Review **of Local Government Act**
Financial accountability by councils in relation to major projects

My extensive experience on the Audit Oversight Committeee for the City of Devonport for 11 years and as a ratepayer in the same municipality for 33 years it has become obvious to me that there is a severe lack of accountability by council employees and councillors.

The greatest level of lack of accountability relates to capital expediture. One of the obvious reasons for this is that capital expenditure does not directly affect operating surplus for the year in which it is expended. The depreciation on it, which may be less than 10%, will have far less impact on the current and following year surplus than say consultants expenses which affect the bottom line in the year in which it is incurred. The expenditure affects the cash flow, but rates are set on surpluses and not cash balances.

In relation to the extraordinary capital expenditure on the Living City Project at Devonport, there has been no substantitive reporting on the project. The financial outcomes in relation to it are melded with all the other activities of the Council. In terms of financial outcomes,.Even in today's Advocate newspaper, the Mayor was reported as saying the the project has delivered/will deliver 830 new jobs and $112 million in financial injection into the municipality. No substantiation has ever been provided on these outlandish claims continually made by councillors and DCC employees. These are the same metrics which the original consultants proclaimed may be experienced by such capital expenditure. This projected forecast had a rider by the consultants , Hill PDA that DCC had to do its own work to shore up this forecast (which was never done).

Accordingly I strongly believe that there should be some formal reporting structure should be introduced by LGAct to ensure that accountability is ensured . This in turn will provide transparency and provides for the efficient allocation of capital, whether in the form of own or borrowed funds. The reporting to councillors and the ratepayers of the financial and community outcomes is essential in achieving financial accountability. I believe the job costing module which is part of the Technology One suite of software models is not used by DCC thereby severely limiting reporting of the financial aspects of Living City whether it be assets purchased/developed, revenue or expenses. This reporting is normal in the commercial sector.

I propose than any single project which entails capital expenditure of over 30% of rates revenue of the previous financial year. Suitable rules should be instituted which reduce the opportunity for councils to split projects into sub-projects to fit under the hurdle.

Reporting should include the following:-

(a) Impact on similar businesses in the municipality
(b) Return on investment

(c) Measures a(d) Non-financial measurement against proclaimed outcomes forecast as part of the approval process

One of the problems in relation to (c) relates to what has occurred at Devonport after the completion of the paranaple building (library, council offices and convention centre). Council has allocated all sorts of activiities to the convention centre to give it the appearance of signifyicant use. They are for example

Polling station previously held at school halls
ATO training days previously held at Devonport RSL
Exhibition of a select group of vehicles at the annual Rotary Car Show, previously shown with the other 500 cars at the adjacent park land.

The convention centre which forms part of the paranaple building was incorporated to provide for 800 person conventions but with the extremely limited take up by that market sector, other uses needed to be found. There is little to no financial reporting on this commercial initiative and there should be.

The reporting must be audited by the Auditor General

Borrowings by councils.
There needs to some limitation on borrowing by councils. Based on the forecast of the surplus budgeted by the Devonport City Council (DCC) in their 2019-20 budget, in the absence of funds generated by the disposal of real estate assets, it will take 80 years to repay its $41million ANZ loan.

A limit on council borrowings as a percentage of rate revenue should be introduced. This would ensure that ambitious spending financed by borrowings does not burden future generations, no matter how worthwhile well intentioned or not so well intentioned believe that borrowings are justified.

The decision by DCC to borrow to finance its Living City initiative was encouraged by the historically low interest rate.(reference Council's minutes) No mention was made of the negative aspect to Devonport's future economy relating to the repayment of loan funds at that time.

The DCC's idea of communicating with its ratepayers on the need to borrow for the Living City initiative was a public meeting at the Town Hall advertised one week beforehand. The seats were filled mainly with expectant sub contractors and tradies. This meeting was the first time that the need for borrowings was made public after many months of Council media reports relating to Living City.

There must surely be a better set of rules relaying to substantial borrowings.

Yours faithfully
Don Willing FCA   B.Ec. (Hons)