

Address by Bill Cossey, Chair, Financial Sustainability Review Board to President's Forum on September 1st 2005.

Good morning everyone. Thank you, Mayor Rich for your words of introduction and your generous comments about the Review Board's work. I certainly hope that President John Legoe is well again soon.

You've all seen the "Yes, Minister" programs in which Sir Humphrey tells Minister Jim Hacker that he is about to make a courageous decision knowing full well that the Minister will turn away from that course of action as fast as he can.

Well, I'm keen to tell you that in my view your sector made a very courageous decision to have the Independent Inquiry into the Sustainability of Local Government Finances. But unlike the "Yes, Minister" programs, this is genuine courage and continuing courage will be needed to follow it through. However, I'm sure that in the longer term, the results will be worth whatever short term difficulties might be met.

I know I speak for Wayne Jackson and Juliet Brown in reporting that we all developed an enormous amount of respect and admiration for the dedication to your communities that you continually demonstrate and which we witnessed throughout this Inquiry. Thank you for allowing us to be involved with your sector through this Inquiry.

This morning I wish to make comment about three areas of our work as follows:

- (1) Our classification of Councils
- (2) Recommendation areas that I'd be assigning priority given that not all recommendations can be pursued at once. You'll be pleased to know that I'm not intending to bore you – and me – with an analysis of every recommendation
- (3) Some observations about aspects of Local Government culture which we think will need to be taken note of in pursuing the recommendations.

Unfortunately, I have some commitments between morning tea and shortly after lunch but I will be back for the afternoon sessions. Alan Tregilgas from Access Economics will be here for the group discussion session and I encourage you to engage in discussion with Alan as you consider the recommendations.

Classification of Councils

In preparing the final report, we agonised over how best to paint a picture of your sector overall. We were mindful that some Councils felt our Interim Report unfairly cast all Councils – particularly those with an operating surplus - in an equally negative light. We could have given a bland overall assessment but Access Economics told us that their assessment found such a spread of situations that we did not see how that would be useful.

So, to some extent we were damned if we did make individual assessments and damned if we did not .

As improbable as it may seem, the Review Board decided it should include an assessment table in the Final Report but also decided that the Board would not be made aware by Access Economics of which Councils were in which category – and even today, none of us has this information. There were several reasons for this;

- (1) You did not ask us to audit 68 Councils individually
- (2) We knew that the media would want to know which Councils were in which category and it was very helpful to be able truthfully to say that we did not know
- (3) It would be potentially unfair. In their assessment, Access Economics used the last published financial data – from 2003-4. Since that time you have had a full budget year and put another budget together. It is entirely possible that strategies embedded in those two budgets could have changed a Council's classification. In addition, Access had to make some (reasonable) assumptions about asset management expenditure and maintenance backlogs using incomplete data and we did not want a Council to be unfairly criticised in public.

That said, the Review Board believes that the classification provides a reasonable guide to the overall situation.

In our Final Report we included a table whose sole aim was to demonstrate that we could see no pattern in the way Councils were classified. Large Councils, small Councils, metro Councils, country Councils, amalgamated Councils and non amalgamated Councils all seemed to us from what Access told us to be represented across all classifications.

We did not expect that readers of the Final Report would be able to analyse that table and deduce the classification of an individual Council. We were mistaken and although this type of analysis requires more persistence than the average person would apply, we sincerely apologise to the very small number of Councils that felt that this put them in a difficult position.

I should also emphasise that the Review Board is not suggesting that any Council has deliberately set out to put itself in a particular (unsustainable) classification group. Furthermore, we believe that Councils, with a bit of help and with good governance approaches can address their own situations given sufficient time – and certainly within 5 years. There are some excellent examples of sound financial health in your sector in South Australia and these give us confidence that the same situation can be achieved across the sector.

There is no cash crisis. What we have identified as a potential sustainability problem will show up over the next decade when assets experience shorter than optimum lives through inadequate maintenance. This will lead to earlier and more costly replacement or large scale renewal programs which have to be funded through a combination of larger than reasonable rate increases and larger than sensible borrowings.

Since we produced the Final Report, Access Economics has provided detailed data of its assessments to the LGA and I can only encourage you to reach an understanding of the way Access has gone about its analysis, to update your own data in the light of your two most recent budgets and to determine how to engage your communities with the results and the choices the communities might have in future budgets. Ultimately, they will need to guide you in your decision making.

As I said, Alan Tregilgas will be here shortly so please feel free to pursue your questions on the Access assessment process with him.

Recommendation Areas Deserving Priority Attention

As I said earlier, I won't bore you today with a recommendation by recommendation commentary. There are three areas that I think deserve priority consideration and I'll concentrate on them.

The first is the area of Financial Governance. I applaud the decision by the LGA to engage Mark Coleman already to provide guidance in this area. Although I was not consulted on this decision – nor do I think I should have been - I cannot think of anyone better to help you.

Specifically, I think there needs to be a considerable improvement in the information available to Elected Members and Senior Managers about the sustainability of your Council's finances. We have suggested 4 key indicators and that information coupled with more reliable information about the condition of your assets, their lives, the maintenance regime applying to them and the depreciation relevant to them will go a long way towards supporting improved Financial Governance arrangements overall.

On the question of assets, we were not aware before we started this Inquiry how different is the equation relating asset value to income for your sector. To have an asset base of \$10 billion with an annual revenue base of about \$1 billion places an enormous asset management task on your shoulders compared with other spheres of government.

I cannot see how you can avoid asking whether you need all the assets you currently have. In the Inquiry we heard of Councils formed by amalgamation having to maintain assets that are no longer useful because of pre-amalgamation agreements. Some of you know that I have an involvement with tennis. This sport is indebted to your sector for the facilities you provide but the day is coming when the very small complexes will not be viable because they cannot provide facilities their members need – most particularly lighted courts - and because they cannot recruit sufficient volunteers to maintain their organisations. Larger complexes are inevitable for the future of my sport and I expect others as well – and hopefully would help you with more viable asset bases- so partnerships with governing bodies of sports might generate win:win situations for you and the sports.

Another key aspect of your asset management task relates to road funding and road maintenance. This is an area in which the State has a real interest as well. Not only are good roads essential to our economic growth but as you are probably aware there is an ambitious road death reduction target in South Australia's Strategic Plan. I suspect that less than adequate road conditions are playing a part in road deaths so a joint State/Local Government strategy for approaching the Commonwealth in this area would be one of my priorities.

Finally, in the area of Financial Governance, I emphasise the need for improved education for Elected Members and Senior Managers in the fundamentals of good Financial Governance. It is unfair and unreasonable for people who may not in their private or work lives have been exposed to high level financial principles and practices to be expected to pick up these fundamentals without some deliberate strategy of education and training.

Second, I want to talk about improved resource management. There are some excellent examples of resource sharing between and across Councils which are already yielding cash benefits. We detected an enthusiasm during the Inquiry for more of this and we applaud and encourage that attitude. However, we also detected a shyness to talk about what you are doing and a reluctance to publicise the savings made. We believe you should be open about what you are doing on this front and be keen to use your successes in discussions with your communities as part of the rates discussions. While it is true that ratepayers might wish to see reduced costs transmitted to them by way of reduced rates, we believe this is a far easier discussion to have with rate payers than one based on simply increasing rates without evidence of initiatives to reduce costs.

We can see that you will need to increase the sharing of expertise as you pursue our recommendations. Some Councils are already well advanced and have developed considerable in house expertise. We hope that you can marshall that expertise for the benefit of the entire sector.

Finally under resource management, we encourage you to use the imminent efficiency and economy reviews that are being prescribed by the Local Government Act as a platform for improved resource management. In my experience as you proceed down that path, the key questions always commence with the word "Why?" In particular, the key questions are

"Why do we need to do this at all?" and
"Why do we need to do this in this way?"

Relationship with State and Commonwealth Governments

I propose that this be an area of high priority. In our view the State relationship can be strengthened in a number of ways – ways that will see the role of the Minister’s Local Government Forum and the Office of Local Government expanded.

In the pursuit of South Australia’s Strategic Plan, your sector will be vital. Perhaps even more vital than the State Government realises. As outlined previously, alliances with the State in approaching the Commonwealth for our fair share of Commonwealth funding – particularly road funding - must also be a priority.

Finally in this area, I don’t need to alert you to the importance of the Productivity Commission reference post the Hawker report. To the maximum extent possible, an alliance between your sector and the State Government to put the strongest possible case on South Australia’s shortfall in Commonwealth funding to the Productivity Commission is essential.

Local Government Culture

There are several aspects of your culture on which I wish to comment as I think they may be crucial to your success in addressing the agenda we have proposed

- (1) It seems to us that many Senior Managers in your sector, including CEOs, have not necessarily been expected to play a leading part in improved financial management/governance. Until the last 10 years, the same could have been said for the State Government. That has now changed in the State and we expect it will also need to change in your sector.
- (2) We detected that financial managers have developed an approach to Elected Members that is too deferential and almost fatalistic. We were told too often that “Elected Members will do what Elected Members will do” as if financial managers were powerless to provide convincing, professionally prepared financial information and argument to assist Elected Members with responsible decision making. Of course, this is a generalisation that does not apply in all Councils but where it does exist, it needs to be overcome.
- (3) We also detected that many years of being treated as second class public servants by public servants in the other spheres of government has led to a tendency by some Senior Managers to take on (inadvisedly) functions for their Council without fully understanding the financial implications of these actions. If this has been in part to demonstrate competence or capability, we do not think it enables your sector to negotiate with the State or Federal Government from a position of sufficient strength. Your sector is important and you have no need to feel less important or even inadequate in the comparisons with the other sectors.

Thank you again for inviting us as Review Board members to become involved with your sector.

We have every confidence in your ability to take the necessary first steps in securing your financial sustainability and, on behalf of Juliet and Wayne, I wish you every success with your journey.

Bill Cossey
Chair,
Financial Sustainability Review Board