

## **Town councils: Finding a balance**

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***The Straits Times***, 22 November 2014

Alarm bells have gone off over the financial health of Aljunied-Hougang-Punggol East Town Council (AHPETC), after it failed to get its audit done on time for the third year running.

AHPETC manages the Housing Board estates in the area, which includes Aljunied - comprising of the Bedok Reservoir-Punggol, Eunos, Kaki Bukit, Paya Lebar, Serangoon divisions - Hougang and Punggol East.

The Workers' Party (WP) town council has been in the spotlight over the state of its finances, involving mounting arrears for service and conservancy (S&C) charges, and an operating deficit, highlighted in the annual town council report card a fortnight ago.

WP chief Low Thia Kiang responded that residents were not affected because poor financial management did not impact the council's operations and services, and so did not affect the safety and living environment of the residents.

Not so, countered Minister of State for National Development Desmond Lee. He argued that if the town council continued to manage its finances poorly, it would eventually be unable to pay for essential services like water, to the detriment of residents.

Tell that to the residents - seven out of 10 of those interviewed by Insight did not know their council was spending more than it was collecting.

Aljunied resident Muhamad Ariffin Khan, 68, a retiree, is among those who say they are not unduly worried.

"It doesn't bother me, because my place is clean," he says.

He echoes the general sentiment in an informal "void-deck check" conducted by Insight of 100 people living in the Opposition-run constituencies.

Still, some, like business owner Nigel Wan, 34, did see the big picture. "Of course, I'm worried," says the Serangoon resident.

Recognising the importance of paying for services rendered, he tells Insight: "If you expect the town council to do works for you, you have to pay for it."

### **Following the money trail**

Just what do the numbers say? From the latest figures available, the town council still has funds to fall back on. But that is from a financial statement a year ago. It could not submit this year's audited statement, required of all town councils, by the Ministry of National Development's (MND) August deadline. A town council's financial year ends in March.

Going by the 2013 statement, it closed its accounts with an accumulated surplus of \$1.84 million. These are reserves built up over the years that it can dip into to make up for shortfalls. A year before, it had \$2.7 million.

In its previous incarnation, the town council had been under the watch of the People's Action Party. Then came the General Election in 2011, when the area swung to the Opposition. The newly formed Workers' Party town council took over the functions previously carried out by Hougang Town Council and Aljunied Town Council. It then merged with Punggol East after the by-election there in January 2013.

Before the election, the Aljunied Town Council had amassed \$5.47 million in accumulated surplus. Part of this amount - \$3.7 million - was transferred to the town council's sinking fund after the General Election, as required by law. Monies in the fund cannot be used to pay for daily operating expenses, but can be used for long-term projects.

When the town councils were merged, their finances were co-mingled. This allowed the former Hougang Town Council, under WP's Mr Low, to avoid running into cashflow problems, the MND's Mr Lee said.

The Hougang Town Council had a "similar approach to S&CC arrears management" as AHPETC, added Mr Lee, and had chalked up the highest arrears rate among all town councils in the 2010 financial year.

It had led to the town council's independent auditor raising concerns whether the town council could afford to pay for its daily operations.

Like AHPETC now, Hougang town council's finances were also in deficit then.

AHPETC chairman and Aljunied GRC MP Sylvia Lim disputed in an earlier interview the suggestion that the town councils were merged so that Aljunied's funds could be used to fill the hole in Hougang. The town councils had merged to take advantage of economies of scale, she said.

The MND points out that after the handover, during the period end-March 2011 to end-March 2013, the merged town council's expenditure rose by 30 per cent, from \$27.3 million to \$35.4 million, outstripping its income, which rose 11 per cent over the same time period.

What is ringing alarm bells in getting a clearer picture of the day-to-day business operations, though, is that it was running an operating deficit of \$734,000 by March last year - in short, spending more than it collected in revenue.

AHPETC is the only town council with an operating deficit for the year.

While it is not unheard of for town councils to run deficits - PAP town councils have done so, too, in the past - the numbers paint a picture of poor financial management, say industry experts.

And over time, the town council's ability to deliver services needed by residents may be affected, as it may not be able to pay for utilities, such as lights in common areas, and for cleaning contractors, for example.

While the situation could be put off, as the town council still has reserves, it may not be sustainable.

Says Mr Teo Poh Siang, head of estate-management firm Wisely 98, which runs 30 condominiums: "If they have the cash, then they are fine in the immediate future. But they are drawing on their reserves. They have to be, if they have a deficit in the current year."

In last year's financial statement, Ms Lim explained that operating costs had escalated. Lift maintenance costs rose from \$3.6 million the year before to \$4 million, for example.

This posed a major challenge in managing the town, and had resulted in the operating deficit and the reduced accumulated surplus, she said.

On the income side, the town council also failed to collect S&C charges - which make up the bulk of its income - from one third of its residents.

MND's Mr Lee, in a statement on Nov 7, said this arrears rate of 29.4 per cent measured in April last year - up from 2.6 per cent in March 2011 - was shocking. It meant that 16,000 of its 55,000 households had defaulted on payments for three months or longer.

A typical town council's arrears rate hovers around 3 per cent.

The MND notes that 10,000 of the 16,000 households had stopped paying S&C charges only in the past two years.

Some have raised questions about whether the defaulters were in financial hardship or were just recalcitrant.

Those who run town councils say the only way to find out is to meet these residents.

MPs and town council officers would typically help by finding them jobs or referring them to community development councils and welfare organisations for assistance, said Mountbatten MP and Marine Parade Town Council chairman Lim Biow Chuan.

Town councils typically arrange instalment plans to help residents settle arrears, he added, and only the habitual defaulters will be taken to court.

However, Mr Low Thia Kiang said that arrears were not uncommon, and residents would eventually pay up.

But Associate Professor Yu Shi Ming, who heads the real estate department at the National University of Singapore, points out: "High arrears is a direct reflection of the poor financial management of the town council."

All town councils know their resident households and can monitor arrears closely, he says, so to let it worsen reflects poor monitoring and management.

Indeed, the MND says that the current situation could well be worse, as the town council stopped submitting its arrears reports after April last year.

When Insight approached Mr Low and Ms Lim at their Meet the People sessions thrice in the last fortnight, both said the party will respond in due course.

## Should residents worry?

What all this means is that while the town council still had money to pay for its daily expenses at end-March last year, spending was outpacing collections.

Marine Parade Town Council's Mr Lim tells Insight that any extras not used for daily running costs can be used for town improvement projects like building playgrounds, covered linkways and exercise stations. If a town council does not have enough funds, it could be hard pressed to pay for these extras that could spruce up an estate.

But the fact that town councils must be sustainable to provide these services seems lost on some residents Insight spoke to.

Serangoon resident Quek Kim Hiong, 47, says that as long as her corridor and the void decks are clean, and lifts work, the council's financial health does not matter.

It could explain why, despite his town council not being of the best financial health, former opposition MP Chiam See Tong managed to retain Potong Pasir constituency, election after election.

Some residents of Aljunied point out that AHPETC has been there only three years, and should be cut some slack.

"So far, if you compare to before the election, it is not as clean. But they have taken over for only three years, I cannot just judge like that," said Mrs May Tan, 50, who is in the import-export business.

On arrears, residents are mostly sympathetic towards defaulters. Some approve of what they perceive as the WP's "soft approach". Says Punggol East resident Lim Kok Khiam, 42, who is in business development: "The town council should try to give people some time to pay. You must balance between enforcing rules and individual cases."

Others are less sanguine. A fifth feel it is not right that so many residents are free-loading.

Says undergraduate Darren Teo, 24, a resident of Eunos: "It's not really fair to those who pay if others don't pay. And it's irresponsible (of the town council) not to collect the money."

Aljunied resident Azhar Mohammad, 30, an aircraft technician, agrees. "If they don't pay, they shouldn't get the services," he says, adding that the town council may not have enough to go around if it continues to let arrears grow.

In fact, PAP town councils often face challenges collecting S&C charges, too.

Says Mr Lim: "Whenever we chase people, they do get unhappy. Anytime we need to issue a demand letter, there is a political cost, but you can't run away from it. "

Critics say the populist move of not chasing residents for payment will come back to bite the town council, and residents, too.

"If people don't pay (their SC charges), in the end, it's going to harm us, the community," says Punggol East resident Madhura Agashe, 33.

Pasir Ris-Punggol MP and town council chairman Zainal Sapari says: "It is town council's responsibility to manage residents with outstanding arrears. It is an unpleasant task but must be done to be fair to other residents, to ensure no disruption of services. If no follow-up is taken on residents with arrears, then it may encourage others to follow suit or anger residents that pay their dues timely."

### **Who cleans up?**

Part of the reason why some residents like Serangoon's Madam Quek are unconcerned about AHPETC's deficit is their belief that the authorities will step in if needed.

"If things get wrong, it will be referred back to the Government. What can ordinary citizens like me do about it?" says the housewife in Mandarin.

Others such as Mr Benson Yap, 39, think the PAP would only be too happy to play white knight.

"Wouldn't the other party be very happy to step in and help? They will want to show residents they can do a much better job," says the Aljunied resident, who is self-employed.

Today, there is little recourse, other than the ballot box, for residents unhappy with a town council.

The Minister for National Development has the legal power to intervene in a failing town council, but only when a certain threshold has been crossed.

Under the Town Councils Act, he may appoint any person to exercise the duties of a town council when it has failed to keep any part of its common property "in a state of good and serviceable repair or in a proper and clean condition".

This power also kicks in if any town council duty needs to be carried out urgently "to remove any imminent danger to the health or safety of residents".

But the MND has no teeth when it comes to making sure a town council submits information, such as arrears reports, and there is no penalty if it does not do so.

"This is because the TCs are supposed to be directly accountable to their residents," the ministry said on Thursday.

As Prof Yu notes, "we must remember the political nature of town councils, so it is not so simple as to make the opposition town council toe the line".

The ministry, though, is looking at strengthening its regulatory oversight over town councils, to "better safeguard residents' interest", it said.

This is being carried out as part of a strategic review of town councils that started last year.

But the notion that some residents have that the Government would be obliged to step in and bail out a failing town council might prove illusory. Apart from the financial cost of doing so, it would also have to explain to taxpayers why it was doing so and how it would make up for the shortfall.

A danger of a moral hazard situation arising, where town councils realise that they do not have to exercise fiscal care, since the Government would not allow them to fail, would warn against any such intervention.

As former PAP chairman Lim Boon Heng - the man behind town councils - commented last Saturday, they were set up in 1986 to test the management skills of elected Members of Parliament, "because Singaporeans rightfully would like to have choices. And if they pick people other than the tested PAP, then they should be sure that such people can manage the country".

The WP, however, has tried to emphasise that its role is also about being a check and balance on the ruling party as the opposition at the national level, says Institute of Policy Studies senior researcher Gillian Koh.

As for S&C arrears, it can seem popular to not chase up residents.

But people with an eye for fair play "will feel that it is unfair that some might get away from fulfilling their collective responsibility to bear their share of S&C charges", she adds.

"How WP will be judged in the the current controversy will be a balance between its role at the national level, and the 'fairness' principle," she says.