LOCAL GOVERNMENT MANAGERS AUSTRALIA
QUEENSLAND INC.

25 May 2017

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

Dear Sir

Submission to the Inquiry into the Long-Term Financial Sustainability of Local Government

Local Government Managers Australia (Qld) Inc. (LGMA) is pleased to provide this submission in response to your inquiry into the long-term financial sustainability of local government in Queensland. LGMA is a representative organisation of local government professionals in Queensland with over 400 members working in senior management roles across our 77 Queensland councils.

In preparing this submission, we recognise that the Queensland Audit Office's (QAO) reports to Parliament identified many significant issues that need to be addressed for the long-term financial sustainability of our local government sector. However, at the outset, we also note that the prevalence of deficit operating budgets and significant borrowings are not a uniquely local government issue. All three levels of government face financial challenges, particularly when adopting and forecasting deficit budgets and dealing with rising community expectations.

Local government is not a homogenous industry
One of the characteristics of Queensland local government is the significant differentiation between the types of councils in our state. The issue of long-term financial sustainability should therefore not be seen as a "one size fits all" issue but rather a myriad of issues affecting different councils in different ways. The financial challenges for Brisbane City Council are very different to those of the Bulloo Shire Council.

Some of the key differences between different councils include: –

- Size – Bulloo Shire Council provides services to nearly 75,000 km2 of Queensland while servicing a population of only 387. Conversely, Brisbane City Council provides services to nearly 1.2M residents in a predominantly urban context. They are significantly different local governments with different financial challenges.
- Location – there are different financial challenges facing rural and remote councils than, for example, coastal councils or councils in major mining areas.

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- Growth rates – some councils (particularly in SEQ) are trying to manage significant population growth rates. Other councils (some in Western Queensland) are dealing with long-term declining population trends. Different financial challenges arise in each of these scenarios.
- Capacity for own-source revenue – many of the larger urban councils have own-source revenue ratios of over 70%. Some of the smaller remote councils have own-source revenue ratios of below 40% while some of the indigenous councils have own-source revenue ratios below 10%. There are significantly different capacities for councils to have control over their own long-term financial destiny.
- Different markets – councils operate in vastly different markets which lead to differences in their roles. For example, in Aurukun Shire, there is no private provider to deliver banking services via a branch outlet or ATM machine. This is managed by the Council due to "market failure" which requires the local government to facilitate the provision of a necessary community service. Conversely, some councils are able to contract out services into competitive tendering markets which allows them to obtain more competitive pricing.

There is no one 'magic bullet' that will solve all of the financial issues faced by councils across Queensland. We believe that any consideration of long-term financial sustainability should segment local governments using different categories to consider the financial sustainability issues. We are aware of the LGAQ-commissioned report in 2013 undertaken by AEC Group and Orion Consulting Network and the local government segment definitions identified in that report. We support that general approach to ensure that local government financial sustainability issues are considered in the correct context of grouping councils who share common characteristics. Each group may face different financial challenges.

The importance of good governance

In our experience, good governance is a lead indicator of good financial management of a local government. A council with poor governance practices is normally not in a good financial position and evidence of poor governance practices are usually a clear indicator of a poor financial position. Conversely, councils that have good governance practices in place are either already addressing their financial challenges successfully or are working towards that goal.

Based on our practical experience, LGMA believes there is a direct relationship between good governance practices and councils with a strong financial future.

The need to develop governance practices as an essential part of improving long-term financial sustainability is the one common issue across all local governments. For example, we strongly support the ongoing professional development of councillors and senior management by improving their financial literacy (e.g. understanding financial reports, the use of financial ratios and the importance of asset management planning) as well as improving their strategic financial decision-making (e.g. undertaking the Australian Institute of Company Directors course). Further investment in good governance practices will yield long term results.

Vertical Fiscal Imbalance

One of the biggest challenges facing local government is the vertical fiscal imbalance between the three levels of government. LGMA notes that the current mix of revenue collected by the three levels of government is as follows:-

Level of government	Percentage of Revenue collected
Commonwealth	83%
States	14%
Local Government	3%

This inequitable revenue mix cannot be solved by local government alone. It requires a COAG level solution and, in that regard, we support the LGAQ's policy position that local government should be receiving a fixed percentage of the Commonwealth taxation revenue. The current revenue funding mix does not lead to long-term financially sustainable local government.

Ongoing Devolution without allocation of resources

Our members have provided us with many, many examples of devolution of responsibility from other levels of government to local government without the accompanying resources. LGMA is not opposed to devolution per se. In many instances, local government may be the best level of government to deal with an issue. It is the lack of devolution of resources to match the devolution of responsibility that is the issue. Some of the examples that our members have observed in recent years where devolution of responsibility has occurred without the equivalent resources include:

- Stock routes – stock routes were previously a State-wide issue but are now managed at a local level. The revenue that arises from the use of stock routes can never cover the costs of maintaining the infrastructure (bores, tanks, yards etc.) that were transferred from the State. The local community has to meet the shortfall;
- ECQ Administrative Costs – as well as paying for individual elections, the State uses legislation to require councils to pay for the local government administrative unit within ECQ during non-election periods between the four year local government elections;
- Asbestos – councils have been devolved additional obligations in relation to the inspection and oversight of the removal of asbestos in private residences without additional resources.
- Disaster Recovery Thresholds – compared to 5 or more years ago, councils are now obliged to fund higher thresholds before funding kicks in. This means that more financial risk in relation to natural disasters now rests with local government than was traditionally the case. Obviously, the issue of the use or non-use of council day labour for Commonwealth funded NDRRA recovery has been a vexed issue but we are pleased that this issue has recently been resolved favourably for councils.

An observation from one of our members was that "*the reason why the State wants to devolve an issue to local government is the very reason why we end up with the responsibility but not the resources – the problem is that that the State doesn't have the resources either so the temptation is to offload their particular problem to local government*".

Accordingly, we support the concept of a strong and robust MOU between the State and LGAQ that enables potential devolution to be identified and not actioned unless the question of full resourcing has been adequately addressed.

Asset Management and Depreciation

The concept of depreciation has caused some confusion in local government in recent years, particularly for non-accountants. We recognise depreciation as an important accounting issue but the main focus should be on good asset management practices. How a council identifies, maintains and manages its assets is critical to long-term financial sustainability. Our elected representatives should not be expected to understand the accounting nuances of depreciation and more focus on the importance of asset management is critical at the decision-making level.

Some councils are well advanced down the asset management pathway but on an industry-wide basis, there is still much to do. The biggest shortfall we see across our industry is a disconnect between well-developed asset management plans and long-term financial planning. Long-term financial plans are not relevant without a deep understanding of a council's asset management plans.

To some extent, better asset management planning is only the first step in the process. It is the subsequent decision-making process looking at levels of service and scope of services based on those asset management plans that will make a significant impact on financial sustainability. Can our community afford to keep all of these assets? What services do these assets provide and what level of service do we want for those assets? These questions can lead to better long-term financial decision-making for a community.

Own-Source Revenue

LGMA has adopted as part of its policy platform that local governments should seek to increase our "own-source revenue" to become less reliant on government grants, particularly if those government grants are required to fund operating expenditure. The more a council can control its own-source revenue, the more control it has over its long term financial destiny.

In considering the issue of own-source revenue, LGMA advocates that the State should remove legislative or policy barriers that limit a council's ability to maximise its own-source revenue. In practical terms, this would include the removal of capping on developer contributions which is currently applied via a centralised capping process. We would also advocate that there be no equivalent of "centralised rate capping" that occurs in other States (e.g. Victoria). Such an approach would further negatively impact on the long-term financial sustainability of councils.

As part of the broader strategy of diversifying revenue streams for local government, LGMA also supports local governments owning, investing in and/or operating commercial, revenue-raising ventures. This is conditional upon councils undertaking proper due diligence, governance and risk management processes before any decision is made by a council in that regard. Any such decision on such commercial ventures must also be made in the overall public interest and in compliance with competitive neutrality principles.

Broadening revenue streams and having more control of its own-source revenue is clearly a way forward on the financial sustainability journey.

Community Expectations

There is little doubt that community expectations are rising. No local government, state government, or federal government has sufficient funding to meet all community expectations. To a large extent, the focus needs to be on communicating with our communities about the financial realities and how governments need to make choices about priorities. We would like to draw to the Committee's attention some of the interesting approaches taken by councils across Queensland in that regard: –

- Southern Downs Regional Council has introduced a formal budget consultation process with its community. The Council consults with the community on the draft budget across their different communities and meets to answer questions and take on comments before their budget is adopted.
- Noosa Shire Council has undertaken a number of community jury projects to involve the community in decision-making about potential key initiatives which have budget implications. (Some interstate councils have used community juries to provide input into the overall structure and mix of expenditure within a council budget – for example Melbourne City Council and City of Canada Bay in Sydney).

Budget decision-making

The LGMA notes the amendments to the *Local Government Act* introduced under the former State Government which provide for the mayor to prepare and present a draft budget to the council. Based on practical experience, in most circumstances, this can work quite well. However, we do wish to advise the Committee that we are aware of situations in some councils where a mayor may not have the support of their colleagues which can result in duplication of budget preparation. In practical terms, what happens in this scenario is that the mayor will prepare their draft budget (with support from the CEO and staff) and at the same time, a majority of the remaining councillors may request a CEO to prepare an alternative budget. This causes problems at practical level.

Of course, in the best case scenario, a mayor will work with their colleagues in the draft budget. This occurs in most instances. However there can be unintended consequences of the current legislative approach to preparation of the draft budget if there are different factions within a council.

State Grants and Subsidies

We applaud the recent initiative by the Department of Local Government to refocus their grants programme using a "best fit for community needs" type approach. This is a much better approach than the traditional grant programmes we have previously seen. We also applaud attempts by the Department to simplify returns on grants noting that there is a lot more work planned on this particular element. Each State Department has different grant acquittal returns with various levels of complexity. There does not appear to be a consistent approach between the level of complexity for a grant return and the value or risk of the project the subject of the grant.

Over the last 20 years, there has been an enormous reduction in the level of grant funding flowing from the State to local government. We recognise this as the new reality given the financial challenges that the State is facing.

We will also make the observation that many local governments do not appreciate the full implications of “free money” for new community infrastructure. Often, State Governments may fund the whole costs of new infrastructure which results in an excellent community asset but the ongoing maintenance (and depreciation) costs of that asset are then the responsibility of local government. A better understanding of “whole of life” costs would be beneficial when a council makes a decision to seek a grant and perhaps that requirement could be built into any assessment process by the State for a grant application for new community infrastructure. Funding for swimming pools is a classic example of that occurring in the past.

The use of grant funding to remediate or restore current assets is also supported rather than grants being purely focused on the creation of new assets (which adds to the maintenance and depreciation costs). The Commonwealth funding programme for bridge remediation is a positive example of that approach.

The other element in relation to grant funding would be the introduction of multi-year grants. This would provide better certainly for councils in their long-term financial planning and remove the yearly, ad hoc nature of grant applications that has occurred in the past.

Other observations

We also make a number of other observations which may be of assistance to the committee. In no particular order:-

- There is little doubt that local government is the level of government closest to the coalface. As professional local government officers, we are often surprised at the lack of understanding of local government’s role by many public servants and the challenges faced at the frontline of service delivery to communities. We believe there may be opportunities for State Government staff to work in local government for a short period (on a secondment basis) to understand the frontline nature of the role and the challenges we face. Anything that improves the interaction between the State and local government spheres would be welcome.
- In terms of improving the interaction between the State and local governments where common service issues arise, we would like to identify to the Committee an excellent model already in place between local government and the Department of Transport and Main Roads. The Regional Roads and Transport Groups are a very successful model that deal with the allocation of funding across regions and how councils and a government department can work together closely for the benefit of the community. This type of model could be replicated in other service delivery areas as it builds a long-term partnership approach to the delivery of services to the community.
- Like other businesses, local government has found that the level of legislative compliance requirements has been increasing in recent years. Anything that can be done to reduce non-productive costs would be welcome. We also note that legislative standards have been increasing in recent years resulting in higher cost structures. In many instances, this is a natural progression as our community expects higher standards. An example would be the level of environmental compliance at council waste disposal facilities. It is only natural that environmental standards and requirements have increased, but that comes at a

cost to communities in terms of meeting those higher standards and this needs to be recognised.

- One of the key inputs into a council's cost structure is employee costs. As a rule of thumb, they generally represent between 30% and 40% of a Council's total expenditure. LGMA notes that there have been a number of years of industrial relations reforms at the local government level. Councils have been unable to negotiate at a local level for some time due to the legislative and award reforms. However, we do note that some of the changes made recently will negatively impact on some specific councils (i.e. the extension of the locality allowance will have a significant financial impact on some local governments with those councils having to address the additional cost burden). Again, that needs to be recognised in the context of this review.

Further information
Representatives of LGMA would be happy to appear before the Committee if that would be useful. We would be able to provide a practitioner's practical view of the issues facing local government around financial sustainability.

We are also supportive of the submission by our fellow professional association, Local Government Finance Professionals.

Yours sincerely

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President