieved under current strategies for the succeeding two years if ever.

The 1998 – 1999 Management Plan detailed three resealing projects for completion that year. It appears that none of these projects had commenced that year and they now appear in the 1999 – 2000 Management Plan as projects to be carried out this current year.

In addition, the 1999 – 2000 Management Plan in detailing action to be taken on other road maintenance in this year simply repeats what council said it would do in 1998 – 1999. There is no explanation as to why council was unable to achieve any of these 1998 – 1999 planned actions in the allotted year.

- **Merger Issues**

The negotiations to merge with Conargo Shire were and remain an important issue for Windouran council. Unfortunately it also appears to be an excuse to delay addressing the necessary actions to solve the overall problems of the Shire. It was apparently a great surprise to various councillors when Conargo withdrew from the negotiations.

It appears that a major catalyst for Conargo's withdrawal was a critical report on Windouran's financial position prepared by Conargo's auditor. This too surprised a number of Windouran's councillors.

None-the-less a merger with Conargo or another neighbouring council is an important issue for this council.

Councillors generally seem to believe that a merger with Conargo Shire is a desirable objective in the long term. The reasons for this are twofold:

- 1. A belief that mergers between councils are inevitable to gain, in the interest of the community, efficiencies of scale by pooling resources.*
- 2. A belief that a larger council will act as a barrier to being absorbed into a 'Town council' and thus "have a council which will not properly represent the Country people."*

The reason for this latter point was given as;

"Because you have got two different outlooks of council. The Town council and a rural council. The rural representatives will always be outnumbered and hence priorities move away from the rural ratepayers."

A merger with Conargo would need to address the disparity of rates on farming lands between the two Shires as a significant increase in Windouran farming general rates, if approved by the Minister, will result in Windouran rates being at much higher than Conargo

I am not aware whether a new merged council would be permitted to have different general rates applying to different locations within the one expanded council area.

I believe that in the long term Windouran residents will benefit from a merger with another council. Having heard evidence from both Conargo and Windouran councillors and staff I am not convinced that these negotiations were conducted by either council in a positive spirit to overcome obstacles that might emerge.

There was apparently no analysis attempted to ascertain the degree of cost savings or efficiency gains that may be achievable by the merged body. There was no analysis of cash that may be released from the sale of assets not required for the merged operations, for example by the sale of an office and plant depots that would be surplus to the requirements of the merged body.

Attachment 1.



1991 Report

ALL COMMUNICATIONS
TO BE ADDRESSED
TO THE SHIRE CLERK

Windouran Shire Council

P.O. Box 60,
Deniliquin, N.S.W., 2710
Telephone: (058) 81 2422
Fax: (058) 81 4154

FILE NO.

-CONFIDENTIAL-

The Shire President & Councillors,
Shire of Windouran,
394 Hay Road,
DENILIQVIN. N.S.W. 2710

SUBJECT: SHIRE VIABILITY - LONG TERM

Gentlemen,

It has been of concern to both the Shire Engineer and myself for some time now about the long term viability and sustainability of the Council, in terms of its financial capacity and its limited resources to extend beyond the current term of Council and the resultant effect on the operations of Council.

This report has been prepared and presented so as to place before you the issues we see in relation to Council's continued operations as we enter the 21st Century.

Let me say from the outset that Council is not currently facing a financial crisis, nor do we envisage one within the next 3-5 years, if at all.

When one looks at the key indicators when discussing financial management i.e., level of working funds; debit service ratio; level of reserves; and reliance on external funding then Council in relation to the first 3 is performing satisfactorily, on the latter indicator then Council is much better placed than a number of other Councils.

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FILE NO.

-2-

A study of the budgets presented over the last couple of years have seen a trend towards Council becoming more reliant on its operations, being that of a maintenance Council (in the current economic climate it is not the only one and this could be seen as prudent budgeting) as opposed to a pro-active programme e.g. sub-division development, shire road construction, in other words the scope of Council for expansion is very limited, as is its rating base. Herein lies a problem for the future.

We don't believe that Local Government generally and Windouran Shire in particular is insulated from the effects of the recession and in terms of staffing levels, the latest local government census indicates that this Council employs the second lowest number of employees. Should Council's workforce for whatever reason reduce to 10-15 employees, which is not unrealistic then that issue itself will present an opportunity for some to comment on the need for and the effectiveness of such an organisation continuing.

The question may be asked could contractors perform the tasks more efficiently and effectively or for that matter has the Council outlived its effective useful life under its current structure.

We are both witnessing signs that the long survival of the council is eroding e.g. reduction in staff by natural attrition with no replacements, inability to purchase of major items of plant, and the possible deferment of resealing works so as to enable the utilisation of its current work force so as not see money go to contractors.

As mentioned previously Council's reliance upon government grants is not excessive compared with some other Councils, however should Council suffer a severe reduction in road funding then its position is at best tenuous.

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-3-

FILE NO.

Council's declining population is also a real concern. Projections for the year 1996 and beyond are not very encouraging. Refer attachment No.1, We would anticipate closer examination by the Department of Local Government on population trends of Local Government Authorities and the desire to rationalise local government areas based on population some time in the future.

We are sure the points raised in this report have at some time been considered by Councillors, however they are again raised to highlight the reality of the situation from a staff point of view.

This report is not to alarm or panic its purpose is to merely address the reality of the position and if necessary for Council to initiate measures to ensure that Windouran Shire will survive if not as it is known today then in some other form that will retain to some degree the identity of the Shire.

To this end we are of the opinion that its only chance for long term survival would be to amalgamate with the Conargo Shire Council, which shares a greater "community of interest", with the residents of Windouran Shire, perhaps to be known as Boonoke Shire, as opposed to the Municipality of Deniliquin or any other Council for that matter.

We also recognise that our prognosis for the long term survival of the Shire may be incorrect notwithstanding this it would be better if action was initiated of Council's own volition to overcome the perceived difficulties before;

- a) Council is directed by the State Government
or
- b) Council's resources are so depleted that such a reorganisation is inevitable.

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General Manager Report to Finance Committee - Meeting 15th April 1999

Council's Financial Position

Introduction

This report has been prepared following my concerns about the continued financial viability of the Council and to advise Council that unless action is initiated now to redress the deteriorating financial circumstances, which confront it, then the opportunity may be lost.

Principally my concerns stem from the anticipated deficit at the end of this financial year on top of the actual deficit recorded in the 1997/98 financial year.

This report will contain suggested measures to address the situation, some of which may not be palatable, nonetheless need to be considered with an open mind.

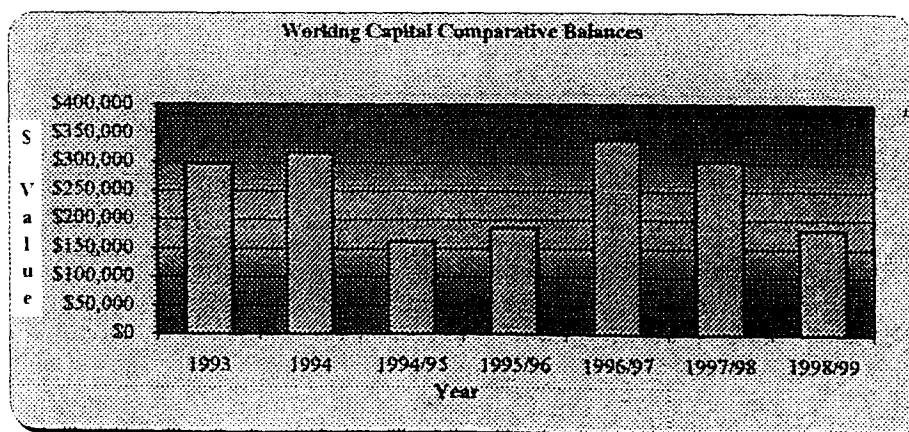
I hope that this report is seen as constructive document and not as a pessimistic or negative approach to confronting the important issues. One of the strengths of this Council is that it is currently debt free having been so since 1986, so it is not all doom and gloom.

Working Capital

There are a number of indicators which measure the performance of a Council in financial terms, one which has particular relevance is Working Capital. This measures the value of current assets to current liabilities. Council commenced the financial year 1998/99 with Working Capital of \$301,000, following a deficit in the 1997/98 financial year of approximately \$40,000, principally due to the Council entering into leasing arrangements, for plant and equipment.

On current projections an anticipated deficit of \$119,000 in 1998/99 is forecast, leaving Council with an anticipated balance of at the end of June 1999 of approximately \$182,000. This is by no means the lowest level ever recorded, but the difference this time, is the opportunity to improve on this, for without additional revenue this remains impossible, unless strategies are introduced to halt the decline. This is no easy task.

I refer Councillors to the graph No 1 below which illustrates the level of Council's Working Capital over a period of seven years.

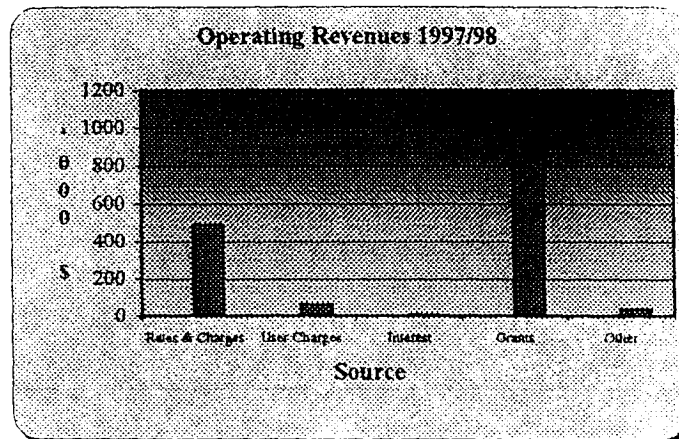


It is important for Council to protect and improve its level of Working Capital so as to be in a position to provide for unexpected expenditure, e.g. this year Councils Workers Compensation insurance premium went from \$34,586 in 1997/98 to \$63,707 in 1998/99. This represents an increase of \$29,121, or 84.2%. Fortunately in this case it was offset by a decrease in superannuation contributions, however this will not always be the case.

At the end of this report I have listed a number of matters which will require Councils consideration in order to maintain, consolidate and improve where possible the level of Working Capital, which is essential if it is to remain debt free and financially viable.

Sources of Councils Revenue.

I refer Councillors to **graph No2** which illustrates the actual sources of revenue derived in the Financial Year 1997/98, and highlights the dependency on grants and contributions as the main source of revenue. Any diminution of the monies received from current sources would be disastrous.



Council has little or no scope for extending its rate base, save for increases permitted under the rate pegging legislation, and relies heavily on grant monies for its continued financial security. However, road funding which principally comes from Councils own funds, the R.T.A. and the roads component of the Financial Assistance Grants, is now not sufficient.

Therefore, in my opinion Council must undertake a review of its structure, including its workforce, and plant in order to maximise any opportunities available to it for potential savings, and match employee to plant where appropriate and if necessary sell surplus items of plant and offer redundancies to staff where savings can be identified.

Other Considerations

A number of major issues will confront Council in the future.

- I refer Councillors to the Shire Engineer's Report to the February 1999 Council meeting, which highlighted the costs associated with undertaking resealing works.
- The added need to replace two major items of plant i.e. the dozer and loader some time in the future. The replacement of such items currently is beyond the financial capability of Council.
- The necessity in the future to replace/repair the Windouran Bridge across the Billabong.

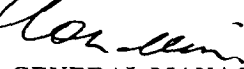
Conclusion

Council needs to consider the following options to improve its financial position, not necessarily implementing any or all at the same time : -

1. Increase rates substantially above the 1999/2000, rate-pegging limit.
2. Consider staff redundancies, either voluntary or forced to maintain a minimum workforce.
3. Sale of all but essential plant and equipment to maintain the minimum workforce.
4. A 12 month moratorium on plant purchases. (1999/2000)
5. Prioritise bitumen roads for maintenance and improvement.

Submitted for Councillors determination.

M. P. Conallin,



GENERAL MANAGER.