



20 May 2017

Committee Secretary
Infrastructure, Planning and Natural Resources Committee
Parliament House
George Street
Brisbane Qld 4000

by email ipnrc@parliament.qld.gov.au

Dear Sir/Madam

Attached is a submission by the Coolum Residents Association Inc. to the Parliamentary Inquiry into long-term financial sustainability of local government.

Yours sincerely

Peter M Brown
Secretary
Coolum Residents Association Inc.

Parliamentary Inquiry into Long-term Financial Sustainability of Local Government
Submission by Coolum Residents Association Inc.

Executive Summary

Coolum Residents Association (CRA) is pleased to offer this public submission to the “*Inquiry into the long-term financial sustainability of local government*”. CRA is a long standing community group representing ratepayers of Coolum Beach and surroundings whose majority vision is in accord with in the current Town Plan for Coolum Beach, Yaroomba, Peregian Springs, Yandina and surroundings. The submission will provide public comment on matters relating to items c, d, e, f, g, h, and j of the inquiry Terms of Reference. It will explore the Sunshine Coast Council's airport expansion project (SCA) and the Valdora Solar Farm project (VSF) as two relevant case studies. Please note that SCA is the subject of an audit qualification to Council's Financial Statements for 2015/16 (see page 129). SCA with VSF are considered to be two of three strategic “game changing development projects” of the Sunshine Coast Council (SCC). SCC has announced investments of some \$75 million of ratepayer assets in the SCA and VSF projects in 2016/17.

Decision making framework for SCA

Council has supposedly operated Sunshine Coast Airport (SCA) on a commercial basis since the early 1990s, and SCA was declared and remains a commercial business activity of Council since 1996.

An airport Master Plan was developed by Michael Kellaway International, an expert consulting company in the field of airport planning and development in 1994. That Master Plan recommended an expansion of the main passenger terminal costed at \$9.4 million. Council actually spent some \$16 million on capital works including a land purchase for a future East/West runway. This land purchase was made to provide an option for eventual expansion of this regional airport to another international airport in South East Queensland. It took place despite the following contrary advice from Michael Kellaway International: ***It can be stated that B747 operations at the Sunshine Coast will not occur while Brisbane International Airport has capacity and in any event Council could be well advised to allow Brisbane to make all the necessary investment required to support a very expensive airport expansion****. Construction of a second runway at the Brisbane Airport involving private sector investment of some \$1.4 billion is now in progress, effectively doubling its capacity by 2020.

SCC has refused to provide adequate financial transparency for SCA and other declared commercial business activities since the 2000/01 Maroochy Council's Annual Report (see Appendix “B”). Community equity in SCA was internally audited to be \$24.7 million as of June 2000/01. Since that time there have been manipulations of costs, revenues, and asset valuations, with community equity falling to a low of about \$15 million in 02/03. Unaudited accounting manipulations have now increased Council's equity to a purported \$ 63.2 million for 2013/14.

*Planning Considerations beyond 2015 – Larger aircraft and Land Acquisition (January 1995) by Michael Kellaway International Page 8.

SCC's external audit processes are ineffective as the Queensland Audit Office (QAO) examines summary balance sheet information for the Council as a whole (see comments in Appendix "A"). Consequently audit qualifications are not expressed regarding lack of transparent balance sheet information for commercial business activities subject to Full Cost Recovery Performance assessment since 2000/01.

Budget Performance Financial Transparency

Revised Master Plans for SCA incorporating a major capital intensive expansion were developed and approved by Council in 2007 and 2014. Comparisons of SCA full year operating surplus results with Budgets (\$millions) since the adoption of the 2007 Master Plan follow:

Analysis of 06/07 operating performance

	Budgeted	Actual
Operating Revenue	11.4	9.6 (16% below budget)
Operating expense	7.8	6.4 (Note goods&services 43% below)
Operating surplus	3.6	3.3 (8% below budget)

Analysis of 07/08 operating performance

	Budgeted	Actual
Operating Revenue	9.7	10.2 (\$2.1 unanticipated)
Operating expense	5.2	5.1
Operating surplus	4.5	5.0

Analysis of 08/09 operating performance

	Budgeted	Actual
Operating Revenue	12.5	12.3
Operating expense	5.2	5.1
Operating surplus	5.7	4.8

Note: Un-budgeted borrowings of \$9 million, and an asset revaluation of \$4.5 million.

Analysis of 09/10 operating performance

	Budgeted	Actual
Operating Revenue	13.6	12.0 (12% below budget)
Operating expense	7.5	7.1 (5% below budget)
Operating surplus	6.1	4.9 (20% below budget)

Analysis of 10/11 operating performance

	Budgeted	Actual
Operating Revenue	14.7	13.9 (5% below budget)
Operating expense	8.9	8.1 (9% below budget)
Operating surplus	5.8	5.8

Note: passengers 908,000 - below the 2007 Master Plan lower bound forecast.

Analysis of 11/12 operating performance

	Budgeted	Actual
Operating Revenue	15.5	13.3 (14% below budget)
Operating expense	9.3	12.2 (31% above budget)
Operating surplus	6.2	1.1 (82% below budget)

Passengers 908,851 – below the 2007 Master Plan lower bound forecast.

Analysis of 12/13 operating performance

	Budgeted	Actual
Operating Revenue	14.5	14.1 (3% below budget)
Operating expense	10.0	13.0 (30% above budget)
Operating surplus	4.5	1.1 (75% below budget)

Passengers: 790,002 - below 2007 Master Plan lower bound forecast of 932,481.

Analysis of 13/14 operating performance

	Budgeted	Actual
Operating Revenue	15.9	16.2 (2 % above budget)
Operating expense	12.2	13.9 (14 % above budget)
Operating surplus	3.7	2.2 (40% below budget)

Passengers: 901,333 - below the lower bound 2014 Master Plan forecast of 956,725.

Analysis of 14/15 operating performance

	Budgeted	Actual
Operating Revenue	16.1	15.7 (2 % below budget)
Operating expense	13.3	14.0 (5% above budget)
Operating surplus	2.0	1.7 (15% below budget)

Passengers 857,000 - below the lower bound 2014 Master Plan forecast of 980,600.

Summary financial performance from 06/07 to 14/15**

Cumulative operating surplus shortfall-Actual vs Budget	\$ 12.2 million
Cumulative budgeted finance/interest costs	\$ 15.7 million

** Note: This comparison suggests SCA is trading insolvent and increased QTC debt has been used to meet operating surplus deficits.

Comparisons of SCA full year operating surplus results with Budgets since the adoption of the 2007 Master Plan relies on accurate surplus assessments for SCA being subject to Full Cost Recovery as is shown on page 67 of the 2015/16 Financial statements. However the SCA approved Budget for 2015/16 competitive neutrality cost/interest expense appears not to have used a 12 % target spelled out in the Financial Sustainability Plan for the target return on capital employed. Were correct competitive neutrality target values used in the SCA Budget for 2015/16, an actual after tax loss of some \$6 million against corrected Budget would be recorded. This same issue applies to all SCA's approved Budgets since 2007, suggesting that the actual cumulative operating surplus shortfall of \$12.2 million described above may be understated. Despite such unresolved issues the Mayor's Office has signed Certificates of Accuracy for the 2014/15 and 2015/16 Financial Statements.

Conclusions

Financial performance of SCA since approval of the 2007 Master Plan is not that of a viable commercial business activity. Such a history together with the unreliable nature of future passenger growth forecasts representing a major source of revenue growth renders the SCA expansion project's 2014 Master Plan involving some additional \$360 million of investment in the 13/31 runway economically unwarranted. The Coordinator General's report is silent with respect to independent assessment of SCA's economic sustainability under provisions of the adopted EIS terms of reference. Given such shortcomings, approval by the Minister/Department of State Development under State Development and Public Works Organisation Act (1971) legislation, may not advance economic sustainability purposes of the Sustainable Planning Act (2009).

SCA Organisational Governance

The Coordinator General's EIS assessment noted lack of the community consultation for the SCA expansion project required under Regulation 2012 of the Local Government Act. CRA endorses this finding with respect to conduct of community forums by the Manager SCA and Councillors for Divisions 8 and 9.

CRA's SCA Community Forum representatives have repeatedly requested provision of financial performance transparency appropriate for a capital intensive commercialised business unit, including audited balance sheets for financial years 2001/02 to 2014/15. None have been provided. Audit responsibility rests with the Mayor's office (Mayor and CEO) yet the Mayor's Office refuses to provide essential balance sheet transparency underpinning growth in airport land valuations accounting for much of the purported growth in community equity stemming from increased land valuations since 2000/01.

CRA notes that guidelines for Economic Impact Assessment are now issued by the Department of State Development dated April 2017, and respectfully suggests that the Coordinator General be requested to independently assess the economic sustainability of the SCA expansion project under commercial terms to be negotiated between Council's CEO and Palisade Investment Partners, that was announced by the Mayor's Office on 9 February 2017. In CRA's opinion such independent assessment is mandatory given failures in the SCA budget development processes, and the lack of financial reporting transparency discussed above.

Please now consider the case of the Valdora Solar Farm project.

Decision making framework for Valdora Solar Farm (VSF)

CRA requested a copy of the VSF business case in February 2016, following public announcements of Council's intent to invest some \$48.5 million in this development project in 2016/17. At the time CRA was informed that any business case was commercial-in-confidence. A summary business case was later posted on Council's website on 26 May 2016.

The Mayor's Office had made public assertions that VSF would reward ratepayers with \$22 million in profit over and above Council's investment in the project over its 30 year life prior to the March local government elections. The summary business case was provided to ratepayers in May 2016 following award of a construct and operate contract to Downer Utilities. Financial transparency was totally lacking and the intent of Regulation 2012 completely ignored.

The summary business plan suggests that profit for VSF depends largely on future market values of large scale solar certificates (LGC's) discounted to Net Present Value (NPV) at an appropriate discounting hurdle rate. Council refuses to identify cash flow contributions from the assumed LGC sales in 10 year forecasts for the VSF project provided in Council's Budget papers for 2016/17, or provide requested detail for the full 30 year life of the project. The CEO has declined to provide details of the target hurdle rate used for the business plan's NPV analysis.

Council's recalcitrance described above defeats community consultation intents of the Local Government Act's Regulation 2012 relating to financial sustainability, as mandated by the Sustainable Planning Act (2009). CRA requests an economic impact assessment be performed for VSF under the April 2017 guidelines.

Organisational Governance

Please now refer to CRA's public submission to the Councillor Complaints Review Panel dated 19 September 2016 and issues discussed which follow.

CRA does not consider the situation of a council having a management staff culture of concealment or neglect relating to internal governance practices and financial reporting transparency for its commercial business activities is effectively addressed by the SCC Mayor's Office and elected Councillors. For example no audited balance sheets for SCA have been supplied by Council since 2000/01 as shown in Appendix "B".

CRA has lodged complaints in the past involving maladministration by former Maroochy Council's Mayor and CEO. These were lodged with the Ombudsman and concerned declared water service business entities. These matters were not effectively addressed in external audits or in prices monitoring investigations by the Queensland Competition Authority (QCA).

It is the Mayor's Office responsibility to prepare the annual budgets for Council according to QAO (see Appendix "A"). In earlier Local Government Act legislation the Minister Local Government/Department had approval oversight for Council's annual budgets. This safeguard no longer exists due to past delegations designed to reduce "red tape". SCC ratepayers have now lost previous safeguards associated with ministerial/departmental oversight and intervention in cases of internal governance failures and absence of financial reporting transparency for business activities in Annual Reports.

The Mayor's Office jointly signs off on Council's financial statements included in the Annual Report. According to QAO's Independent Auditor's Report for 2014/15, the Mayor's Office are responsible for internal audit controls, and that financial statements give a true and fair view and are free from material misstatement.

Strategic planning and organisational capacity

Following adoption of the 1994 Master Plan, Michael Kellaway International provided future passenger usage forecasts. Quarterly forecasts were developed from May until August 1996, for the period commencing January 1996 up until December 2000. As is the case for the 2007 and 2014 Master Plans, three point range forecasts were developed. In 1994, passenger head fees provided some 75% of SCA revenues.

Actual passenger movements for financial year's 97/98, 98/99, and 99/2000 are available from Council's Annual Reports. Comparisons between actual and the forecast range are informative.

Annual passenger movements versus Kellaway forecasts

Year	97/98	98/99	99/2000
Expected	413,699	460,809	507,922
Lower bound	358,441	388,536	415,881
Actual	279,256	286,237	306,701

These results suggest passenger forecasting is a difficult exercise and even expert opinion can be inaccurate. Actual passenger movements were in fact below the range forecast just one year after the Kellaway study was completed. Given such a history, one must be sceptical about annual passenger forecasts relied upon in the SCA project's EIS and AEIS that have no legitimate forecasting methodological basis. Use of a simplistic extrapolation forecasting methodology for such fundamental strategic planning projections is seriously flawed. It ignores critical environmental factors such as the business cycle, future transportation primary energy costs, global warming related emission trading outcomes, and climate change abatement cost impacts for tourism related future developments on the Sunshine Coast and the like. External environmental factors are far from being secondary in nature and the carry over of flawed passenger growth projections of the 2007 and 2014 Master Plans renders achievement of economic sustainability for SCA as an international or domestic hub airport in SEQ highly improbable.

An expanded SCA must compete with private sector international airports in SEQ that are within some 120 km from the Sunshine Coast, i.e. Brisbane and Toowoomba. The Brisbane airport (BA) is undergoing major expansion to be completed in the same time frame as the proposed SCA expansion and both domestic and international airlines presently use Brisbane as their hub for SEQ operations. For the SCA expansion to be economically sustainable as an international airport, foreign airlines would have to select SCA over BA to service all air travel demands of the Sunshine Coast and SEQ. Given the economies of scale enjoyed by BA and Council's demonstrated inability to attract Chinese investment in the expansion project, passenger growth assumptions underpinning land revaluations for SCA since 2000/01 are not credible.

Appendix "A" – email exchanges between CRA and Queensland Audit Office

Rec'd 14 June 2016

Hello Mr Koerner

My name is Michael Hyman and I have just taken over responsibility for a number of ongoing matters previously handled by Ms Kaylene Cossart. Ms Cossart is currently undertaking a different role within Queensland Audit Office.

Ms Cossart forwarded to me your recent emails including relevant attachments and asked me to provide you with a response to your enquiries which I have set out below.

Email of 10 June 2016

Q1. Report on pages 27 and 28 suggests that council's owned and operated airports ran at a net loss in 2014/15. Figure E on page 28 further suggests that these airports had a cumulative loss of some 4.5 million in 2015/15. Is this interpretation correct? If so what was the magnitude of net loss associated with Sunshine Coast Airport operations in 2014/15?

A1. Your interpretation is correct in that the loss reported in Figure E represents the combined results of all council controlled airports in Queensland for the 2014-15 financial year. Information specific to the operations of Sunshine Coast Airport does not constitute publicly available information and I am prevented from making this information available to you under s.53 of the Auditor General Act 2009.

Q2. It is noted that Local Government Regulation 2012 has not been repealed despite assertions to the contrary in paragraph three page 2 of correspondence from the CEO dated 24 May that is attached.

A2. It is my understanding that the paragraph you refer to in the CEO's letter relates to the repeal of s.312 of the Local Government Regulation 2012 rather than the Regulation itself. This section has been repealed as indicated.

Email of 3 June 2016

Q1. As is the case for the airport expansion project, no assurance is provided in the Annual Report that the business case for Valdora Solar Farm has been internally audited by Council. Can the QAO's audit opinion for 2014/15 be interpreted to mean that Council's financial governance and internal control obligations have been met?

A1. The objective of our financial audits is to form an opinion on the financial statements as a whole to determine if they are free from material misstatement. In arriving at our audit opinion we undertake audit testing which is based on a risk based methodology with the risks of material misstatement of those financial statements being assessed and transactions and balances tested during the audit. The extent of testing undertaken is determined by the Engagement Leader for the audit. In determining what is an appropriate level of audit testing the Engagement Leader would assess the adequacy of an entity's governance framework and the effectiveness of its internal controls but in the context of their effectiveness in preventing misstatement of the financial statements. While the audit would also have regard to the level of internal audit undertaken within an entity, internal audit activities are determined by the entity itself and not external audit. Areas of Council's operation covered by internal audit, the extent of work undertaken during the audit and the results of audit assessments and audit testing do not constitute information publicly available and I am therefore prevented from providing you with specific information under s.53 of the Auditor General Act.

Email of 19 May

Q1. The response suggests that QAO is obligated to “express an opinion on the financial report based on the audit”. Does this assertion suggest that the 2014/15 QAO financial audit included examination of statements of comprehensive income and cash flows for such projects as the airport expansion and Valdora Solar Farm that are not provided in Council’s Annual Financial Report?

A1. The answer above provided an overview of the audit process. As audits are performed utilising sampling to determine transactions and balances to be tested, not all transactions and balances may be tested during an audit. However, testing is directed towards addressing the risk of material misstatement of the financial statements and as a consequence material and higher value transactions and balances have a greater likelihood of being selected for audit examination. I am unable to advise you of specific transactions and balances tested during the audit as this is not information publicly available in accordance with s.53 of the Auditor General Act.

Appendix “B”

Sunshine Coast Airport Business Unit

Available Statements of Financial Position

Financial Years	2013/14	2012/13	2011/12	2000/01*
	\$'000	\$'000	\$'000	\$'000
Assets				
Current	2,057	2,173	2,808	1,247
Non- Current	103,939	93,867	84,777	27,288
Total Assets	105,996	96,041	87,585	28,535
Liabilities				
Current	4,542	7,405	4,443	907
Non-current				
Borrowings (QTC)	38,207	35,071	32,071	4,416
Other	82	82	70	49
Total Liabilities	42,831	42,559	36,584	5,372
Total Community Equity	63,164	53,481	51,001	23,163

* Source 2000/01 Maroochy Council Annual Report – last audited version available