



8 February, 2017

RTI and Privacy Review

Department of Justice and Attorney-General
GPO Box 149
Brisbane Qld 4001
Sent via email: FeedbackRTIandprivacy@justice.qld.gov.au

Dear Department

Thank you for the time extension granted.

Please consider the following submission made on behalf of Coolum Residents Association Inc. (CRA). CRA is a non-profit, non-partisan volunteer organization, and represents the views and opinions of a cross-section of the Coolum community.

CRA does not consider this RTI review adequately addresses 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. The review discussion paper is silent with respect to financial governance responsibilities of the CEO and council staff with respect to accountability, reporting and performance monitoring against original approved budgets.

Financial reporting and governance responsibilities have been increasingly delegated to the elected Council over recent years. Budgets are no longer submitted annually to the Department of Local Government for approval by the Minister. Year to date profit performance monitoring against original budget data are not reported adequately in Sunshine Coast Council (SCC) monthly financial statements which are outdated well before being posted on Council's website. In the case of the SCC, responsibility for transparent financial reporting and financial governance rests with the Office of the Mayor

In earlier Local Government Act legislation, the Minister Local Government/Department had approval authority for council's annual budgets. This safeguard no longer exists due to past delegations designed to reduce "red tape". SCC ratepayers have now lost safeguards of ministerial/departmental monitoring and intervention in cases of internal governance failures and absence of financial reporting transparency for business activities in annual reports.

The Mayor and CEO must jointly sign off on Council's financial statements included in the Annual Report. According to the Queensland Audit Office (QAO) Independent Auditor's Report for 2014/15, the Office of the Mayor (Mayor and CEO) are responsible for internal audit controls, and financial statements must give a true and fair view and be free from material misstatement.

Please now refer to pages 67 and 121, copies attached, of the SCC Financial Statements for 2015/16 and the reporting of full cost recovery performance of SCC business units subject to the code of competitive conduct. Note that the Sunshine Coast Airport (SCA) has failed to achieve its targeted return on capital in 2015/16. This community financial report on page 67 has not been provided in previous years and comparisons of actual surplus against budget targets for prior years suggests that from

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2007/08 to 2014/15, SCA failed to achieve its surplus targets by \$12.2 million without the consideration of required returns on community equity for the airport. [REDACTED]

Copied at Appendix A are e-mail exchanges with QAO regarding its 2014/15 Audit Report in Council's Financial Statement highlighting CRA's concerns with the lack of effective governance and financial reporting practices of SCC. The community financial report on page 67 was not provided in the 2014/15 Financial Statements and no appropriate audit qualifications were included with QAO's audit statement. CRA is of the view that QAO's external audit process is flawed with respect to audit of SCC's commercial business entities, including financial reporting of its equity interest in Unitywater, a GOC providing monopoly water and sewerage services to SCC households.

Given the unhelpful response from QAO provided in the Appendix, CRA is of the view that repeal of s.53 of the Auditor General Act (2009) is mandatory given the culture of concealment embedded in SCC's management structure.

CRA strongly objects to inclusion of budgetary information for local governments in Schedule 3 page 147 and objects to the inclusion of Queensland Treasury Corporation (QTC) in Schedule 2 Section 17 of the RTI Act (2009) given QTC's involvement as the Federal Government's loan guarantor for the SCA expansion project.

Why should Coolum ratepayers be forced to resort to improved RTI legislation and/or seek clarifications from QAO, to obtain the financial reporting transparency mandated under the Local Government Act and Regulation 2012 in its monitoring of a local government such as SCC in the interests of ratepayers?

Yours sincerely,

Peter M Brown
Secretary, Coolum Residents Association Inc.

Appendix A: Copy of email exchange between Coolum Residents Assoc and Qld Audit Office

Attachments: 2015/16 Annual Report Sunshine Coast Council Page 67
2015/16 Annual Report Sunshine Coast Council Page 121



Appendix A – email exchange between CRA and Queensland Audit Office

Rec'd 14 June 2016

Hello Mr Koerner

My name is [REDACTED] and I have just taken over responsibility for a number of ongoing matters previously handled by [REDACTED]. [REDACTED] is currently undertaking a different role within Queensland Audit Office.

[REDACTED] 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

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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.

Business Activities – Full Cost Recovery Performance

Council's Financial Sustainability Plan provides that the performance of Council's business activities be published annually in the Community Financial Report.

2015/16 Financial Data	Waste and Resources Management \$'000	Sunshine Coast Airport \$'000	Sunshine Coast Holiday Parks \$'000	Quarries Business Unit \$'000
Operating Revenue	54,610	18,138	14,596	7,349
Community Services Obligations	542	122	0	0
Total Operating Revenue	55,152	18,260	14,596	7,349
Operating Expenditure excluding interest	38,685	8,512	6,678	6,637
Depreciation	2,678	1,883	503	440
Competitive Neutrality Costs excluding income tax equivalent	279	678	418	5
Total Operating Expenditure	41,642	11,073	7,599	7,082
Earnings before Interest and Tax (EBIT)	13,510	7,187	6,997	267
Return on Capital (pre-tax nominal) %	16.6%	8.9%	18.3%	7.6%
Target Return on Capital	9,722	9,877	4,308	499
Weighted Average Cost of Capital %	9.5%	12.0%	12.2%	11.0%
Surplus (Shortfall) EBIT to target return	3,788	(2,690)	2,689	(232)
Value of Council's Investment in the Business Activity	70,609	103,016	44,028	5,287

Note: Weighted average cost of capital and return on capital are calculated on a pre-tax nominal basis net of assumed revaluation gains.

Value of Council's investment in the Business Activity excludes strategic land holdings.

Notes to the Financial Statements

For the year ended 30 June 2016

(b) Activities to which the code of competitive conduct is applied

A business activity of a local government is divided into two categories:

Roads business activity means

- (i) the construction or maintenance of State controlled roads for which the local government submits an offer to carry out work in response to a tender invitation other than through a sole supplier arrangement or;
- (ii) submission of a competitive tender for construction or road maintenance on the local government's roads which the local government has put out to tender, or called for by another local government.

Other business activity, referred to as type three activities, means the following:

- (i) trading in goods and services to clients in competition with the private sector, or
- (ii) the submission of a competitive tender in the local government's own tendering process in competition with others for the provision of goods and services to itself. Excluded activities are (a) library services, (b) an activity or part thereof prescribed by legislation.

Local government may elect to apply a Code of Competitive Conduct (CCC) to their identified business activities. This requires the application of full cost pricing, identifying the cost of community service obligations (CSO) and eliminating the advantages and disadvantages of public ownership within that activity.

The CSO value is determined by Council, and represents any activities cost(s) which would not be incurred if the activities primary objective of the activities was to make a profit. The Council provides funding from general revenue to the business activity to cover the cost of providing non-commercial community services or costs deemed to be CSO's by the Council.

The Council has resolved to apply the CCC to the following activities:

- Sunshine Coast Airport
- Waste Management
- Quarry Operations
- Holiday Parks

The following activity statements are for activities subject to the competitive code of conduct:

	Airport	Quarry Operations	Holiday Parks	Waste
	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000
Revenue for services provided to Council	15	6,945	-	1,122
Revenue for services provided to external clients	18,123	404	14,596	53,488
Community Service Obligations	122	-	-	542
	18,260	7,349	14,596	55,152
Less : Expenditure	14,087	7,188	7,727	44,969
Surplus / (deficit)	4,173	160	6,869	10,183