

Bulloo Shire Council

Submission

Review of the long term financial sustainability of local governments

To the

Parliamentary Committee for

Infrastructure, Planning and Natural Resources

Submissions should be sent to:

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Introduction

The Bulloo Shire Council thanks the Infrastructure, Planning and Natural Resources Committee for the invitation to write a submission to the Parliamentary Committee in regard to the inquiry into the long term financial sustainability of local governments.

We support the current terms of reference as follows:-

Terms of reference

- Financial planning and long term forecasting
- Asset condition data and asset management plans
- Decision making frameworks for major infrastructure asset investments
- Community engagement on future service levels
- Financial sustainability targets
- Organisational governance
- Strategic planning and organisational capacity
- Budget transparency
- Financial sustainability ratios
- Procurement policy and value for money
- Other matters the committee determines are relevant to the inquire

Additional comments in relation to terms of reference.

Futures thinking

The Bulloo Shire Council supports the current terms of reference listed and also emphasises the importance of looking towards the future for all governments. The current QAO reports whilst acknowledging the importance of financial planning and long term forecasting, inherently looks to the past and current approaches do not address the speed of technological change and disruption. Whilst there is a constant and ongoing dialogue in relation to digital disruption¹; leadership into financial planning models and decision making frameworks that may support more flexible governance, in a more complex world with less certainty, is slow.

Thus it is critically important that all financial dimensions be looked at through the filter of vast global change and the influence of disruptive macro-economic change that makes 'futures' decision making both vital, more complex and varied.

This cannot be understated, that much of the reporting analysis and financial indicators are backward looking, focusing on where Councils have '*been*' rather than how *prepared* Councils are *for change (where they are going)*. Historical indicators may prove irrelevant.

Financial Planning and long term forecasting

Councillors and senior management need to undertake quality financial training annually to gradually increase their knowledge levels, especially regarding the long-term impacts of decisions and increased complexity.

Bulloo Shire Councillors recently undertook the Australian Institute of Directors Course to assist decision making, we are expecting this to pay real dividends. All councillors need addition support for the following topics:-.

- *What is depreciation and the implications, full financial impacts of capital expenditure and the time commitment, understanding the long-term financial forecast, the importance of up to date Asset Management Plans (including condition data) and how they link together*
- *Also to have an understanding of the impact of changes in key variables on budget and long term financial forecasts —Wage increases, Changes in construction unit rates, Inability to achieve large revenue increases from small rate base (downturn in mining sector has the potential to have large impact)*
- Budgeting process should assess budgeted ratios against actual to determine the levels of accuracy and analysis the difference (learn from previous years mistakes)
- Establish a State Government professional advisory group to assist Councils with project management and planning for major projects and software implementations.
- Enhanced Peer to Peer support

Community engagement

Community engagement should span the IAP2 spectrum and councils should actively aim for citizen centric governance. This requires better engagement especially in relation to key corporate planning documents including the budget development, exhibition and adoption process. Every effort should be made to make this meaningful and visually interpreted. It is essential to educate around service levels and costs.

Budget Transparency

As no one in the community ever reads the sectors rather lengthy annual report, make it compulsory for Councils to prepare an annual financial summary (financial report card) no longer than two pages to be distributed through local media.

Strategic Planning and organisational capacity

Small and remote Councils do not have the funds or human resources to produce asset management plans as well as having them integrated with annual budgetary process.

State Government could provide more advice, training, and templates to create usable asset management plans, and some funding towards their creation and

updates. This could include providing support to ensure capability and capacity to produce effective 10 year financial plans and asset management plans). Templates could also have the ability to enter data on new/renew/replacement assets and to show the flow on effects in the long term financial plan. There is also the potential to widen the role of external audit to make a formal opinion on Council's long-term sustainability as part of the audit report.

Procurement policy and value for money

From a policy perspective, local procurement is a critical stimulant and should be reflected in Council's policy making especially when determining value for money. Thus VFM should have a quadruple bottom line intention rather than a singular dollar amount.

The Bulloo Shire has a Procurement Policy that supports a Pre-Qualified Supplier scheme to reduce red tape and support Local. BSC's year to date expenditure for local suppliers is over \$5million. In addition Council injects \$200,000 per fortnight into the local economy through its payroll. We educate community and businesses about this investment and its importance to ongoing economic and financial sustainability. This has created 5 new businesses and 25 new jobs over the last 5 years.

QAO report into Local Government Financial sustainability

We also acknowledge the tabling of the QAO's reports for 2 and 13 for 2016/17 and the following recommendations²:-

We recommend that councils:-

1. Make the financial statements of their controlled entities publicly available. ³
2. Assess their processes for ensuring that their asset registers are complete and remain current over time⁴. This should include
 - performing physical stocktakes and updating asset registers
 - implementing control improvements over the recognition of contributed assets
3. Identify their related parties and related party transactions including terms and

Conditions and prepare a draft note with data for inclusion in their pro forma financial statements to be presented to their audit committees or council⁵.

4. Critically examine their service levels and costs for service delivery and plan in the longer term to be able to earn enough operating revenue to meet operational Expenditure⁶.
5. Assess the maturity of their risk management practices and develop an action plan for improvements and track progress towards agreed targets⁷.

6. Assess their business continuity and disaster recovery capabilities, identify areas for improvement, and establish or update their plans⁸.

7. Retain or re-establish their audit committees to ensure there is effective oversight of their internal control frameworks, financial reporting and legislative compliance⁹.

The report makes the following particular statements: -

“We have previously expressed concerns about councils’ ability to generate sufficient revenues to fund services and maintain and develop their community facilities and infrastructure. This concern continues with the sector, on average over the past five years, still spending more than it earns. This result continues to be inconsistent across council segments, with SEQ and Coastal councils achieving positive five-year average operating ratios¹⁰.

Response 1

These comments seem to ignore the impact of a range of factors outside the control of councils including a declining overall national economy, at least until 2021¹¹, enterprise bargaining agreements which lock councils into high labour costs for a service industry (underpinned by State bargaining outcomes) and national trends for negative growth which broadly acknowledge Australia’s ‘two track economy’. In simple terms, what is a problem in relation to revenue for the third level of Government is also a problem for ALL of Government. Given that the flow of GST receipts is 80/16/4 percent from Commonwealth, State and Local, unless the formula changes, the inherent constraints are locked in. Thus, the notion that one level of Government is more sustainable than another is not valid.

Over the last decade the Bulloo Shire Council has invested in a range of programs and projects that boosts to the local economy, baseline services and/or create the potential for additional revenue. Council believes that the spread of investment is not only critical to viability it is necessary for quality of life and notes that enhanced quality of life has an intangible dimension not easily measured.

Oil and Gas

BSC has translated its regional resource wealth into rates since 2010 and this has enabled significant renewal of infrastructure including additional support for service gaps, especially State Government services that do not meet the needs of the community. BSC collects approximately \$2m of rates payments from resource producers.

A snapshot of investment activity has provided:-

Revenue stabilisation and investment

- Rates from oil and gas consolidate stable and robust revenue base and mitigate remoteness costs

- Tourism development and support – construction of Explorer Caravan Park units and park area allowing growth of this sector

Positive effect on the Social determinants of health

- Supporting and managing all social housing on behalf of the State to achieve better social outcomes for the region
- Construction of the Thargomindah Middle School including the development of the Thargo model for remote education to support the loss of families moving out of the region to gain access to higher school education
- Maintenance and top up of teaching salary support for the Thargomindah Primary to improve long term educational outcomes and the social determinants of health and to subsidise irrelevant population based models
- Additional purchase of general practice clinics at the Thargomindah Clinic
- Construction of Director of Nursing accommodation adjunct to the clinic to support recruitment and retention of State Government personnel
- Low cost housing support for other State Government personnel
- Construction of Dental housing shed and facilitation of dental mobile services to better meet the needs of the population

Stronger Workforce skills and investment

- Construction and rent/buy scheme for 17 staff housing options including temporary accommodation to secure staffing
- Healthy budget allocated for training, re-training and development for staff to prepare for the future and increase productivity

Enhanced Infrastructure renewal supporting greater public benefit

- Renewal of the Thargomindah airport and lighting
- Business cases for renewal of Thargomindah Water and sewerage assets
- Infrastructure investment into the Thargomindah flood mitigation plan including stage 1 and stage 2.

Proactive Economic Development

- Business case for the conversion of geothermal power as a cheaper, cleaner power solution for the town
- Investment in quasi commercial – providing commercial accommodation as part of the visitor centre precinct
- Pre-Qualified supplier arrangements as part of our Procurement Policy
- Community grants per annum to support seed funding
- Converting our old admin centre into an start up business hub
- Converting a portion of our visitor centre space into a pop up co-operative 'makers space'
- Expansion of our industrial area, road gazetting and services
- New Planning Scheme which supports further growth

Regional Stimulus

In addition, Council believes that strategic investment in local is a critical factor in the viability of all local communities. We note the recent statement by the Deputy Prime Minister acknowledging that “Regional Australians care about the health of their families, the education of their children, and the ability to access the benefits of technology,” Mr Joyce said. “Regional communities also want to see local investment that drives economic growth, creates jobs and builds strong sustainable regions into the future¹². This has been consolidated as part of key strategies in the Commonwealths most recent report Regional 2030: Unlocking Opportunity in Regional Australia¹³.

We agree that the local level drives sustainability and local government is a significant wealth generator for the state and nation. By fostering efficiency, effectiveness and growth in Local Government, all communities can benefit. Prosperity at the local level drives prosperity at the national level.

Bulloo Shire Council has been a long term partner in the oil and gas industry, some 50 years, and is actively involved in the national dialogue in relation to energy. We believe that local government, especially in western Queensland is capable of managing effective, responsive, green and efficient energy in partnership with communities.

We believe by investing strategically in energy assets that we are not only providing structural investment, we will be able to better manage pricing and costs including the potential to raise revenue from trading in energy market mechanisms. This will add to sustainability, new skills whilst creating jobs.

The QAO report focuses on a range of financial sustainability indicators. Bulloo Shire Council has done a lot of work in relation to financial sustainability in the past 2 years and continues to do so, however given 5 year rolling averages and poor performance some years ago, this is not reflecting in your reported results. We have worked hard to move into a stronger financial planning regime taking a series of deficits into the positive and remaining so. In addition we acknowledge the comments made as part of the report about the deficiencies in our control environments¹⁴.

Asset management planning

Council has for some time had good long term financial reporting however acknowledge that the AMP linkage should be strengthened. The Council has had, in the past, the range of asset management plans developed in conjunction with funding some years ago in 2012. These AMPS however lack rigour due to poor asset condition assessment. This is a result of consultancy work, with little motivation to do the often onerous and time consuming task of good asset condition reporting. With some 2500 kilometres of road network alongside distant communities, this is both time consuming and expensive.

Comparative information over the last five years indicates a negative return however Council has turned this around and maintained very good performance in relation to

its 3 sustainability ratios. We recognise the need for continuous improvement including putting a range of measures in relation to reviewing our asset management plans.

Accordingly, during 2016/17 Council reviewed all of its primary road network with rigorous condition assessment conducted by suitably qualified personnel in order to improve the underlying data. The finalisation of all of the plans is hoped to be in 17/18 which will mean that all financial reporting can be linked for the 18/19 budget.

Whilst the 5 year average remains negative we are also working to restrain expenditure and have cut some \$1.5m of expenditure off budgets within the last two years. Whilst revenue raising is expected to have limited growth, council also acknowledges the importance of innovation for further reductions. Accordingly council is currently undertaking a detailed business case to look at the conversion of water from the Great Artesian Basin being converted into a geothermal power source. This has the potential to yield as much as \$7.8 million over the next decades¹⁵. Council has continued with a detailed business case to look at private and grid management options¹⁶.

We note the report highlight the continuing trend of councils amassing assets. Whilst there is always a political tension in relation to community aspirations and affordability, Bulloo Shire Council has retired a number of community assets during the year and is currently working on community plans of management in relation to a range of recreational infrastructure such as the BSC golf course and rodeo grounds.

Bulloo Shire Council was NOT amongst the 14 Councils assessed as having a negative operating surplus over -10 percent. Whilst our good performance has been influenced by NDRRA funding, Council has commenced baseline work in relation to individual costs and levels of service. Whilst we are making progress we are still some way to negotiating mutually acceptable levels based on affordability.

Council has used an adequate amount of debt in relation to infrastructure renewals and uses detailed business cases in conjunction with the QTC tools.

Asset Sustainability ratio

As a remote council we acknowledge that large flood related capital works to renew road assets have contributed to positive outcomes, however we note the relative age and profile of our assets including a typically longer and more resilient life contributes to a lower level being acceptable for our asset sustainability ratio.

Whilst BSC strategy favours putting aside savings for projects we acknowledge that we need to continue focus on an operational surplus whilst balancing service levels to negate continuing reductions in grants and subsidies.

Thus, business cases for our geothermal power plant, focus on doing more with less and finding innovative ways to reduce costs which becomes the imperative.

Council is also exploring how we can vertically integrate our roadmaking business to reduce area of significant outsourcing, whilst balancing local economic stimulus impact.

Fraud and Corruption and Risk Management - Moving to risk maturity

The report identifies some 723 internal control deficiencies for the sector, of which it considers 235 to be significant and that these were raised in the main (75%) from Indigenous, Resources, and Rural/Remote councils¹⁷.

These were mainly deficiencies in the control environment, risk assessment and control activities, such as:

- Lack of maintenance of risk registers
- no asset management plans
- Lack of review of journals and changes to master files (which contain key data on unit rates, fees and charges, rates, and employee and supplier details).

The Bulloo Shire Council acknowledges that on a risk maturity spectrum we have been at the developing stage and have done significant work in partnership with our audit committee in relation to moving towards the embedded stage¹⁸.

We have recently self-assessed using the QAO maturity approach to risk. As a result we have implemented the following:-

- Full Risk register development
- Framework and methodology adopted
- Risk maturity process understood and built into framework and policy environment.
- Business continuity planning under way and assisted by Mead Perry and Associates due for delivery within the next 3 months.
- Revised emergency and disaster management planning including LDMG processes and membership.
- ICT review and security analysis
- Active audit committee with dedicated work plan and internal audit environment

Audit Committee

We are also taking an active approach to risk and fraud and corruption. As a result we have maintained an active internal audit committee and initiatives during 2016/17 include the following:-

- Business continuity planning under way and assisted by Mead Perry and Associates due for delivery within the next 3 months.
- Revised emergency and disaster management planning including LDMG processes and membership.
- Related party analysis

- Risk management processes
- Budget development
- Insurances

We have also recently explored other disaster management practices including visiting other councils such as Ipswich, Lockyer Valley Regional Council and Toowoomba Regional Council to understand innovations and efficiencies.

ICT security and fraud

Council has recently revised its ICT including security. We are currently in the process of procuring new providers including contract support for stronger vigilance including cloud backup, access to more security logging and now have two hourly backups of data.

Council has also recently adopted a two year records management implementation plan to ensure that our strategy supports robust record keeping, controls, reporting and training.

Other issues

- There is potential to have a simpler set of rules and legislation relating to the management of smaller regional and remote Councils
- A more equitable distribution of grant funding to Councils with lower potential internal revenue sources
- Provide more ongoing operating funding for Councils
- Long term commitment to funding day labour and plant hire for NDRRA works for Councils west of the Great Dividing Range.

¹ LGAQ Conference 2016 “New World Order; 2017 ALGA National General Assembly “Local Government Building Tomorrows Communities”.

² Queensland Audit Office (2017) Report 13: 2016-17 *Local Government entities: 2015-16 results of financial audits and Report 2: 2016-17 forecasting long-term sustainability of local government, Brisbane, Qld.* P7

³ Ibid. Chapter 2.

⁴ Ibid. Chapter 2.

⁵ Ibid. Chapter 2.

⁶ Ibid. Chapter 3.

⁷ Ibid. Chapter 4.

⁸ Ibid. Chapter 4.

⁹ Ibid. Chapter 4.

¹⁰ Ibid. P 7.

¹¹ Commonwealth Government, Budget 2017, May 2017.

¹² Joyce, B, Media Release “Regional Areas benefit from Ministerial Taskforce in Budget”, 11 May 2017

¹³ Commonwealth of Australia 2017, Regional 2030: Unlocking Opportunity in Regional Australia. ACT.

¹⁴ Ibid. P7.

¹⁵ LGIS Feasibility 2016. High level Business Case for a Geothermal Power Plant, BSC commission 2016.

¹⁶ LGIS 2017. Detailed Business Case for Geothermal Power plant and options. BSC Commission 2017.

¹⁷ Ibid. P7.

¹⁸ QAO 2016 Risk Maturity, Release QAO 2016.