



# Shire of Goomalling

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Est. 1895

**In reply please quote:**

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17<sup>th</sup> July 2019

The Hon David Templeman MLA,  
Minister For Local Government, Heritage,  
Culture and the Arts,  
7th Floor, Dumas House,  
2 Havelock Street  
**WEST PERTH WA 6005**

Dear Minister Templeman,

I write to you on behalf of the Council of the Shire of Goomalling with regard to the matter raised with myself and the Shire President through the 2017/18 management letter from our auditors, Anderson, Munro & Wylie, Chartered Accountants.

The issue raised with us was in relation to the adverse financial trend seen for the previous three years indicated by Council's Operating Surplus Ratio being below the Department's expected standard. Attached to the management letter was a review of a number of aspects of operation that had been of concern to me since my commencement with the Shire in September 2018.

While there are many issues that Council has identified in this letter and report where management and Council practices must improve it should be noted that realistically the Shire of Goomalling may always struggle to achieve a strong Operating Surplus Ratio given that there are limited avenues for revenue raising measures available to small rural local governments. This ratio in particular is affected by depreciation expense, fees and charges, Rates and asset maintenance expenditure.

In March 2019, in the Audit Results Report – Annual 2017-18 Financial Audits of Local Government Entities, the Office of the Auditor General noted that 26 local governments met or exceeded and 109 did not meet the benchmark for the Operating Surplus Ratio highlighting that this ratio is perhaps not the most relevant for the sector as a measurement. With this in mind Council cannot guarantee that there is any way to meet or exceed the benchmark for this ratio in the short term.

In relation to management and Council practices, I undertook a detailed analysis of many of the systems, procedures, and general business operations of the Shire of Goomalling following my appointment which identified a number of underlying issues.

I have attached a copy of my initial report to Council for its October 2018 Ordinary Meeting seeking permission to commence negotiations to refinance Council's loan portfolio. This was my first report to the Council that highlighted the underlying problems which the Councillors had already recognised and which had led to the eventual parting company with the previous Chief Executive Officer.

Following that report Council placed two items into the local newsletter giving the ratepayers of the Shire information of the current situation with the regard to our financial position as well as the various issues that have contributed to this. I have attached a copy of those releases for your information.

We took the opportunity to make ratepayers aware of the size of the debt issues we were dealing with and highlight that there was a plan to refinance that debt, to change the practices of the past and to become a more open and accountable Local Government. This was done prior to the annual electors meeting and at that meeting a number of matters were raised by the ratepayers who attended, particularly with regard to the debt levels that have led to the adverse trend. The Shire President and I provided full and frank answers and assessments to the attendees and while there was some discussion over how this situation was allowed to occur, there was acceptance that there is a new direction and that the Council was now far more aware of how the operation functions and what it could do to change the current situation.

The 2019 financial year will also note some non-compliance with regard to valuations, and further financial pain as significant changes have had to be made to financial systems to provide data which is both accurate and relevant. In addition, structures have had to change to accommodate a move from the CEO being the central source of instruction to every employee, to one where the managers become responsible for their various functions and the CEO manages at a more strategic level.

Likewise, the Council is now learning that its role is a different one to that which the members had previously believed it to be and they now have significantly greater information to assist them with decision making and policy direction.

There is still a long way to go in terms of policy, procedure and systems development and given that our financial position is tight, there is little scope for contractor or consultant assistance to develop these aspects of the business. This means that significant time of the CEO and senior staff will be tied up in development and this will put added pressure on us with regard to some compliance issues no doubt over the next twelve to eighteen months.

It is the intent that over that time we will bring the Shire of Goomalling to full compliance and that our operation will benefit from balanced and robust policy and decision making, transparent systems and reporting to the community, far greater adherence to contemporary asset management processes and a significant turnaround in our financial position.

Yours faithfully,

**PETER BENTLEY**  
**CHIEF EXECUTIVE OFFICER**



## Shire of Goomalling – Report for Minister for Local Government

### ISSUES CONTRIBUTING TO THE ADVERSE FINANCIAL TREND

The issues that have contributed to the adverse financial trend described in the 2018 Audit Management Letter are varied and systemic over a long period of time. Without wishing to make adverse comment regarding past employees or Councillors, there would appear to be situations that were outside of the control of both which partially contributed to the finding however, there are a number of factors that were well within the management's ability to better mitigate and plan for, and the Council, by association must accept some responsibility for, given the obligations that the Local Government Act confers upon Councillors.

#### **Grange St Subdivision**

Initial problems stemmed from the development of the Grange Street Subdivision. This development was undertaken with the best of intent however, the 2009 Global Financial Crisis occurred at the time of release and significantly devalued the lots as many of the buyers withdrew from the agreed prices due to new financial constraints that flowed from this event. The fallout of this event was that Council had a significant debt with regard to the development and little if any income to reduce that debt. Initially the debt was funded through an interest only loan. The interest only loan principal associated with the development is currently \$945,000.

#### **Community Resource Centre**

At around the same time, Council constructed a new Community Resource Centre building, housing that business, a dentist surgery and a doctor's surgery. This was also a significant cost to the Council and was loan funded. The current outstanding principal for this loan is approximately \$560,000.

#### **Community and Sports Centre**

This was another large scale community project with community contribution, loan funding (council and self-supporting) and grant funding as well. This project was undertaken probably several years ahead of an optimum time given the existing levels of debt. While the centre is significant and a wonderful facility, with better expectation management the project would have gone ahead within a few years without putting the stresses on Councils operating budget that we are now dealing with. Council is currently carrying debt principal of \$1.21M for this project and a self-supporting loan to the Mortlock Sports Council of approximately \$270K.

#### **Ongoing Deficits**

The Council has had ongoing underlying deficit issues as a result of these projects and others that have continuously produced or relied on more debt for funding. Other projects that were funded by debt during that time were Independent Living Units, Recreation Ground Reticulation, Caravan Park Ablutions and repairs to Slater Homestead. For the year just passed, the budget contained a \$200k loan for more ILU's, \$60K for repairs to the CRC Roof, \$60K for resurfacing courts and another \$85K for repairs to Slater homestead, in all another \$405K in debt to add to the existing \$3.65m already accumulated debt. In addition to this debt is three vehicle operating leases which exist because the Council could not afford to purchase vehicles outright.

The deficits were basically covered by Loan 112, interest only and Loan 108 Advance Capital Loan which total \$1.5M between them in outstanding principal. Management had flagged a series of asset sales to reduce the interest only loan and some \$290K in repayments have been made against that loan leaving a current principal of \$945K. The management valuations attached to the various properties were, in my opinion, unrealistic as the state of the properties was unlikely to yield those valuations.

#### **Asset Maintenance**

The primary reason that the above valuations were unrealistic was because there was a mentality of "if it's not broke, don't fix it" with regard to asset maintenance. This led to a situation where housing in some cases still had 1960's kitchens, bathrooms and the like in marginal condition, in one particular house the underlay could be seen through the carpet, cracking and other maintenance items not repaired in a number of houses and no clear strategy for the maintenance

or replacement of older housing units. Some of the buildings should have been either replaced or sold many years ago.

Public buildings suffer from the same lack of proper maintenance with significant wall cracking, roofing and ceiling issues, facilities such as toilets and kitchens not up to contemporary standards and just general maintenance not undertaken unless an item became dangerous or would not function. I have noted that much of the previous building maintenance has been of poor quality, or done on the cheap.

Plant suffered from a similar lack of planning from a maintenance perspective and from a replacement strategy viewpoint. Plant replacement was not optimised to take advantage of the best timing to ensure that replacements were carried out at or near the most advantageous time. The town sewerage system maintenance was also kept to a minimum and while it fared somewhat better than other asset types, it was still at an extremely basic level. Most of Council's plant is in fairly ordinary condition and in the main, ageing would be an accurate description.

I believe that the lack of maintenance in these areas was due to either poor expectation management by Council management with regard to the various facilities that were constructed during the preceding years and a misguided or poor understanding of asset management principles.

I also believe that a lack of understanding of proper financial management may have led to a credit card mentality where a "buy now pay later" attitude was fostered by management at that time.

### **Budgeting & Financial Reporting**

The budgets that were presented to the Council were at best "helicopter view" only really providing the most basic of information. The chart of accounts (COA) structure was dated and did not provide the Council, in my opinion, with a full and transparent view of its financial position and what the impacts of the decisions made at budget deliberations would be into the future.

A Job Ledger was once in place however the previous CEO had chosen to remove the use of Jobs which then made it extraordinarily difficult to track costing in the road construction and maintenance areas in particular where multiple roads were costed to a single COA. Each timesheet would need to be scrutinised to ascertain what maintenance had been undertaken on a single road.

It would appear that where items ran over budget that these items may have been apportioned to other cost centres where budgets would not be fully expended to ensure that everything was "on budget". This then would have made it difficult to rely on historical data to estimate budgets for projects or programs. It also does not paint an accurate picture of the performance of the various assets, programs and works undertaken.

### **Forward Planning**

As I stated in my original response, I am not a big fan of the current form of the IPRF however, I am a big fan of planning for the future in an integrated but more basic form for small rural councils. Historically, while the Shire of Goomalling has complied with the requirements of the framework, it has been more as a box ticking exercise rather than as a serious attempt to plan for future maintenance of assets, rollout of programs and project development into the future.

Likewise, workforce planning for small rural Councils is not so much about providing resources to achieve the goal, but more making the goal match the resources.

### **General Comment**

While there may have been some flaws in the management of the Councils financial and asset management systems I don't see these as a deliberate or wilful act to undermine the Council. I believe that the management of community expectation perhaps should have been tougher, I believe that a better debt strategy should have been adopted many years prior and I believe the Council should have been better informed about the decisions that they were making along the way. This is of course easy to say with 20/20 hindsight however the resulting constraints upon the Council right now would confirm the reasoning to be sound. I also believe that the previous management found it difficult to say no to residents but this is speculation on my part based upon anecdotal evidence. Council management funded these loans through the Bendigo Bank at rates that were well above the rates offered by WA Treasury Corporation at the time.

While there are many issues that have created some difficult problems to deal with it should also be noted that during this period of time some great assets have been created for the local community. The Community Sports Centre, the Community Resource Centre, a number of independent living units and upgraded facilities at the caravan park and Slater Homestead to name a few. The Shire of Goomalling has a significant number of fantastic newish assets as well and the previous Councils and management must be given credit for achieving these things.

But somewhere along the line all of these things must be paid for and that time is upon us now. Improvements to the management of all assets needs to occur as must a reasonable debt reduction strategy or a plan to increase reserves to fund future asset purchases and program delivery in lieu of other funding sources, in essence saving up.

## **IMPROVEMENTS SO FAR**

- At present the Council is negotiating the refinancing of its loan portfolio, which will help to free up much needed capital to undertake maintenance and plant replacement.
- As at the 1<sup>st</sup> July 2019 Council has undertaken a significant change in its accounting systems to accommodate a much more detailed and transparent budget process. The Job Ledger has been reinstated to ensure that costs can be broken up road by road accurately and that various other costs can be precisely allocated. The Chart of accounts structure will provide greater transparency and detail for Councillors through the budget and financial review processes and provide greater detail for residents and ratepayers in a simple form.
- Council will also review a strategy for public buildings and housing. Initial 10 year maintenance plans have been completed as part of the 2020 Budget and we will now review the physical buildings as to which will be maintained and to what standard. Public meetings will be held to canvas opinion regarding these matters. Strategies are under development for public buildings and housing with regard to sale or disposal.
- As part of the 2020 Budget, a 20 year Plant Replacement Strategy has been completed to plan for machinery upgrades into the future. In addition, a 15 Year roads Program has been completed to ensure that adequate capital projects are undertaken on our main feeder roads. The new budget format also includes a 5 year Parks and Gardens forecast. These maintenance plans and the two building maintenance plans link directly to the new budget document.
- In coming years the budget document will become a 5 year detailed budget which will link to all of our supporting documents and strategies and will be the most detailed Corporate Business Plan that we can provide. The Budget process (copy of flowchart attached) will be like a mini strategic planning process each year involving at least 2 months of public submissions and consultation.
- All aspects of the budget are balanced, including Wages, Public Works Overheads, Plant Operating Costs, Plant Depreciation and Administration Allocations to ensure that errors do not cause budget blowouts. This has not always been the case.
- Costs are now always coded to their correct expense codes regardless of whether they are over or under budgeted to provide solid historical data.
- Staff have been empowered to manage their own work areas in a responsible and co-operative way, according to budgets, without needing every direction to come from the CEO.
- Council has greater contact with the community and does so in a fully transparent manner. Whether by newsletter articles or by public contact or meeting, nothing is hidden from the residents, the object is to ensure that everyone has the same level of information and have no reason for not knowing what is happening around the Shire from a Council perspective.

## YET TO COME

Improvements yet to be initiated will include;

- **Self-imposed moratorium on new debt.**

This is to ensure that the Council becomes more financially sustainable in the near to middle term and repays a significant portion of its debt prior to embarking on further local development.

- **Progressive and planned methodology to return to full compliance.**

With limited funds available for the current year the Council may suffer further non-compliance until the 2021 financial year because contract work or consultants may be beyond our financial reach this year. This is particularly with regard to fair value given that a full Roads pickup could cost around \$50,000, Infrastructure valuations could be a similar figure, Land & Buildings could be in the vicinity of \$30,000 and so on. The financial burden of fair value on small councils is quite significant given that 1% of rate increase is only \$19,000 this year in Goomalling.

Council staff will also have to develop the required changes from the Local Government Act review as well as manage the ongoing business of Council. All this needs to be done with a total of 7.8 administrative staff including the CEO.

- **Full review of all building assets with view to rationalisation.**

Council will review all buildings, ascertain surplus housing stocks, review public or commercial buildings that may have value externally and be able to be on-sold, and endeavour minimise costs in asset maintenance through this process.

- **Further changes in structure to better utilise existing human resources.**

While we have made some improvements in our structure there is still a road to travel in ensuring that we get maximum benefit from the structures that we put in place. Staff will be a part of this process in ensuring that we find the best balance in staff numbers, skills utilisation and long term retention strategies.

While there are many issues that Council has identified where management and Council practices must improve it should be noted that realistically the Shire of Goomalling may always struggle to achieve a strong Operating Surplus Ratio given that there are limited avenues of revenue raising measures available to small rural local governments. This ratio in particular is affected by depreciation expense, fees and charges, Rates and asset maintenance expenditure.

In March 2019, in the Audit Results Report – Annual 2017-18 Financial Audits of Local Government Entities, the Office of the Auditor General noted that 26 local governments met or exceeded the benchmark out of 139 Councils for the Operating Surplus Ratio highlighting that this ratio is perhaps not the most relevant for the sector as a measurement. With this in mind Council will continue to seek improvements but cannot guarantee that there is any way to meet or exceed the benchmark for the ratio in the short term.

I am sure that along the way we will find more improvements to make so the list above is not exhaustive however, there is only so much that you can focus on at one time. Having now been through a lengthy period of putting out spot fires which have arisen from the management practices of the past, we will now focus on the longer term rebuilding of a strong and vibrant Shire of Goomalling.