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**23 February, 2022.**

## Local Government Act Reform 2022

Dear Sir,

Attached are a couple of analyses pertinent to WA local government. They are intended to be easily understood by a wide audience so as few technical etc terms are used as possible. It is also intended that there is little opportunity for them to be mis understood.

I suggest that for the vast majority (gt 90%) of our community the overriding concern related to local government is what they are forced to pay for that which they actually use, which is the most basic provisions, the roads, footpaths and refuse collection.

The first analysis, the Nedlands rates analysis clearly and unequivocally demonstrates that the rates levied are undoubtedly far greater than that required to deliver LG to their community. It can only be seen as blatant financial abuse. The figures for another considerably larger metropolitan municipality were also examined with very similar results. If the review is to be fully professional, a full and proper study must be undertaken of all major municipalities to determine the depth of the issue. Nedlands is not an outlier in the level of rates imposed.

The second analysis of a couple of fundamental issues describes the mechanism by which this financial abuse has been facilitated as well as the mechanism which has delivered it to our community. This can only be described as incredibly bad organizational design which was put in place by the 1995 local government act.

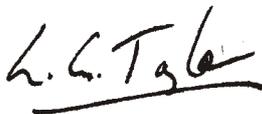
One of the most unfortunate results of this terrible situation is the inevitability of unending conflict. As more and more of the community realize they are being financially abused through the rates being imposed they will be in increasing conflict with their municipalities, principally the administrations who appear to be determined to keep the abuse continuing. More and more are questioning the rates imposed and comparing them to the CPI which is the base for cost increases in our economy and community, and questioning how the money is spent. Many elected members can clearly see what is going on and will inevitably be involved in this unending conflict.

A simple and fundamental question must be asked, is WA local government going to be operated in the best interests of the community, including best financial interest. One would expect that the answer to this from any reasonable person would be an emphatic 'yes'. If this is not the answer, then the community must be told why, who the beneficiaries are to be, and what will be the cost to the community.

Quite simply this review must put in place clear and unequivocal accountability which can be easily understood by all in our community so that they can see that LG is absolutely acting in their best interest particularly financially, and that the employees are appropriately rewarded for acting in the communities best interests so that all parties are working in a common direction, the best outcome for our community.

If there is an attempt to avoid dealing with the issue of financial abuse by LG on the WA community by claiming rates are not a part of the current review, I suggest that such an attempt is a major contempt of the community, and is in vain because the issue is fundamentally accountability, financial accountability.

I would be happy to discuss this material, any associated material, experiences and observations.

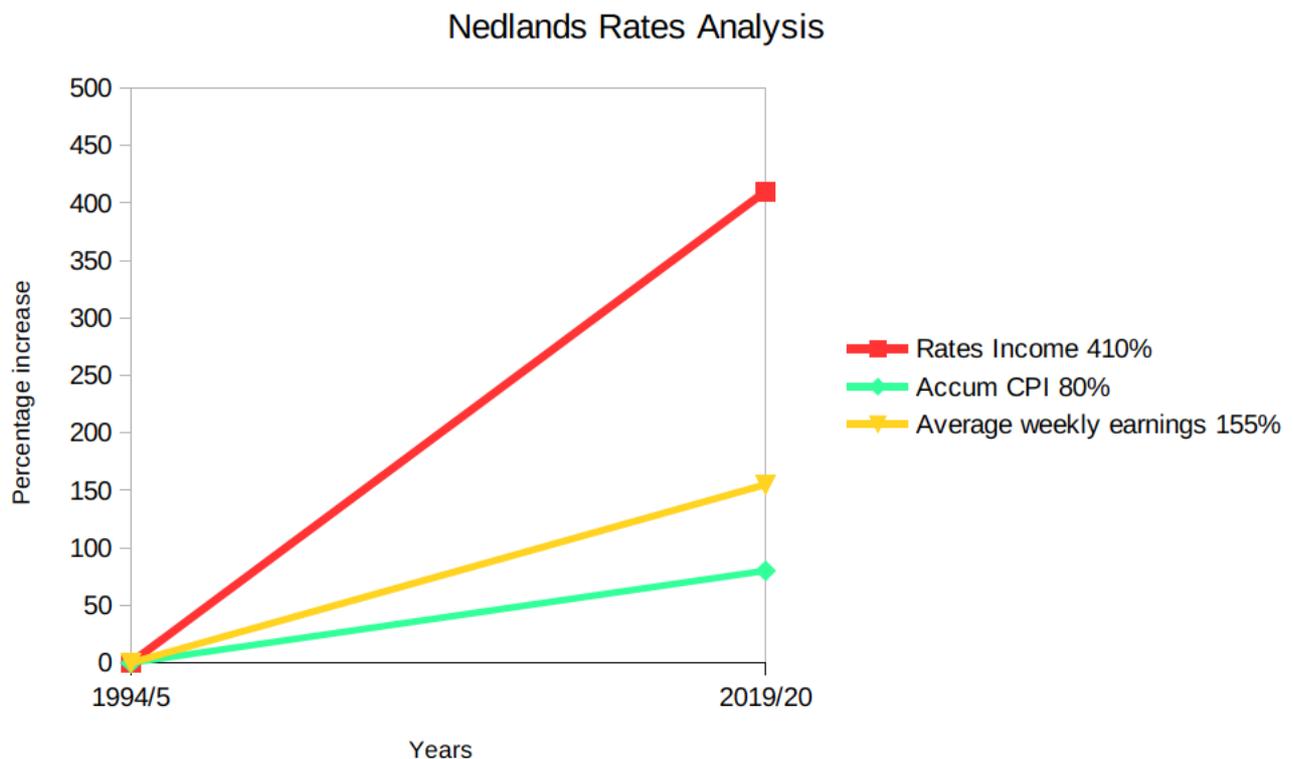


Laurie Taylor BSc MBA  
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## A Simple Nedlands Rates Analysis

My municipality, the City of Nedlands is ideal for doing long term case studies, very little has changed over the last 25 odd years. The population has hardly changed, the number of dwellings has hardly changed, the road and footpath networks have hardly changed, and the public open spaces have had relatively minor changes. There have only been minor changes in the regulatory environment. As well the range of services has in fact decreased as a range of children services in place in the 90s were discontinued. So as a businessman I would expect the cost of running this enterprise would hardly change. In fact given the time span, I would expect that competent professional management would have achieved efficiencies somewhat in line with that for the rest of the economy. ABS cumulative labour productivity statistics would suggest a decrease in headcount of about 40%.

However, from very early in my involvement in LG as a councillor starting in 1995, then as Mayor up until 2007, I have been very concerned with the financial impost of LG on the community which is primarily a result of the enactment of the 1995 Local Government Act. As can be seen from the graph below, the impost on the community vastly exceeds what a normal community individual would expect. For the period 1995 to 2020 rates income has gone up 410% (ie. quintupled), whilst accumulative CPI has increased 80%. So rates income has increased over 5 times CPI.



The simple question has to be asked given the static nature of the City of Nedlands, what does the municipality consume in providing its services or maintaining its facilities which have gone up in cost to justify such a massive increase in expenditure.

In the early years of my participation as a councillor a comprehensive survey was done of every household in the municipality. It indicated that in excess of 90% of the households only used the most basic of the provisions of the municipality, the roads, footpaths and rubbish collection. So I would suggest that there needs to be an explanation as to why the cost to them of these most basic services has increased so much. What of value to the ratepayer community has been provided in exchange for the amounts of money involved.

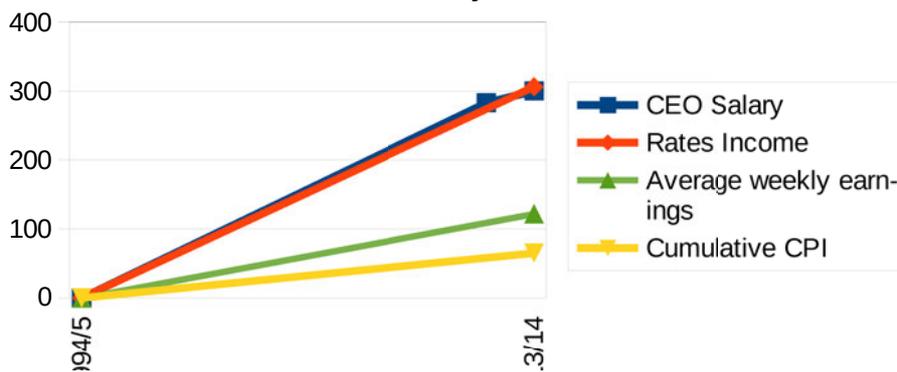
The total rates income collected between and including 1995/6 to 2019/20 is about \$347 million. If rates income had increased in line with CPI, then the total excess above those values is about \$182 million. If the increase cannot be justified by quoting the increase in cost of consumables (in the broad sense), or by indicating what worthwhile increase in services has been provided, or new facilities of value to the community, then the only deduction that can be made is that the vast majority of this money has been wasted as far as the community is concerned. It has delivered no value to the community. This represents about 80% of the increase in rates. Undoubtedly there has been increased expenditure on roads, footpaths, public buildings etc, but I challenge any member of our community to look around to see evidence of that amount of money spent in a way that is meaningful and beneficial to the community.

The question then has to be asked, why is it happening. From my personal observations, experience and analysis it comes down to how employees are remunerated, in particular executive employees. In most enterprises generally, and in simple terms, executive employees are remunerated on two basic bases, the responsibility they carry, and the contribution they make to the mission of the organisation utilising their management skills. The first is straight forward and typically reflects such as the number of employees the manager is responsible for. A manager responsible for more employees will typically be remunerated higher. The second depends somewhat on the industry the business is in. But typically it is the contribution made to the profitability of the enterprise. A good current example is the iron ore industry in our state. The profitability is determined by the difference in the price the ore can be sold at which is largely out of control of the business as it is determined by the market. The element which is largely under the control of the business is the cost of production. No doubt many have seen the various companies spruiking their success in pushing down their cost of production in comparison with their competitors. So a strong element in the remuneration of executives in such companies is their contribution to cost reductions. This can involve reductions in staff numbers which impacts on their 'responsibility' remuneration, but the incentives are invariably structured so that even so the manager is significantly better off by way of remuneration. This reward for productivity is almost universal as it is these productivity increases which drive standard of living improvements. As one would expect, it is critical that the productivity increases be measured and demonstrated so that the reward can be tailored to the level of success achieved.

The next question is, what happens if there is no measurement of productivity improvement or other such outcomes which contribute to the mission of the organisation. Quite simply you cannot reward based on such successes. And that is the situation in WA local government. When have you seen a council tell you how much they have improved productivity in maintaining the parks and gardens, or reduced cost per transaction in the library, or reduced the cost in running the accounting systems needed to run the organisation. I would suggest never, and if you don't see them, the elected members don't see them as well. So how do you determine the remuneration for executives, all you have remaining is the measure of responsibility. So executive remuneration can only realistically be determined by the size of their headcount and budget, plus simply getting the job done, no matter how efficiently or inefficiently. Hence, as I have experienced, there is a myopic focus on size of budgets and headcounts as that determines remuneration and professional standing in the industry. So if you want a bigger pay rise, you simply have to find a way of justifying the spending of more money and employing more people. In addition, if a lower level manager achieves that he is popular with those above him as it fundamentally justifies higher remuneration for them as well. It does not require one to be Einstein to realise with no reporting and accountability for productivity that spending must mushroom.

When I first looked into these types of financial analyses about 4 years ago as a result of an article in the local paper, rates income had quadrupled, as had the CEO's remuneration. Almost a perfect correlation. The graph is below. A great demonstration. The government has acknowledged the problem by putting in place the determination of LG CEO salaries by the remuneration tribunal, but I believe that does not determine the remuneration of other executives in LG. And it can only be seen as a stopgap band aid, not a long term solution for a very big problem. The underlying unending pressure for unending spending increases is still part of the system.

## Nedlands analysis to 2014



Simple observation of the 'real' enterprise world would indicate that the only realistic way to fix this issue is to measure productivity improvements which would be required of LG executives, and to base a large portion of any increments in remuneration on achieving reasonable productivity improvement targets. Adopting the approach which has worked for a very long time in the 'real' world. A realistic simple benchmark which could be used is the national productivity figure produced by ABS. The continuous improvement model was used for many years by GE in the US, and is currently aggressively used by Toyota to reduce the labour content in their products. The ABS figure would be appropriate as it represents the combined efforts of management in the economy and could be seen to define an 'average competence' professional manager. If LG executives want to be paid and recognised as professional managers then they needs to demonstrate such performance.

There appears to be a growing group of individuals in our community, including myself, and some LG elected members who can see what is going on and very strongly object. As expected, those benefiting from this system are desperately and determinedly working to protect their incomes and the system which has produced them. The analysis indicates their incomes have gone up something like double that for the rest of the community for about 25 years. I suggest that is why so much effort is put into getting elected members under their control and dealing harshly with those who dissent. This has been a progressive effort I have watched over the years. As well very considerable effort has been made to strongly influence government in their favour. The only realistic approach to ending this unending conflict is to have all parties objectives aligned, have all parties working for the same outcome. The only realistic outcome which could be shared by all parties is to work in the best interests of the community at all times. This would require a reversal of the efforts of those benefiting from a terrible system and have them rewarded based on doing so.

There is a simple reality in life. You get what you pay for. If you pay people based on how much they can justify spending, that is exactly what you will get, unending increases in spending. Can you imagine a business telling their employees "the more you spend, the more ways you can find to waste of the businesses money, the more we will pay you". Absolutely ludicrous. But in reality that is exactly what has been happening in WA LG since the introduction of the 1995 act.

Laurie Taylor Bsc MBA  
Former Mayor & Councillor City of Nedlands.

For those who want to look at the figures this analysis is based on they are below.

PS. If you think your municipality does not have a similar problem, think again, they all operate under the same rules. It would be great if a similar analysis could be done for other municipalities so we can get an idea of the scale of the problem. In reality you just need the rates income figure for the 1994/5 year from the archives and that for last year and plug in the values.

Addendum : In 1996 Gerard Daniels Australia carried out an organisational review for Nedlands operation under the 1995 act. They recommended a staff compliment of 125.51 FTE, 10.66 of these were subsequently

discontinued due to discontinuing of the services. Applying a 40% productive improvement reduction suggests a FTE of 69.91 could operate the organisation under properly motivated and appropriately remunerated competent professional management as virtually nothing has changed since then. I understand the current FTE is about 164, about 95 in excess. The question has to be asked, what value is being provided to the Nedlands community by these excess staff given the vast majority of the community only use the most basic roads, footpaths and rubbish collection.

Budget	Rates Income	Increase	CPI Increase	CPI cumulative	Average weekly earnings	Labour productivity improvement	Labour productivity cumulative
1994/5	4725151			1 0000	662 10		1
1995/6	4977164	5 33%	1 50%	1 0150		3 00%	0 970
1996/7	5554705	11 60%	1 30%	1 0282		3 50%	0 936
1997/8	6155665	10 82%	1 60%	1 0446		3 90%	0 900
1998/9	7172127	16 51%	1 80%	1 0634		5 00%	0 855
1999/0	8056592	12 33%	5 80%	1 1251		0 50%	0 850
2000/1	8931731	10 86%	3 10%	1 1600		2 00%	0 833
2001/2	8920454	-0 13%	3 00%	1 1948		4 80%	0 793
2002/3	10804028	21 12%	2 40%	1 2235		1 60%	0 781
2003/4	10741600	-0 58%	2 60%	1 2553		3 40%	0 754
2004/5	10873481	1 23%	2 80%	1 2904		-0 10%	0 755
2005/6	11422246	5 05%	3 30%	1 3330		1 60%	0 743
2006/7	11773402	3 07%	3 00%	1 3730		1 10%	0 735
2007/8	12723014	8 07%	3 70%	1 4238		1 10%	0 726
2008/9	13245990	4 11%	2 10%	1 4537		1 30%	0 717
2009/0	14165000	6 94%	2 70%	1 4930		2 80%	0 697
2010/1	15437200	8 98%	3 00%	1 5378		0 30%	0 695
2011/2	16675100	8 02%	2 20%	1 5716		4 20%	0 666
2012/3	17901100	7 35%	2 60%	1 6125		2 40%	0 650
2013/4	19222900	7 38%	2 20%	1 6479		2 80%	0 632
2014/5	20187800	5 02%	1 50%	1 6726		1 40%	0 623
2015/6	20899560	3 53%	1 30%	1 6944		1 50%	0 613
2016/7	21896836	4 77%	1 80%	1 7249		1 20%	0 606
2017/8	22492210	2 72%	1 90%	1 7577		0 70%	0 602
2018/9	23127040	2 82%	1 80%	1 7893		0 20%	0 601
2019/20	24144574	4 40%	0 90%	1 8054	1711 6	0 60%	0 597
Overall Increase :		410 98%		80 54%	155 77%		-40 31%
Totals/Averages	\$347,501,519 00 Nedlands budgets	6 85%	2 40%		3 83%	2 03%	
Source		ABS		ABS		ABS	

## **A Laymans Analysis of a Couple of Fundamentally Important Issues in WA LG**

As a community we depend on local government to provide the facilities and services needed by our local community in a manner appropriate for our local community. When our municipality did an all house survey we found the vast majority, significantly more than 90%, only used the most basic of these services and facilities, the roads, footpaths and refuse collection.

If it were given the opportunity I suggest that the community would tell those responsible for delivering the services and facilities that they should do so in something like a 'cost efficient, appropriate quality, community satisfying' manner. Has this been delivered over the last 25 odd years, emphatically no. In my municipality the rates have gone up over 5 times the increase in CPI, can anybody point to cost pressure increases in delivering the basics of LG which can warrant such an increase. The proportion of household incomes demanded by my LG has nearly trebled. So cost efficient, no way. Quality has not been measured in any consistently meaningful way, similarly community satisfaction. What has been delivered can only be described as massive financial abuse. I suggest many municipalities would be similar to my municipality. So why and how has this happened.

As in the corporate world with which we are so familiar, we appoint a group of people to oversee the operation of the 'enterprise' so that it does so in the best interests of the stakeholders, shareholders or ratepayers. It is a board in the corporate world, a council in LG, but their responsibilities in overseeing the running of the enterprise are very much the same. It is very worthwhile to look to the corporate environment as it has been very successful and functional for a long time.

In the corporate world to be invited to join a significant board is public recognition of executive and management ability and proficiency. Those sought would have deep and wide experience in the type of operation of the corporation they are joining. Their expertise gained through extensive training and long experience would be both an asset to the organisation and enable them to effectively carry out the required oversight responsibilities. An executive in the organisation would find it very difficult to put anything over a competent board. The board members also invariably have the experience of dealing with boards as executives in their past. The board members carry out their oversight function using performance and other information provided by the organisation. The performance information would be both longitudinal, improvement over time for the various functions, and lateral, compared to peers or competitors from publicly available information. Much of this performance information is made public to keep shareholders and the market informed.

Councillors are typically well meaning members of the general community with various backgrounds, particularly professional, but have the fundamental responsibility to oversee the operation of the municipality as an enterprise to ensure it operates in the best interests of the stakeholders, the community who pay the rates. However, how many would have a deep knowledge and experience in civil engineering so as to be able to ensure that all the infrastructure work undertaken by the municipality was done in the best interests of the community. Similarly how many would have deep knowledge into horticulture for the same purpose, or into accounting and financial practices to ensure they were carried out in the best interests of the community. Similarly in all the other areas the typical local government operates. I suggest very few. And who has seen any meaningful performance information in an understandable format as to how the various areas are operating so that performance assessments can be made to ensure they are operating in the best interests of the community. If we the community has not seen any such information you can guarantee the typical councillor has not seen them, and due to their lack of

expertise in specialist areas, they typically do not know what to demand, unlike a corporate board member. So how effective could a typical councillor or council be in this fundamentally important oversight responsibility. Something between zilch and zero. And if they cannot do it, who will, there is nobody else. Any sensible, capable and intelligent elected member will acknowledge this reality, and any valuable expertise they can bring to bear is essentially useless without performance information to apply it to. So for those not being effectively overseen the limitations are their own ethics, the possibility of being caught for criminality, or public exposure for bad behaviour, otherwise they are free to get away with anything they can.

Inevitably, those who realise they lack knowledge and experience will seek advice, and who naturally from, the LG executives who they are supposed to be overseeing. So you have the governance nightmare of those being overseen advising the overseers as to how that oversight should be carried out. Is it any wonder that so many in our community see their councils essentially being run by the executive rather than those elected to carry out that function. Those executives are desperate to take control of all the councillors they can to ensure the oversight is ineffective, their back pockets depend on it.

There is another extremely important consequence of the almost total lack of meaningful performance measurement. In deciding how much to pay your executives there are two primary criteria, the responsibility they carry, budget size and staff overseen, and how good they are at meeting that expected of them. The first is easy to measure, budgets are defined and the number of staff easily counted. The second requires performance measurement, improvement in efficiency or productivity over time, relative performance against peers. But as we have seen before, there is no meaningful measurement of performance, the consequence being that the only criteria that can be reasonably applied is responsibility carried, budget and headcount.

So if a manager wants to justify an increase in remuneration all the normal means available in enterprises such as increased efficiency, increased productivity delivering a better enterprise in the best interests of the stakeholders are just not available. That manager has to engineer an increase in budget, and the best way to do that is to employ more staff as that is a permanent increase in expenditure, even though those staff are not needed to meet the real needs of the community, particularly when the vast majority of the community only use and principally value such as the roads, footpaths and refuse collection. In my municipality simple analysis indicates it is something like 80-100% overstaffed, at enormous extra cost to the community. Quite simply the manager has to deliver a far worse financial outcome to the community to justify a remuneration increase. Actually, it is almost certainly far easier to think up ways to increase expenditure than it is to work out ways to be more efficient and productive. Very low capability managers would thrive in this sort of environment, no doubt a major reason why WA LG management are so desperate to keep the current system. Using CEO salaries as an indicator, LG executive remuneration has been increasing at around double that of the general community for about 25 years. A financial goldmine. But it is the antitheses of real professional management which is to achieve the best possible outcome with the resources you have available in the best interests of the enterprise and stakeholders.

As there is no effective enterprise oversight to ensure the management employees of the community are working in the best interests of the community, and no meaningful performance measurement and reporting keeping the community informed, the community is somewhat oblivious to all this happening. So long as the ever increasing financial impost inflicted on the community is just below the 'pain' threshold each year, however the cumulative impact is massive, in my municipality the proportion of household incomes being demanded has almost trebled, just to

principally use the roads, footpaths and rubbish collection. Typically people do not look back and look at the trends, they just look at each year in turn.

Obviously there are simple, fundamental but major problems in the way WA LG operates. Why is it important now? Simply because supposedly major changes to the way WA LG operates are proposed and out for public comment. But it appears that these fundamental issues are not being addressed so that the very considerable consequences, principally financial, will continue and canonly get worse. Executives in the LG industry will continue to look for remuneration increases.

Some important questions need to be asked.

Can the community expect that the people they elect to ensure their interests are looked after will be given the standing, status, and all the necessary resources to carry out the holding to account responsibility to the best of their ability.

Or.

Will the community just have to accept that the unelected executives in the industry will exercise effective control to serve their own interests at unending increasing cost to the community.

Should the community expect that it's employees whose remuneration it funds be expected to work in the best interests of that community and the remuneration and increases in remuneration be contingent on the employees delivering a better outcome to the community.

Or.

Will the community just have to accept that the employees like, and want to have continue, the current system where remuneration increases can be easily justified by unendingly increasing the financial burden on the community.

Can the community expect that those in ultimate control of the operation of LG in WA, our government and the responsible minister, will ensure that the LG system operates in the best interests of the WA community. Given that virtually every household and business in our community is affected.

Or

Will the community just have to accept that the 2-3000 management personnel in the LG sector effectively control the political process overseeing the operation of WA LG so they can continue to reap the financial rewards, at great cost to the community with a population of over 2 million.

Or Simply:

Can the community expect that WA LG will be operated in the best interests of the WA community, if not, why not, the community deserves an explanation.

Laurie Taylor BSc MBA  
Former Mayor & Councillor City of Nedlands