



Submission to Inquiry on Long Term Financial Sustainability of Local Government

Southern Downs Regional Council ("SDRC") would like to provide a submission to the Inquiry into the Long Term Financial Sustainability of Local Government that is being undertaken by the Infrastructure, Planning and Natural Resources Committee.

SDRC manages the Southern Downs Region which has principal population centres in Warwick and Stanthorpe, with surrounding towns such as Allora, Killarney, Yangan, Wallangarra and Leyburn. The population of the municipality is just under 36,000, with the major economic drivers being linked to agriculture and agribusiness, as well as food processing, freight and logistics, tourism, health and education. Population growth in the region is marginal and there is a need to attract more employment, residents and visitors to the region.

The operating budget of SDRC is in the order of \$66 million with approximately \$25 million allocated to the capital works program.

SDRC acknowledges the Forecasting Long-Term Sustainability of Local Government Report 2016. Council wishes to respond to each of the recommendations:-

It is recommended that councils improve the quality of their long term forecasts and financial planning by:

Recommendation 1

Maintaining complete and accurate asset condition data and asset management plans

Response:

- This recommendation is supported subject to funding being made available to assist local government authorities to undertake accurate asset condition data and asset management plans. SDRC has completed an Asset Management Strategy and is now developing Asset Management Plans for 5 key areas. This requires significant financial and human resources.

Recommendation 2

Implementing a scalable project decision making framework for all infrastructure asset investments

Response:

- SDRC undertakes a project decision making framework through many of the funding applications submitted to the other levels of government. Often this is undertaken in isolation to other decision making frameworks that guide the capital works program.

Recommendation 3

Engage directly with their communities on future service levels

Response

- SDRC is one of the few Councils that encourages direct feedback on a draft budget from the community. Feedback from the community informs Councillor decision making processes and allows for the scheduling of future capital works that have been identified by the community.

Recommendation 4

Developing financial plans to explain financial forecasts and how they intend to financially manage Council and its long term assets.

Response

- SDRC supports the intent of this recommendation, but notes that not all local government authorities undertake long term financial planning in a comparative manner. Detailed advice from the Department or QTC would standardize much of this reporting and provide greater consistency in how local government approaches issues associated with long term financial sustainability.

It is recommended that the Department of Infrastructure, Local Government and Planning:

Recommendation 5

Allow Councils to set their own financial sustainability targets where they can justify a different target is more appropriate for their long term sustainability

Response

- SDRC has a preference for the Department to set uniform financial indicators and ratios that demonstrate the sustainability of a local government authority
- SDRC believes that the Department must play a greater role in determining the financial opportunities and constraints for a local government authority based on its asset base, population growth and level of disadvantage

Recommendation 6

Strengthen their governance role including analysing long term planning documents to allow the Minister to identify Council in or becoming financially stressed

Response

- SDRC supports this recommendation and believes it would be appropriate to have a representative from the Department participate in the Audit & Risk Management Committee to obtain a better understanding of the financial issues for each local government authority

- At a minimum a Departmental representative should attend at least 1 Audit & Risk Management Committee Meeting per annum

Recommendation 7

Support Councils to strength their strategic planning by building their capability and capacity to produce 10 year financial forecasts and asset management plans that can be relied on and are integrated with their annual budgetary processes. They should be renewed and updated at least every 4 years.

Response

- SDRC supports this recommendation noting that the financial forecasts will be influenced by outside factors such as quadrennial local government elections, enterprise bargaining agreements, natural disasters and levels of financial stewardship.
- SDRC is working towards the development of a 10 year capital work program that captures recommendations from Council, outcomes from feasibility of studies, as well as infrastructure replacement and renewal identified in asset management plans.
- SDRC has a level of confidence in its 4 year planning, however as indicated previously there are outside factors that have the capacity to influence outcomes.

Recommendation 8

Require councils to include in their annual budget or annual report statements:

- *the long-term financial forecasts for at least three subsequent years after the budget year*
- *reporting analysis of actual to budget figures*

Response

- SDRC supports this recommendation and is undertaking to develop this type of financial reporting in the current budget process.

Recommendation 9

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

Response

- SDRC would welcome the establishment of consistent and uniform ratios
- SDRC would welcome funding to assist with the collection and analysis of asset condition data.

Southern Downs Regional Council believes that the report undertaken by the Queensland Audit Office was worthwhile, however some of the recommendations needed to be more detailed and define a higher level of responsibility to the Department and local government authorities.

With regard to borrowings or debt, SDRC has in the past borrowed for both capital projects and operational works. This has left Council in a challenging position where the ability to undertake further borrowings has not been an option, as well as having SDRC identified as a financially unstable local government authority by the Department.

Through closer financial management the level of existing debt has been reduced significantly, however the question that needs to be considered is how was a local government authority permitted to undertake such extensive borrowings without intervention from the Department or another body?

SDRC believes that one option may be that the Department of Local Government should be provided with additional responsibilities that would allow intervention when the financial sustainability of a local government is at risk. This may mean that the Department needs to be granted additional powers or be provided with more resources to undertake this role. It is noted that there is not a level of financial skills and expertise within the Department, rather the available skills appear to be linked to governance and funding issues.

For the past two years SDRC has delivered operating surpluses and it is likely that a further surplus will be delivered in the forthcoming year. It should be noted that these surpluses are the first surpluses to be delivered since amalgamation, with all other budgets being deficit budgets. During the period of time over which the deficit budgets were delivered there was very little intervention from the Department. The only limiting factor placed on Council was the limitation on borrowings. There was no provision of advice on how to establish a plan to become financially sustainable, nor was there any incentive for Council to become financially sustainable.

It is noted that perhaps the only "check" on initiatives for better financial management are the quadrennial elections, which it could be argued involve subjective decisions, rather than the consideration of data or financial performance. It would be more prudent and responsible to have a greater degree of involvement from the Department in the development of budgets and the longer term financial planning. It is noted that the Department is having more input into funding applications made by local government authorities, which is welcomed.

The observation made is what are the benefits or incentives of being a financially sustainable local government authority, compared to the penalties or limitations associated with being not financially sustainable? The political outcomes are noted, but should there be other incentives or limitations applied?

As indicated above SDRC has undertaken a few initiatives that may be considered for implementation elsewhere. For the past two years, the draft budget has been placed on exhibition for feedback from the community. This year over 100 people attended information sessions in relation to the draft budget at Warwick, Stanthorpe, Allora, Killarney and Wallangarra.

Additionally, members of the community were given the opportunity to make a written submission or present to Council in regard to what they believe are the major issues. Thus far, Council has received 30 submissions to the budget, with a number of individuals and groups seeking to speak and present to Council. It is submitted that this is a far more transparent process than adopting a budget in isolation and without feedback.

An additional process being undertaken by SDRC is the development of 10 year capital works plans that incorporate the recommendations from Asset Management Plans, as well as new infrastructure. The 10 year plans seek to include the recommendations from all feasibility studies undertaken, as well as recommendations emanating from Council meetings. Once finalised, the 10 year plans should inform a rating strategy, as well as

highlighting the hierarchy of infrastructure funding that is required to be present to State and Federal Government for consideration.

To ensure financial sustainability SDRC would appreciate a higher level of certainty in relation to funding from the other two levels of government. Whilst the recent lift of the "freeze" on the Financial Assistance Grants is appreciated, the forecasting of State and Federal Government funding over a four year period would deliver greater certainty to local government in delivering services to its community, whilst informing future rate increases or decreases. At present that is not possible due to the inconsistency in the timelines surrounding grants and the variation in grant funding criteria.

SDRC would also welcome discrete funding for facilities that service communities and businesses outside the auspice of local government, with aerodromes being a prime example for consideration. Either discrete funding or an ongoing contribution from the other levels of government would allow for greater planning in infrastructure replacement and renewal.

SDRC notes that many funding programs require new assets to be constructed rather than old assets to be replaced or upgraded. SDRC submits that the replacement of existing assets is a priority over the construction of new assets that often place additional financial strain on an already stretched capital works budget. Additionally, it is noted that new assets are required to be depreciated and renewed over a period of time, creating a further financial legacy.

Consideration of the financial impact of temporary population increases on the level of services delivered by local government authorities would also be welcomed. For example, each year the population of Stanthorpe increases by between 5,000 and 8,000 people, as those involved in fruit and vegetable harvesting are attracted to the region. This influx of workers in essence doubles the size of the existing population and places additional requirements on Council from a diversity of areas, whether it be water and sewerage, or the enforcement of the building code.

The continued utilisation of the SDRC Audit and Risk Management Committee has been integral to the improving financial performance of Council. SDRC supports the application of Audit and Risk Management Committees being mandatory across Queensland. As indicated above, potentially benefits may be derived from having a Departmental representative attend at least one or more of the Audit & Risk Management Committee Meetings.

The financial skills of people newly elected to Council, as well as longer term Councillors can sometimes require updating. Whilst the training offered by the Local Government Association of Queensland and the Department can be useful, SDRC is following the example set by other local government authorities, such as Scenic Rim Shire Council, by supporting the opportunity for interested Councillors and staff to undertake the Australian Institute of Company Directors course to improve their financial literacy. SDRC believes that this is very relevant training and perhaps this should be a requirement for all new Councillors. It is noted that the Municipal Association of Victoria offers a hybrid course to Councillors.

Southern Downs Regional Council welcomes the opportunity to provide a submission to the Infrastructure, Planning and Natural Resources Committee in relation to the *Inquiry on Long Term Financial Sustainability of Local Government*. Council representatives would be happy to meet with the members of the Committee to provide further information or clarification.