

Submission to the Review of The WA Local Government Act

Summary

The poorly designed current business model has proven to be ineffective and highly detrimental to the community.

The problem is quite simple, the lack of business transparency with the resulting lack of accountability as the major problem.

The lack of business transparency disempowers those charged with the day to day oversight of the operations of our municipalities.

The disempowering of the elected members fundamentally shifts real power to the unelected executive who use this major weakness to exploit the system to their advantage.

The elected members suffer from a major lack of support to make up for deficiencies in their knowledge and experience base.

The community is very vulnerable to unending ongoing rates abuse having little to no ability to have any real influence on that process.

There is an opportunity to create a competitive market like environment to ensure the best outcome is delivered to the community.

The government is the only body which can address these problems in a publically accountable manner. It must act so we have a local government environment which delivers the best reasonable outcome to the broad community to which it has a fundamental primary responsibility.

The special interest groups must be put in their appropriate roles in the delivery of Local Government to the WA community.

There is the potential for a very substantial and positive financial impact for the broad community. That matters a great deal to the vast bulk of our community, particularly in the current economic climate.

If a business model were implemented based on something like 'cost efficient, quality, community satisfying local government' so that the ethos behind that was pervasive in the Local Government industry, then we would have a much more satisfied community.

The best method to determine all the issues which inflict the current operations of WA Local Government and to provide maximum input opportunities to devising solutions to the problems in the system is to have a royal commission style inquiry. This must be done before any substantial changes are enacted.

The government has an opportunity to greatly improve it's standing with the community on this issue if it is dealt with as a broad community benefit focused outcome being the objective.

Preamble

There are a small number of simple fundamental flaws in the current local government business model which ensures WA Local Government does not act in the best interests of the WA community.

When the 1995 Local Government Act was introduced it changed the business model into a form of corporate model but with some fundamental omissions while not taking into account the nature and quality of the resources available to make that business model work to deliver a good community outcome.

When you set out to design anything a simple requirement is that you need to determine what you want as an outcome, particularly where a practical useable result is needed.

In WA Local government a desired outcome by the community would be 'cost efficient, quality, community satisfying local government'. It could be described in other ways, but anything significantly different would be difficult to envision. Anything which was substantially different would constitute a disservice to the community

An important determinant for any design to be useable and practical is that the resources are actually available. The quality of those resources need to be ascertained and allowed for. It is futile to design a system which requires resources which are not available.

A critical element in any organisational design involving employees is to design a remuneration structure which supports the outcome required.

For anybody who has any interest in good organisational design would undoubtedly say that these are simple absolute requirements. However the design of the WA Local Government business model as implemented in the 1995 act has not properly addressed those requirements.

If cost efficiency is an objective of the required business model, and I would suggest that the community would definitely expect that it would be, then there needs to be an ability to measure it. This is described as business transparency. In the corporate sector profit is an objective, and the ability to compare profitability with other enterprises is a necessity to see whether you are getting the appropriate return on your investment.

This business transparency was completely omitted from the initial business model which has had enormous negative consequences on the community. Tiny steps have been recently taken in improving this in the last couple of years but does not yet meet the fundamental requirement.

Executive Remuneration

The lack of business transparency has a major impact in executive remuneration. In the very observable corporate world executive remuneration is very much reflective of efficiency measures such as profitability, return on equity etc. Naturally size of enterprise also is a big determinant, but above that efficiency elements such as profitability play a major role. As a result there is strong incentive to make the enterprise as efficient and hence as profitable as possible.

Where there is no measure of efficiency, the only factor which can be taken into account is organisation size as an indication of responsibility, which must be recognised in remuneration. This invariably results in a myopic focus amongst LG executives on organisation size as evidenced by budget size and staff headcount. I have witnessed such myopia personally. The inevitable result is that there is an unending focus on increasing budgets (spending) and headcounts so as to justify increases in remuneration.

Where is the evidence? Typically rates have increased on average by multiple times inflation for each and every year since 1995, when there has been no visible justification to exceed inflation. Services have not significantly increased in that time as far as the community can determine. Commensurately, CEO and hence executive salaries have increased at a rate by something like double that for the average of the rest of the community for a role that has not significantly changed in that time. Where is the publically demonstrated evidence of efficiency or productivity improvements during that time.

It is simple human nature that people will exploit the given environment to maximize their personal remuneration. This has been demonstrated time and time again through such mechanisms as the recent banking royal commission.

In a properly designed remuneration system, rewards are to be given for delivering that which the ultimate employer desires. In this case the ultimate employer is the broad community and they want cost efficient delivery. The system from 1995 has delivered the opposite.

Elected Members

The 1995 act essentially introduced a corporate business model into the operation of local government in WA. In that model the elected member essentially becomes a board member on what is effectively a corporate board. The separation of powers and responsibilities reflect those applicable to a normal corporate board.

A fundamental responsibility of those in a director like position on a corporate like board is to oversee the proper functioning of the organisation in the best interests of those they are responsible to, in the corporate world the shareholders, in LG the ratepayers. To carry out those responsibilities their knowledge and experience should be objectively superior to those of the staff they are overseeing. That is why in the real corporate world, typically only those with a variety of deep real world experience are appointed to boards. In local government, unfortunately that real world business management expertise and experience is generally seriously lacking. The inevitable result is that the executive dominates the board which is the reverse of that required.

It is put out that the solution to this major expertise deficiency is education. However there are two elements to capability, one is education, and the second is thorough long term experience. The latter cannot be provided other than to employ individuals who have that long term experience. It is very largely lacking in WA local government elected member ranks. From observation it can often be observed in the regional bodies where well experienced local business people are often elected to the municipality.

Another issue makes the effective management oversight role of the elected member almost impossible. Properly managing any enterprise, particularly those turning over hundreds of millions of dollars requires information as to how well those enterprises are performing.

Invariably the most effective manner such performance information can be used is comparatively, that is comparing the performance of one enterprise with another which is similar. The 1995 local government act did not put in place any mechanism to facilitate the provision of such information. Consequentially, those who are charged with effective oversight of our municipalities do not have the essential managerial tool, up to date comparative performance information as to evaluate how their organisation is performing. Hence those supposedly being managed, can not be effectively managed, which results inevitably in them determining how they will be managed. An effective reversal of the power structure in the organisation. Invariably this situation leads to those supposedly being managed being able to effectively exploit weaknesses in the system to their advantage.

An industry wide laterally and longitudinally consistent easily understood comparative set of performance benchmarks need to be set up and maintained. Only then will those charged with overseeing our municipalities be able to effectively evaluate itself and do so. The proper organizational power structure must be restored.

The Community

The wide community (including the business community) makes up probably greater than 99% of those with some involvement in local government. The community consumes the services, makes use of the facilities, and provides probably more than 99% of overall funding. It is the overwhelming major participant in the industry.

The corporate business model which formed the basis of the 1995 act is based on the principle that the owners of the business (the shareholders, in LG, the ratepayers) control the operation of the business through the directors who they vote for and elect. The difference in the private sector business is the directors are generally appointed from a pool of demonstrably, highly capable and experienced individuals, with their appointment being endorsed by a vote. And they are very much held responsible for the performance of the enterprise through their overseeing of the executive and the operations. In local government, unfortunately, this simple but absolutely required function breaks down because the people elected invariably do not have the tools to meet the requirement, suitable information.

In addition, as those charged with the oversight do not have the information to carry out their responsibilities, neither do the community have any idea as to how their municipality is performing as a business in meeting their needs.

The vast majority of the community are simply consumers. They pay for services and facilities and in line with virtually all their other consumer activities look to have those services and facilities at minimum practical cost to them.

The community is currently in a massive bind. The system has allowed the financial impost on them to be unregulated so that they have been subject to large, unending, much greater than CPI increases in rates. The community has no idea whether that money is being efficiently expended, and has no means of realistically influencing the decisions as to how that money is spent.

Normally, if you believe that a supplier is mistreating you there is the ability to seek an alternative supplier. With local government the community does not have that option.

Therefore the system must be inherently designed to minimize the impost on the community, any other outcome is a fundamental abuse of the community.

The regulation of local government has to be returned to the community who carries the cost.

A Role for Competition

It is widely recognized that competition is usually the best method of achieving a sought for outcome. If a business model included a strong element of competition amongst CEOs based on their ability to deliver improvements in efficiency whilst at the same time maintaining or improving measured satisfaction in the community then there would be very strong impetus to deliver a community satisfying outcome. Creatively using variations to the remuneration controls currently in place such a situation should be relatively easy to deliver. Competition amongst professional is the norm, it just has to be channeled in the direction required to deliver the optimal community outcome desired.

The Government

The government through the act of parliament is the ultimate controller as to how local government operates in serving the community.

The government of the day enacted the 1995 local government act which put in place this highly deficient business model which is highly detrimental to our community. Today's government needs to make the changes which will correct the fundamental flaws in the current business model.

Before any substantial changes are made to the WA local government business model a royal commission style inquiry needs to be undertaken. The public will then have confidence that their issues, concerns and welfare are at the forefront of the present government's plans, policy and agenda.

Special Interest Groups

Groups such as WALGA and LGP need to play their rightful place in the delivery of local government for the community. WALGA, rather than being a powerful dictator to the community, should be coordinating cooperation so that efficiency in local government is demonstrably improved as demonstrated by publicly available performance figures..

The Sought For Outcome

Ultimately the local government environment should be one where the aims of 'cost efficient, quality, community satisfying local government' in measurable outcomes pervade all aspects of the delivery of local government to our community.

Impact

With a change from a situation where essentially, financial inefficiency and profligacy are encouraged to the reverse, there is opportunity for a very substantial financial impact for the broad community. From some straight forward business analysis of a good case study municipality there is an indication it may be possible to deliver up to 50% rate reductions over time in some cases. This would have a major impact on household budgets, and on the standing of a government who looked to deliver such reductions.

Conclusion

This submission is focused on the simple fundamental structural problems in the current business model. Others submissions will cover the problems in the detail operation of local government. If these simple fundamental problems are not addressed, any other initiatives will be simple window dressing, or putting lipstick on a pig as a compatriot succinctly expressed. For anything to be successful it must be built on complete and solid foundations.

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