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BRISBANE CITY

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Committee Secretary
Infrastructure, Planning and Natural Resources Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Committee Secretary

Inquiry into the long-term financial sustainability of local government

I refer to the call for submissions regarding an inquiry into the long-term financial sustainability of local government under section 94 of the *Parliament of Queensland Act 2001*.

Brisbane City Council (Council) has robust long-term financial sustainability planning and asset management processes in place that are appropriate for the scale and breadth of Council's operations and asset base. This integrated asset and financial planning is compliant with the recommendations within the Queensland Audit Office's Reports 2 and 13 for 2016-17.

Council does not support any legislative changes to prescribe the recommendations set out in the Queensland Audit Office's Reports 2 and 13 for 2016-17. The preference for guidelines as opposed to a prescriptive approach is reflective of the significant range of scale, complexity and financial capacity of local councils in Queensland. A response driven by compliance within a one-size-fits-all framework will not drive a value-add approach.

Furthermore, it is recommended that the Queensland Parliament's Infrastructure, Planning and Natural Resources Committee expand the inquiry terms of reference to include a review of the planning framework, reconsider capped infrastructure charges, review the financial risk exposure for local government and review the financial sustainability requirements for Local Government Infrastructure Plans (LGIPs). This includes clarification of the relationship between LGIPs and local government financial sustainability indicators/ratios.

Appendix A contains Council's detailed comments and recommendations.

If you have any questions or require more information, please contact Mr Paul Oberle, Chief Financial Officer, Brisbane City Council on 3403 8888 or email [redacted]

Yours sincerely

Colin Jensen
CHIEF EXECUTIVE OFFICER

APPENDIX A

Inquiry into the long-term financial sustainability of local government

The following comments and recommendations are for submission to the Infrastructure, Planning and Natural Resources Committee (the Committee) for the inquiry into the long-term financial sustainability of local government.

A. Financial planning and long-term forecasting

i. Each year Brisbane City Council (Council) produces a Corporate Plan and an Annual Plan and Budget. These publications provide information about Council's goals and plans for Brisbane's future. Along with the Annual Plan and Budget, Council prepares a long-term financial forecast using the long-term financial sustainability model.

As part of its long-term planning, Council engages with the community on a range of services and infrastructure, existing and future. Council has asset management plans which are regularly reviewed and clear frameworks to guide investment decisions.

Council prepares and adopts, as part of its Annual Plan and Budget, 10-year financial forecasts and associated financial sustainability measures that have been set by the Department of Local Government and Planning (DILGP), and medium-term comprehensive income, financial position and cashflow statements. Annually, as part of its Annual Plan and Budget, Council prepares and adopts investment, debt and revenue policies.

Council's Annual Plan and Budget is consistent with its Long-Term Asset Management Plan (LTAMP) and Corporate Plan. This comprehensive system of financial and strategic planning ensures objectives can be achieved in a financially sustainable manner and delivered in an effective and efficient manner.

ii. Council's long-term financial sustainability planning is based on the enterprise performance management (EPM) cycle which cascades from strategic planning, target setting, detailed budget build, budget approval and performance monitoring. The strategic inputs include asset management plans, procurement plans and the Local Government Infrastructure Plan (LGIP).

While Council is compliant with, and supports the recommendations of, the Queensland Audit Office (QAO) as documented in Report 2, Council does not support any legislative changes to prescribe these recommendations. The preference for guidelines as opposed to a prescriptive approach is reflective of the below factors.

- There exists a significant range of scale, complexity and financial capacity of local councils in Queensland and, as noted by the QAO in the November 2016 public hearing, quality forecasts do require an investment of time and appropriately skilled resources, which some councils cannot afford.
- To achieve appropriate linkages of asset management plans (AMPs) which inform and add value to long-term financial forecasts requires reliable comprehensive asset data including complete and accurate asset condition data. Resourcing the collection and maintenance of these asset data sets would be problematic and beyond the financial and resourcing capability of those councils which are not financially robust.
- Imposition of a regulatory oversight approach for asset and financial planning combined with a one-size-fits-all metric approach to assessment of sustainability would not add value for those councils that have mature, well-developed and fit-for-purpose financial and asset planning processes in place. A prescriptive approach may add unnecessary duplication of process and effort.
- More importantly, as noted by the QAO, a response driven by compliance does not drive a value-add approach.

For those councils with challenging financial circumstances and strained resources it is questionable if a prescriptive approach would improve decision making regarding allocation of scarce resources in the short, medium and long-term. For these councils, the significant impediment to asset planning and financial management capability building is that demand for resources outstrips availability. It is likely that the financial skills resources are better deployed on the provision of accurate and timely financial management reports and quarterly financial statements.

It is recommended that close consideration be given to a guidelines approach which focuses on a maturity scale of fit-for-purpose building blocks of:

- appropriate financial controls and governance
- accurate and timely financial accounting
- budget development and reporting across one to four years
- asset condition assessment
- desirable service levels and asset conditions
- asset management plans
- long-term financial planning and modelling across one to 10 years.

B. Asset condition data and asset management plans

i. Council agrees the Asset Renewal Funding Ratio is a better measure of sustainability, however not all councils have the resources to maintain a robust condition data management regime (and applications/software to analyse the data) to calculate this ratio. For all councils to report on this ratio there needs to be a robust and systematic commitment to data collection and this expenditure needs to be recognised as a legitimate cost of the asset's lifecycle. There also needs to be an understanding on how condition data is used to then model investment needs for renewal of assets.

Council recognises that this issue may be more prevalent in small or regional councils. There is an opportunity for smaller councils to partner with each other to share these costs and methodology for condition surveys. Council agrees that additional support from DILGP to develop the capability and capacity of these smaller councils may alleviate some of the financial and resourcing pressures.

ii. It is noted that the Report 2 includes the observation that "while AMPs are only required to cover 10 years, none of the councils we visited had developed AMPs to cover the entire expected life of its assets" (Queensland Audit Office's Report 2, 2016-17, page 4).

Some assets' useful lives exceed 100 years (between 15 to 150 years for transport and drainage assets) and it would be impracticable for a plan to cover this period when funding cycles in local government are typically focused across one to four years and forecasting beyond a 10-year period would be of questionable value to a council's elected officials, management and other stakeholders.

DILGP does not clearly articulate the requirements of these expectations for LTAMPs or condition audit requirements. For the development of AMPs, Council refers to the International Infrastructure Management Manual (IIMM) as the guideline on which its AMPs are developed. The IIMM requires strong links between the purpose of the asset, levels of service, condition data, infrastructure planning and investment prioritisation. Council also refers to National Asset Management Strategy Practice Notes as a guideline for the capture of condition information for assets.

It is recommended that this approach of utilising industry practice and reference tools is supported by DILGP rather than prescribing unique methods and processes.

C. Decision-making frameworks for major infrastructure asset investments

It is requested that the Committee expand the terms of reference to include the effects of the Queensland Government planning framework (planning legislation, regional plans and local government planning schemes, and capped infrastructure charges).

i. The Committee should review the planning framework, in particular how it drives local government planning, infrastructure investment, allocation of capped infrastructure charges revenue and ultimately creates financial liabilities for local governments to continue to keep pace with development.

The planning framework originally established by the *Integrated Planning Act 1997*, extended by the *Sustainable Planning Act 2009*, and to be continued under the new *Planning Act 2016*, gives rise to significant short and long-term financial governance requirements for councils. In particular, there is a tension between Queensland Government parameters such as development growth targets, capped infrastructure charge revenue and the expectations of the community about infrastructure standards. Yet this framework, its relationship with financial management under the *Local Government Act 2009/City of Brisbane Act 2010* and subsequent financial governance requirements on local government are not clearly documented in the Queensland Audit Office's Report 2 'Forecasting Long-term Sustainability of Local Government Report'.

ii. The Committee should reconsider capped infrastructure charges and the resulting (and increasing) gap between charges revenue collected and the cost of infrastructure to service new development. This gap is having an increasing impact on the long-term financial sustainability of local government.

iii. The Committee should review the financial risk exposure for local government which is being afforded by the ability for developers to convert trunk infrastructure and seek recalculation of the establishment cost of trunk infrastructure resulting in infrastructure charges refunds.

Local governments must apply capped Queensland Government infrastructure charge rates which limits infrastructure charges revenue. Local governments must also be prepared to pay applicants the market value for land and the cost of works for trunk infrastructure conditioned as part of development and must offset the total value of dedicated trunk infrastructure assets against the infrastructure charges for the development. If the value of the dedicated asset exceeds the value of the charge, the council must pay the applicant the outstanding balance as a 'refund' (out of general revenue if necessary). Developers can claim the full value of the dedicated trunk infrastructure asset even if it is primarily of benefit to their site. The development applicant may also (post the development approval) now request a re-calculation of infrastructure establishment costs using a market valuation methodology and/or seek to have other non-trunk infrastructure recognised as trunk infrastructure. If successful, the council must offset or refund the infrastructure value to the development applicant. This framework introduces an ad-hoc element (i.e. investment where development is occurring rather than where it is needed) and leads to a greater uncertainty in Queensland councils' commitments to capital works investment. It also requires councils to make 'value for money' decisions on developer delivered infrastructure within a tight development assessment statutory timeframe.

iv. The Committee should review the financial sustainability requirements for LGIPs and clarify the relationship between LGIPs and local government financial sustainability indicators/ratios.

The Queensland Government's South East Queensland Regional Plan provides the framework for managing the SEQ Region's growth, settlement pattern and infrastructure priorities over the next 25 years. The Regional Plan's dwelling and employment benchmarks and directions for infrastructure must be supported by a local government's planning scheme and reflected in the LGIP. The LGIP must identify trunk infrastructure to support this forecast growth and development for the next 10 to 15 years. The LGIP is therefore required to be a long-term strategic planning document and yet it is also the document that must be used in conditioning infrastructure delivery in the development assessment process and thus directs short-term investment/procurement decision-making for developer-led infrastructure.

The Statutory LGIP Guideline seeks to ensure that the LGIP identifies trunk infrastructure that is:

- integrated with the land use planning
- necessary to support future urban development efficiently (cost effective)
- financially sustainable (capable of being funded by the local government)
- aligned with the local government's Long-Term Financial Forecast (LTFF) and LTAMPs.

The dual purpose of the LGIP and the alignment of the LGIP with the LTFF and LTAMP is challenging due to the divergence of the plan purposes and their differing planning horizons (LGIP is 10 to 15 years and the LTFF and LTAMP are 10 years). There is also a lack of guidance as to the representation of whole-of-life infrastructure costs in LGIPs to ensure consistency with the LTFF and LTAMP.

D. Community engagement of future service levels

Refer to (C.) above.

E. Financial sustainability targets

i. Council supports the recommendation *to* "allow councils to set their own financial sustainability targets where they can justify that a different target is more appropriate for their long-term sustainability" (Queensland Audit Office's Report 2, 2016-17, page 6). However, Council does not support the recommendation to "broaden the number of ratios required to be calculated over 10 years to include the asset renewal funding ratio, once councils have improved their asset condition data" (Queensland Audit Office's Report 2, 2016-17, page 6). Council is of the view that the Asset Sustainability Ratio, which utilises the ratio of depreciation to asset renewal expenditure, is flawed and should not be continued for those councils which have mature asset management planning and robust long-term financial management plans and could be replaced by the Asset Renewal Funding Ratio, rather than included as an additional requirement.

For those councils which are subject to a credit review process by Queensland Treasury Corporation (QTC) it is strongly recommended that the credit review process should replace those measures of financial sustainability utilised by DILGP.

The credit review process is both comprehensive and qualitative. The process does not rely solely on a small number of metrics with single static targets set to accommodate all local governments in Queensland. Rather, the metrics and targets are reflective of the specific circumstances of the relevant council including, but not limited to, historic and forecast financial performance, risks associated with and variability of predicted financial outcome, the nature of the revenue and cost base, debt levels, management capability and financial discipline. As a result, credit reviews provide a more robust assessment of an organisation's financial sustainability. To overlay this credit review process with a DILGP financial sustainability process adds duplication and negligible value.

ii. Council agrees with the statement that "the department does not have a comprehensive approach to monitoring the financial sustainability of councils and, as a result, cannot identify councils at financial risk and provide early support or intervention" (Queensland Audit Office's Report 2, 2016-17, page 39).

However, it is questionable if the recommendations of a uniform set of metrics for all councils will provide a comprehensive approach to monitoring financial sustainability. It is also likely that identification of councils at financial risk could be readily identified by review of historical financial statements, budget performance and audit reports.

F. Organisational governance

i. Council does not support any proposal to increase regulatory oversight without consideration of the mechanisms for DILGP or other Queensland Government departments to support and provide financial assistance to rectify financial sustainability issues. The pressures on financial sustainability of local government needs to be considered in the context of:

- local government being the provider of last resort for community services and support
- diminishing financial support and reduction in services from higher tiers of government
- reduction in subsidy and grants funding available to local government.

G. Strategic planning and organisational capacity

i. Council is of the view that there is no benefit in amending the existing legislative requirements for planning and financial management. The development of local government strategic planning capability should be progressed via guidance and support (both financial and technical) for strategic planning and financial planning and management.

H. Budget transparency

i. Managing Council's budget development ensures Council's financial sustainability. Council's budget process is centred on strategic outcomes and target setting. Budget considerations during the budget development phase include prioritisation of capital and operating expenditure and compliance with credit metrics in the budget year and forecast period.

ii. The existing legislative requirements of the *City of Brisbane Act 2010* provide appropriate and relevant budget transparency.

I. Financial sustainability ratios

i. As part of Council's financial management strategy, Council sets, monitors and ensures compliance with financial policy, processes and performance. Council monitors performance of selected key financial ratios which are reported quarterly at Council meetings. Council also monitors its performance against budget on a monthly basis.

ii. Council strongly supports the inclusion of the asset renewal funding ratio but suggests it should replace the Asset Sustainability Ratio. Due to the size and nature of Council, Council has negotiated specific financial sustainability metrics with the QTC, which are currently different from the requirements of DILGP in terms of the sustainability targets and definitions. Council's budget and planning process includes regular review of the impact of budget and planning decisions on the QTC metrics. Council's preference is to adopt the following metrics to measure sustainability (using QTC agreed definitions and benchmarks rather than DILGP guidelines one to three).

1. Operating Surplus ratio.
2. Net financial liabilities ratio.
3. Debt Service Coverage.

J. Procurement policy and value for money

i. Council's Annual Procurement Policy and Contracting Plan includes a list of major procurement activities planned to be undertaken each financial year which contributes to Council's financial planning arrangements.

K. Other matters relevant to the Parliamentary Inquiry

i. The deregulation or devolution of regulatory responsibility by the Queensland or Australian Governments without appropriate revenue streams continues to impact on local government operations. Examples of this include asbestos (public health risks), Environmentally Relevant Activities and tobacco regulation.