

26 May 2017

Submission to the Parliamentary Inquiry into long-term financial sustainability of local governments from Livingstone Shire Council

Report 13: 2016-17 by the Queensland Audit Office “Local government entities: 2015-16 results of financial audits” makes the following recommendations.

Recommendations

As part of each audit, we make recommendations to individual councils about how to improve their financial management.

In addition, we recommend that councils:

1. make the financial statements of their controlled entities publicly available (Chapter 2)
2. assess their processes for ensuring that their asset registers are complete and remain current over time (Chapter 2).

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 council (Chapter 2)
 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 expenditure (Chapter 3)
 5. assess the maturity of their risk management practices, develop an action plan for improvements and track progress towards agreed targets (Chapter 4)
 6. assess their business continuity and disaster recovery capabilities, identify areas for improvement, and establish or update their plans (Chapter 4)
 7. retain or re-establish their audit committees to ensure there is effective oversight of their internal control frameworks, financial reporting and legislative compliance (Chapter 4).

Livingstone Shire makes the following observations in relation to report's recommendations:

Recommendation 1: **Strongly agree**

Recommendation 2: **Strongly agree.**

Asset Management remains the single most important financial sustainability factor for local government. Livingstone Shire recommend that the Sector moves toward auditable asset management plans against ISO:55001 and aligning renewals for long term financial planning with asset management plans that over a 20 year horizon.

Livingstone Shire supports robust action by councils in relation to condition assessment of all assets. Support by way of funding, technical advice or sector-wide initiatives would be helpful.

Recommendation 3: **Agree.** While Livingstone Shire supports the related party process it should be recognised that it is difficult to be prescriptive and therefore complete in ensuring all appropriate relationships are identified by the process as elected members and senior officers may not be aware that certain relationships exist and could in some circumstances not be reasonably expected to have that knowledge.

Recommendation 4: **Strongly Agree.** This recommendation could be enhanced through the continued improvement of benchmark data so communities can see how they compare to similar communities.

Recommendation 5: **Agree.**

Recommendation 6: **Strongly agree.**

Recommendation 7: **Strongly agree** and note the link to recommendation 5.

Report 2: 2016-17 Forecasting long-term sustainability of local government makes the following recommendations.

Recommendations

We recommend councils improve the quality of their long-term forecasts and financial planning by:

1. maintaining complete and accurate asset condition data and asset management plans (Chapters 2, 3, and 4)
2. implementing a scalable project decision making framework for all infrastructure asset investments (Chapter 2)
3. engaging directly with their communities on future service levels (Chapters 2 and 4)
4. developing financial plans to explain their financial forecasts and how they intend to financially manage the council and its long-life assets (Chapter 2).

We recommend the Department of Infrastructure, Local Government and Planning:

5. 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 (Chapter 2)
6. strengthen their governance role, including analysing long-term planning documents, to allow the Minister to identify councils in, or becoming, financially stressed (Chapter 3)
7. support councils to strengthen 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 four years (Chapters 2 and 3)
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 (Chapter 2).
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 (Chapter 4).

Livingstone Shire makes the following observations in relation to report's recommendations:

Recommendation 1: **Strongly agree.**

Current and accurate asset management plans are the backbone of local government sustainability. More work is required in getting asset management plans auditable under ISO 5501. The Department of Infrastructure, Local Government and Planning could play a role in setting guidelines and assisting smaller councils to understand the issues. Grant funding should be available to councils on the basis of assets per capita.

Recommendation 2: **Strongly agree.** The QTC Project Decision Framework is an excellent start to achieving this recommendation. The adoption of this framework by the sector would allow for its ongoing development and refinement.

Recommendation 3: **Strongly agree.** However, achieving this outcome can be much easier said than done. In particular, the methodology of engaging the community in

relation to issues like transport infrastructure service levels (e.g. road conditions) can be challenging. Both DILGP and LGAQ could further assist in guiding and supporting councils to improve their community engagement practices and some funding from government for that purpose would be well spent.

Recommendation 4: **Strongly agree**. Again, Livingstone Shire emphasises the need to integrate quality asset management plans into long term financial plans. We recommend a 20 year horizon so that line of sight over asset management issues can be maintained. We also recommend that councils adopt a best practice approach and separately report growth-related infrastructure plans and funding models so the outcome of Local Government Infrastructure Plans is understood, reported and monitored in the context of long term financial sustainability.

Recommendation 5: **Strongly Agree**. Local government is a diverse sector and impacted by the inequity of responsibility and income. A council's asset base is not proportional to its income and therefore, councils will only be able to afford levels of service that their income supports.

Financial sustainability targets need to acknowledge that a one size fits all approach does not necessarily give a good indication of sustainability of individual Councils or the sector. In particular, those councils experiencing consistent, above average growth will have a different financial risk and sustainability profile than Councils that are not in that circumstance.

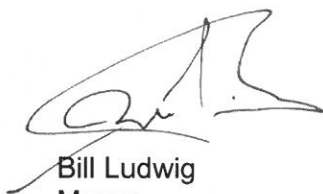
Recommendation 6: **Agree**

Recommendation 7: **Agree**. noting a similar issue to Recommendation 5 in terms of diversity of the sector. Longer term planning horizons are required that link directly with the community's long term aspirations and needs.

Recommendation 8: **Agree**.

Recommendation 9: **Strongly Agree**. Robust Asset Management Plans should be the determinant of the asset sustainability assessment.

In conclusion, Livingstone Shire appreciates the work of QAO in producing these reports and commends the recommendations to the inquiry.



Bill Ludwig
Mayor
Livingstone Shire Council



Chris Murdoch
Chief Executive Officer
Livingstone Shire Council