



**SUBMISSION TO THE QLD PARLIAMENTARY INQUIRY INTO FINANCIAL
SUSTAINABILITY OF LOCAL GOVERNMENT**

Submitted by Tablelands Regional Council

24 May 2017

Contact:

Cr Joe Paronella, Mayor
Ms Hurriyet Babacan, CEO

45 Mabel St
Atherton Qld 4883





26 May 2017

Tablelands Regional Council

Atherton Service Centre
PO Box 573, Atherton QLD 4883
Telephone: 1300 362 242

Office of the Mayor
Cr Joe Paronella
Mayor
Telephone: (07) 4089 2396
Facsimile: (07) 4091 4300
Email: info@trc.qld.gov.au

File Ref:
Your Ref:

Committee Secretary
Infrastructure, Planning and Natural Resources Committee
Parliament House
George Street
BRISBANE QLD 4000
Via email: ipnrc@parliament.qld.gov.au

Dear Dr Dewar

INQUIRY INTO THE LONG-TERM FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT

Thank you for the opportunity to make this submission, on behalf of Tablelands Regional Council, we welcome the Parliamentary Inquiry into the long-term financial sustainability of local government.

As you are aware, there is an increasing expectation that local governments will deliver a wider range of social, economic and environmental programs and services. In regional areas such as ours, Councils play a critical role in various capacities supporting both the community and industry however, our responsibilities are often not matched by the ability to finance it appropriately.

Furthermore, there are significant complexities in addressing issues of 'sustainability' and multiple dimensions and challenges need to be considered, of which the financial aspect is just one element.

We make this submission for your consideration and look forward to discussing the matters raised within at the Inquiry hearing on 1 June 2017 in Cairns.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Paronella', written in a cursive style.

CR JOE PARONELLA
MAYOR

Enclosures

BACKGROUND

The Tablelands Regional Council (TRC) area is located in Far North Queensland, about 1,800 kilometers north of the Brisbane CBD, and 100 kilometers west of Cairns. The Council area encompasses a total land area of 64,999 square kilometers. The area includes significant areas of national park and state forest, rural areas and growing rural-residential and multiple urban and smaller township areas.

The Council's corporate vision is future focused and highlights the role of local government in developing vibrant and cohesive communities, driving economic development, leading innovation and the use of smart technologies.

The role and responsibilities of Councils has changed dramatically over the past decade and continues to change as a result of regulatory, structural and funding reform and "bottom-up" pressures created by population demographics and growing community demands. The focus on sustainability for TRC encompasses broader notions of the term 'sustainability' and includes community, economic and environmental sustainability.

Like most regional Councils, TRC is a significant employer across the region and is a major procurer of local goods and services thus supporting business and industry development. The following table presents a summary of our value add and economic impact in the region:

Impact area*	Output	Value added	Local Jobs
Health care & social assistance	13.43	9.10	86
Construction	66.31	26.93	178
Public administration	99.56	60.52	615
Council held events	1 day event (100 attendees)	\$1500	
*premised on an addition of \$10 mil annual output to direct and indirect impacts			

Source: *Economy ID: Economic impact*

TRC plays a significant role in economic development initiatives including workforce capacity, promoting our region for agriculture and tourism, seed funding for projects and attracting investment.

Our Council is also particularly focused on building cohesive and resilient communities and as a result, we organise and support many community events and facilities and have a small community grants program. These require higher levels of services and infrastructure and go to the core of sustainability for us. It is our belief that delivering the traditional 'roads, rates and rubbish' will not future-proof us, particularly if our communities are fragmented, live in regional and remote areas and do not have skills or capacity to take up economic opportunities that present themselves.

Globalisation means that it is imperative for our communities, businesses and villages to act local and think global through the use of smart technologies. The decline of industries due to deregulation and, in some cases heightened regulation, have decimated many of our towns. In order to turn these towns around; our citizens need to be able to take advantage of the economic opportunities of tomorrow. And whilst the digital economy is shifting the paradigm and overcoming the tyranny of distance; the community largely rely upon local governments to lead on such issues and opportunities.

Defining financial sustainability is complex, although we acknowledge there are many technical definitions in use. We maintain that a holistic approach to local government sustainability needs to be taken, with financial elements as one factor of sustainability. Such holistic approaches were adopted in other inquiries into local government in different parts of the world. For example, the Lyons Inquiry into Local Government in England (Lyons, 2005, 7-10) took a holistic approach to sustainability and focused on:

- (i) the strategic role of local government
- (ii) devolution and decentralisation;
- (iii) managing pressure on local services; and
- (iv) scope for new agreement between central and local governments.

Grant and Dollery,¹ (2011) focus attention on factors such as ‘place-shaping’ as a key element of the Lyons Inquiry which amounted to a revitalised theory of local government. The authors argue that financial sustainability embraces local governments’ own revenue-raising capacity, but also included sustainable community strategies where sustainability is context-dependant and where ‘lifestyle sustainability’ is based upon alleviating pressure on the environment

Whilst innovative and efficient service delivery will continue to be at the forefront of most Council’s strategies to reduce costs; efficiency and productivity gains can only take us so far. The increased responsibility placed on Council by community and devolution from the State and Federal governments is not matched by additional income to fund such activities and nor are our community’s capacity to pay, thus highlighting a need for Council’s to seek alternative sources of revenue. Other than fee for service/ user pays models; our only significant revenue lever is through Rates income which, in most costs, presents a significant shortfall in in long-term projections, particularly where population growth has stagnated.

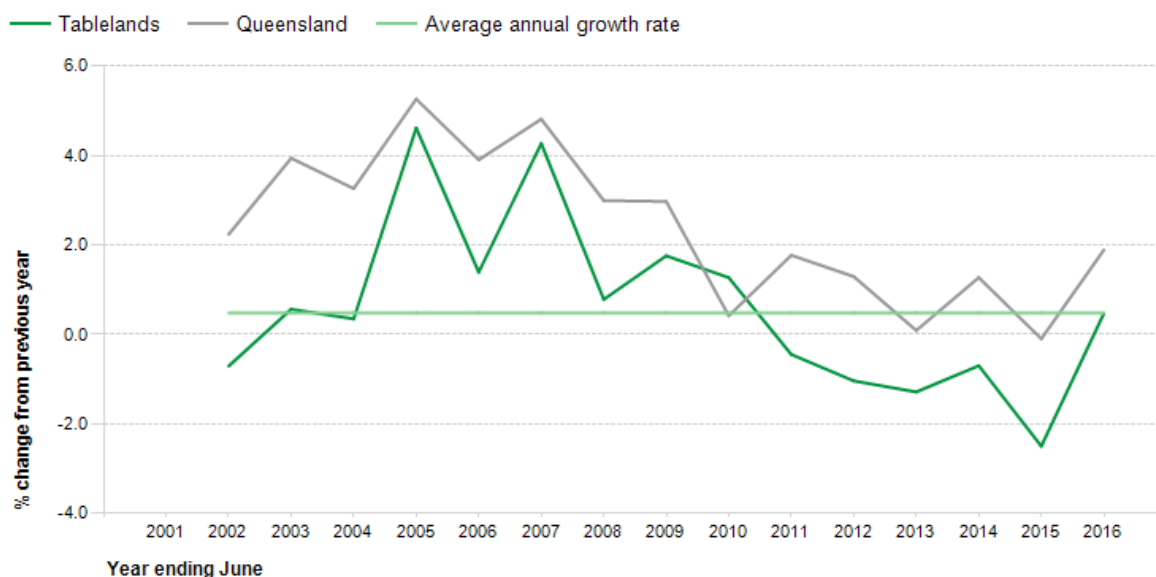
At TRC, we endeavour to engage our communities in honest conversations about their expectations for service delivery and we seek their guidance in making choices between competing priorities. What is clear to our Council leadership is that we can no longer continue with ‘business as usual’ and it is incumbent upon us to think outside the box, examine new revenue streams and embark on a new paradigm in local government.

¹ Grant, B and Dollery, BE 2011. ‘Political geography as public policy? ‘Place-shaping’ as a mode of local government reform, *Ethics, Policy and Environment*, vol. 14 issue 2, pp. 1-17.

TRC PROFILE

The population of the TRC is 26,227 and Gross Regional Product is \$1.29b (2016), which is much lower than the Queensland average. The number of jobs in the Tablelands was 10,582 in June 2016, up by 50 jobs from 2015. Job growth patterns lag behind Queensland as is demonstrated in the graph below.

Annual change in local jobs



Source: National Institute of Economic and Industry Research (NIEIR) ©2016
Compiled and presented in economy.id by .id the population experts



The profile of our community is that many are disadvantaged with the following characteristics:

- Lower levels of education than the Queensland average with 15.1% with Bachelor or higher degree, 29% with certificate level and 42% with no qualifications
- Lower levels of individual income: with 39% with income \$0-\$599 per week; 40% with \$600-1249 and only 4% with greater than \$2000.
- 6.1% of Tablelands labour force was unemployed
- Age characteristics: 20 % between 0-13 years of age; 58% 14-64 years of age and 22% over the age of 65. The proportion of those over the age of 65 years of age is estimated to increase to over 30% in the next ten years.

Our population is highly disadvantaged as can be demonstrated by the factors above. Adding a regional and remoteness factor compounds their situation. This is demonstrated in our Socio-Economic Indicators for Areas (SEIFA) Index at 932 points – which is below the Australian average of 1,000 points. The implication of such disadvantage is that Council plays a more significant role in community and economic affairs through and expansion of services.

In the 2015-16 financial year, the TFC budget was \$55.6m with an overall average rate increase of 4.5%. We are progressing towards a full recovery, user pays mode for utility charges, such as water and sewerage waste. More than 70 % of our budget is derived from

rates, fees and charges from our population base. Grants and other incomes comprises of a mere 18% of our revenue and our borrowings are comparably low.

There is an explicit link between our revenue and the demographics of our community. There are 12,245 current number of rateable properties and the capacity to pay by our residents is limited with approximately 10% of residents struggling to pay their rates. Whilst we provide pensioner discounts and not-for-profit concessions to enable affordability, any fees and rate rises entail challenging conversations with the community about service levels and new investments.

We have a workforce of approximately 320 staff. Overall 65% of our budget is in infrastructure services. We maintain a significant road network of 1,855km, of which 780 km are sealed and 1075kms are unsealed roads. We invested \$29.7m in capital projects in 2016/17 budget and our asset base is close to one billion dollars. We are a very lean Council with organisational administration comprising approximately 15% of our budget.

For every one hundred dollars of general rates, Tablelands Regional Council will invest approximately:

- \$31 towards roads and bridges
- \$18 towards community facilities and property management
- \$15 towards parks and gardens
- \$11 providing customer and organisational services
- \$6 towards Councillors and executive services
- \$5 towards regulatory services including local laws and animal management
- \$4 towards economic development, tourism and culture
- \$4 towards libraries
- \$3 towards planning and building services
- \$2 towards community development services
- \$1 towards disaster management.

The profile of our Council and community pose a number of challenges for TRC. These are outlined in the next section.

CHALLENGES

In considering financial sustainability of local government it is critical to look at the breadth of issues that impact on financial sustainability. This section of the paper focuses on challenges of sustainability and comprises two parts: analytical and practical.

Analytical

Tensions between democracy and efficiency: Local governments are about democracy for local aspirations for decentralized governance with direction from local leaders chosen by the community. Value is placed on the local and democratic aspects of governance and

building social capital. The focus of local democracy is pluralist governance, which aims to meet the aspirations of the people through bottom up processes that achieve important outcomes. In such approaches the cost of democracy is not seen as a financial burden.

This is contrasted with the second purpose of local government as an efficient mechanism for service delivery. The primary focus of this approach is *instrumentalist* with the role of local government in a Federal system being a provider of goods and services. Efficiency is the major focus regardless of the impact on the vibrancy of communities. Fiscal issues override social, community and democracy considerations when the focus is on efficiency.

This tension is often not acknowledged in considerations of the financial sustainability and goes to the core of the question of 'what is the role of local government'? The impact of a service delivery and service delivery approach is that the State and/or Commonwealth governments pursue operational efficiency in their interventions into local governments; the intervention generates uniformity (for diverse councils) in legislative and regulatory compliance; and participatory processes are devalued compared to instrumentalist approaches.

TRC struggles with these tensions on a daily basis as we aim to facilitate a more participatory and deliberative local democracy. This is contrasted with the need to deliver efficient services within exceptionally tight budgets and meet over burdening compliance and regulatory requirements.

Capability: Good governance is at the heart of sustainability for any organisation. It is clearly identified that capability is a critical factor in good governance and sustainability in local government. There are two elements of capability.

The first element relates to the capability of elected representatives. WALGA (2006)² identifies that the leadership capacity' of elected representatives is critical with a focus on 'the experience, competence, and passion of elected members'. Where councils are plagued by bitter personal animosities, infighting between councillors, factionalism and decision making gridlock can occur. Where this mismatch of leadership capacity occurs in Councils, it severely impacts the long term sustainability of the Council and the loss of confidence by the community has an immeasurable but devastating impact on the region and Council's ability to move forward. TRC has experienced these challenges of elected representative capabilities in the past and these legacy issues have had long lasting impacts into the term of the current Council. Early intervention is critical to reduce the likelihood of future such incidences.

The second element of capability is the technical and administrative expertise of staff. The leadership of the CEO and the competence, approaches and technical capabilities of staff impact on efficiency, service levels and engagement of community. The long term sustainability of local government is linked to both staff and elected member capabilities

² Western Australia Local Government Association - Systemic Sustainability Study: June 2006: *Access Economics, Local Government Finances in Western Australia*

for good governance. The need for ongoing workforce and Councillor professional development and training is paramount for the sustainability of local government.

Practical

Measures of Sustainability: The measures for financial sustainability are used to provide an indication of the financial health of Council. There are three measures of financial sustainability specified in the *Local Government Regulation 2012*. The measures for Tablelands Regional Council are:

- *Operating surplus ratio* indicates the extent to which revenues raised cover operational expenses. (Benchmark 0% - 10%) -0.80%
- *Asset sustainability ratio* indicates whether Council is renewing or replacing its existing assets (Benchmark > 90%) 151.10%
- *Net financial liabilities ratio* indicates the extent to which Council's debts can be met by its operating income (Benchmark < 60%) -10.70%-

TRC has been attempting to improve these measures over the future long-term and have undertaken 10 year forecasting. Whilst these measures are useful at one level, they have a narrow focus on sustainability. Broader indicators are needed to take a more holistic approach to sustainability, one which recognises the deliberative democratic aspects of local government.

Capacity to Generate Revenue: Rural and regional councils struggle to raise funds from their population bases. There is a clear correlation between the population of a local government area and the amount of own-source revenue that the council raises. There are obvious limitations on a Council's ability to implement full user-pays principles on services. While TRC has been able to take a user pays approach in some services, it is not able to do so across the board. Affordability is a major concern for our community who are largely disadvantaged. Large rate and fee increases are not feasible and will result in non-payment. The issue of whether we run balanced budgets but with reduced service levels or have an operating deficit in our recurrent budget to invest in the future of our community is a constant discussion at TRC. Our Council faces the difficult decision of balancing the need to maintain current service levels with the need to invest in new innovative ways of doing business to invest in the future.

Other sources of funds for Council is borrowing and grants. TRC has a low debt ratio and aims to optimise its level of borrowing. There is a cautious approach to debt and TRC feels strongly the absence of a structured State government debt product suitable for institutional investors. Some of the borrowing schemes that have been developed such as Northern Australia Infrastructure Facility loan have been explored but ruled out as they have found to be unsuitable for a range of reasons.

Grants are an important source of revenue and tend to be for infrastructure projects at large scale level. Local government grants also need to be broader than infrastructure and have opportunity for service and project funding. While there are a lot of funds that local government can apply for operational and projects, these tend to be small in nature and become an administrative burden to apply, report and acquit. The larger infrastructure

projects are usually for 'shovel ready' projects and do not cover the cost of planning, concept and technical design. These are expensive activities and in many instances TRC has not been in position to apply for funding as the projects were not shovel ready. There is a strong need to include the planning and design stage as part of the funding and can be included as a milestone. Additionally many large infrastructure projects have 50% co-contribution requirements which TRC has also not been in a position to provide.

TRC has been interested in exploring the idea of setting up enterprise arm. Larger Councils have undertaken enterprises in Australia and overseas however in our investigations to date, we have determined that there is a considerable process required for local governments to establish enterprise arms and some freeing up of the red tape is essential. Furthermore, the funds to start-up such enterprises require, no matter how lean, an initial injection of resources. A competitive fund that supports the establishment of such enterprises, would greatly benefit local government financial sustainability.

Service Levels: TRC has been looking to develop service levels. The series of amalgamation and de-amalgamation exercises undertaken over the last decade has severely impacted upon many aspects of Council. Gaining and losing capacity via restructuring processes have further impacted upon long term planning of service levels. Determining appropriate, palatable and cost effect service levels is not a quick or an easy process. Twelve months into their new term, the Councillors at TRC are keen to examine future-focused activities for long term sustainability of the Council but also communities. However, it takes time to develop or review service levels and is a costly exercise. The challenge of determining service levels is complex and is balance of community expectations and aspirations, along with Council's long term vision and the capability of Council officers. Support for developing service levels for Councils would assist newly elected Councillors to focus on sustainability early in their terms.

Assets Management: Asset management is an important part of any local government. TRC has a number of classes of assets including roads and transport infrastructure, water, waste, sewerage assets, facilities, cemeteries, fleet and recreational and cultural assets such as parks and open spaces.

TRC asset management systems were fragmented during the amalgamation and de-amalgamation processes. There has been loss of appropriate records or it has be pieced together from different historical Council records. There are also significant unmapped assets, particularly underground assets. TRC has developed a long term assets management strategic plan. We have appointed assets officers to assess and map our assets so that we can more effectively develop asset management plans for each asset class. We have also developed a prioritisation tool with key criteria to determine how capital works projects can be assessed (we call it STAR rating). As TRC undertakes this mapping work there has been a considerable impact on our recurrent budget with depreciation costs comprising approximately 25% of our budget. This is significant and has impacts on our operational budget. There is a critical link between assets, depreciation and service levels. Generating revenue and setting aside the depreciation costs from budgets to recover capital, maintenance and operating costs over the lifetime of an asset is a great challenge. Getting the balance right is not easy, particularly when we are confronted with

ageing infrastructure. Continuing to maintain assets over the lifetime can lead to deficit budgets. TRC has considered asset rationalisation, long-term asset planning and an effective assessment of the life of our assets as strategies to manage our infrastructure. An additional point is that many of our assets may have little end of life market value. A critical point for TRC is to manage our assets so that we are not at risk of where assets fail at a faster rate than we can afford to replace them. This will have significant detrimental impacts on our local economies and the wellbeing of our communities.

There is a greater need for State and Commonwealth governments to enable financing solutions such as attracting external infrastructure investors to local government, facilitating environments for low cost finance and large scale borrowing, tax concession for infrastructure investment and risk management frameworks.

Efficiencies: TRC aims to work effectively to make efficiency gains, reduce inefficiency and waste, examine our processes and systems, improve staff productivity and do things innovatively. We set savings targets which senior managers work to. As a lean organisation, it is increasingly difficult to balance a bottom line in a budget in which you cannot undertake any further efficiency savings without jeopardising institutional integrity, reach tipping point on assets maintenance and reduce service levels to a critically low level.

Resource Sharing and Shared Services: These are strategies which are adopted across the region around some key issues. For example we are part of FNQROC collective procurement arrangements which brings up to 20-30% savings on some materials and services. There are arrangements across specific Councils where larger Councils support smaller ones such as TRC. We have explore the idea of shared services. This is a complex issue as in some instances undertaking shared service may result in cost saving but also loss of work for local contractors. While these new models have been discussed at different forums, there is yet to be a more effective shared services model to emerge in our region. Small scale shared service takes place with other Councils in some areas e.g. aspects of IT delivery.

Regionality and Remoteness: The Tablelands region is located 100kms from Cairns. We fall under the Rural, Remote and Metropolitan Areas (RRMA) classification developed by the Australian Government :

- “regional” refers to non-urban centres with a population over 25,000 and with relatively good access to services;
- “rural” refers to non-urban localities of under 25,000 with reduced accessibility; and
- “remote” communities are those of fewer than 5,000 people with very restricted accessibility

The connection between social and economic disadvantage, demography and geography are well established. The regional and remoteness also implies that Councils take on greater responsibilities across all aspect of community life that urban Councils do not. Moreover, the cost of doing business in regional and rural areas is greater. Regionality needs to be recognised as a key factor in grant programs to ensure equity of resource distribution.

RECOMMENDATIONS

The Tablelands Regional Council has examined ways to improve its sustainability. It has focused on pillars relating to a Smart Council 2050 strategy, building strong economies and creating vibrant communities. We have put in place strategies to improve our grant funding and reform our structures to be more effective and efficient in our operations. Additionally, we are focusing on how to be an 'enterprising' Council beginning to put in place new strategies to generate alternative revenue sources including public-private partnerships, co-governance with community, developer charges and for profit entrepreneurial activities. Some of the entrepreneurial initiatives take longer to establish and yield results.

There are many functions which a local government undertakes, under the Australian federal system of government, which are governed by State and Commonwealth regulation and their effective discharge is often determined by finance controlled by these higher tiers of government. For this reason a number of recommendations are made in relation to State and Commonwealth Governments.

1. State and Commonwealth governments to provide greater untied funding opportunities such as Works For Queensland funding program with improvements to the delivery processes.
2. State and Commonwealth governments utilise local government capability, on a user-pays basis, to deliver services and programs for them. Some examples exist such as in road construction however this is limited and the financial component of this is strictly regulated.
3. State and Commonwealth governments recognise the burdens of infrastructure and develop infrastructure funding programs that require i) reduced or minimal financial co-contribution (less for regional and rural areas); ii) recognise in-kind contributions; and iii) include concept plan and design stages in infrastructure funding programs, not just shovel ready projects.
4. State and Commonwealth governments support the development of equitable tax based revenue streams for local government either new tax instruments or through a share of existing taxes such as share of GST to local government or revision of the Commonwealth Government's taxation share to local governments from 3% to 5 or 6%.
5. Revise aspects of the Competition Policy frameworks in order to enable (and reduce red tape for) local governments to set up enterprise arms and compete in the market place for goods and services provided for profit (as revenue streams that ultimately benefit the community). Seed funding for establishment of such enterprises is strongly recommended. Successful, for profit enterprises, can assist local government in meeting the needs of their community and be financially sustainable in the long term.

6. State and Federal Governments recognise the additional burdens faced by regional and rural Councils and provide for equitable share of grant funding through mechanisms such as a specific category for regional local government funding and/ or additional 'regional weighting' on grants such as the Financial Assistance Grants. There is a need to recognise increase in the aggregate demands placed on the local government sector by lack of services and resources in regional areas, the greater cost of doing business and absence of appropriate ICT infrastructure.
7. State and Commonwealth governments enable financing solutions such as attracting external infrastructure investors to local government, facilitating environments for low cost finance and large scale borrowing, tax concession for infrastructure investment and risk management frameworks.
8. State and Commonwealth governments support local governments with effective procurement of goods and services.
9. State and Commonwealth governments provide appropriate resources to local government where there are State or Commonwealth legislative and compliance requirements and not expect local government to carry this cost shifting. Often there are significant regulatory and compliance requirements with the cost implications remaining invisible and the expectation that local government will absorb such costs.
10. State and Commonwealth governments work with associations such as LGAQ to identify cost effective opportunities to further lift the capabilities of Councillors and develop a strategy to attract talented individuals with strong leadership capacity to local government.