BURKE SHIRE COUNCIL
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26 May 2017

The Hon Jim Pearce MP
Chair, Infrastructure, Planning &
Natural Resources Committee
Parliament House, George Street
Brisbane QLD 4000

Dear Chair

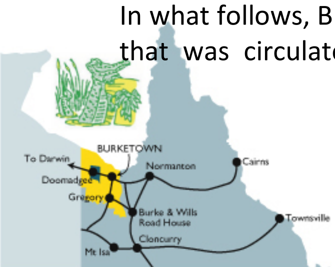
Burke Shire Council submission to the Inquiry into the Long-Term Sustainability of Local Government

Burke Shire appreciates the opportunity to present a submission to the Parliamentary Inquiry into the Sustainability of Local Governments. This is an issue we grapple with on a daily basis as a "very remote" Shire in the Resource Producing group of Councils.

Key points:

- Effective financial and asset management is crucial, but the "sustainability" issue for Councils like Burke is created or solved by the application of State and Federal policy: NDRRA and Day Labour rulings; the (un)freezing of the indexation on Financial Assistance Grants; the provision of Works 4 Queensland-style unmatched funding opportunities etc. These issues are not adequately picked up by the Queensland Audit Office's Report No. 2 and Report No. 13 does not adequately address.
- While recognising that effective asset management and long-term financial planning are crucial indicators of sound governance and essential to instilling faith in the sector, the best plans and planning are not capable of addressing the structural and policy realities that determine the sustainability of regional/remote Councils such as Burke: expenditure on more frequent asset condition assessments, improved asset management practices and the generation of more sophisticated financial planning documentation has less of an impact on sustainability than rates from mining companies, W4Q-style injections into maintenance programs or the indexation freeze on Financial Assistance Grants.
- The inherent tensions between asset sustainability and financial sustainability can be softened or exacerbated by policy: restricting funding programs to construction of new assets introduces upward pressure on both asset sustainability and financial sustainability (maintenance, renewal, depreciation);
- The devolution of powers to Local Government without concomitant increases in funding generates sustainability pressures.

In what follows, Burke attempts to address each of the ten points outlined in the Request for Submissions that was circulated on 3 May 2017. In doing so, Burke acknowledges the importance of continual



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improvement of financial and asset management planning and practices, but seeks to highlight the disproportionate impact of policy that increases/reduces cash available to local governments.

1. Long-term financial planning and long-term forecasting

Where uncertainty is guaranteed, long-term financial planning is difficult indeed.

Burke acknowledges the importance of continual improvement in the areas of financial planning and financial forecasting. Burke also acknowledges the Auditor General's lament in relation to the quality of Councils' long-term financial plans (LTFPs) and linkages between the LTFP and Asset Management Plans (AMPs). However, it must also be recognised that for grants-dependent Councils (as opposed to those Councils capable of funding operational expenditure with own source revenue), any attempt at generating respectable LTFPs is severely undermined by the guaranteed uncertainty of grant funding streams in terms of both quantum and conditions.

<u>Efficacy & Volatility</u>
Burke makes every effort to generate reasonable LTFPs but the reality for grant-dependent Councils is that policy shifts and funding announcements from State and Federal Government have the potential to invalidate short-, medium- and long-term planning. That is, the State and Federal Governments create the conditions under which it becomes exceedingly difficult for regional/remote Councils to develop and adopt meaningful long-term financial plans.

While the Local Government Regulation 2012 requires a 10 year Financial Forecast and the Auditor General's Report identifies the poor state of these plans, it is difficult for grants-dependent Local Government's to make predictions beyond 3-5 year funding cycles. This makes the efficacy of long-term planning contingent on items beyond a remote/regional Council's control. The table below identifies a number of recent policy/funding changes that typify the challenges faced in generating meaningful LTFPs.

Volatility in funding and policy	Asset Sustainability	Financial Sustainability	Comment
Elevation in **TIDS funding** 2015-16, 2016-17, 2018-19			As TIDS funding is matched, the elevation of funding ensures more money is invested in roads (upgrade or renewal). Where an operational deficit is already a reality, increasing funding will necessarily draw down on reserves (which may be a sensible outcome in some situations but not in others)
Works 4 Queensland 2016-17, 2017-18 (2017 calendar year)			A funding injection without the requirement for Councils to match or proportionally match the injection. This program will enable Burke to spend its allocation ($1.1m) on a much needed maintenance backlog.

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NDRRA and utilisation of Council plant No Day Labour			When Councils are ineligible for REPA funding, financial sustainability decreases.
NDRRA and utilisation of Council plant Day Labour			When Councils are eligible for REPA funding, financial sustainability increases.
Freezing of Indexation of **Financial Assistance Grants** 2014-15, 2015-16, 2016-17			The costs of doing business increased while revenue remained static over this period, delivering a net loss to Councils. The freeze on the indexation also occurred during a period of increased devolution of powers to Local Governments. For regional/remote Councils, this imposition could not be off-set through utilisation of the rates mechanism.

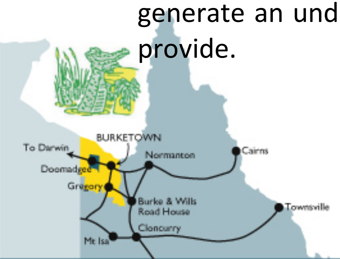
<u>Flood Damage and Long-Term Financial Forecasting</u>
Natural disasters are a reality of life in Queensland and the impact of flooding events in NWQ is felt annually. Attempting to account for the impact of flooding in financial forecasting for an individual Council would be a foolhardy exercise. At the same time, the inability to account for the impact of Flood Damage in the forward estimates is to deny the reality of the environment that many Councils operate within.

<u>QTC Modelling</u>
The assistance provided by QTC in the form of the Local Government Forecasting Model (LGFM) and a suite of other documents (the Decision Making Framework) has been well received by Burke. The standardisation of the model obviates any uncertainty around the right/best method for generating LTFPs for operational purposes.

- Improvement: if this megabyte heavy spreadsheet can be transformed into a web-based application and incorporated into standard Council operating systems, the integration into Council business will be more effective and enable real time (and potentially automated) updates of the LGFM.

2. Decision-making frameworks for major infrastructure asset investments:

Council applauds the work of the Queensland Treasury Corporation in developing the Project Decision Framework and associated tools. These tools help instil the importance of whole-of-life costing and provide a shared vocabulary through which elected members, executive staff and the community can generate an understanding of, and an appreciation for decisions around assets and the services they provide.



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The most important consideration for Burke in relation to progressing major infrastructure investments (provided the project is sensible) is the ability to attract external funding. An important benefit of this dependency is that passage through a funding program assessment process ensures State/Federal scrutiny of the project and supporting materials: the business case, detailed project design, asset management plan, whole of life costing, mapping, appropriate land tenure status, cultural heritage/native title permissions, procurement strategy etc.

Where decision making is guided by concerns over financial sustainability, Burke Shire would like to make two points, the first relates to asset ownership; and the second to co-funding arrangements and the ability to buy-out Council's financial contribution.

a) Asset Ownership and Funding Programs

In recent years, Burke has attracted funding for infrastructure projects where asset ownership would vest in another party. These projects include:

Project	Funding 1	Funding 2	Funding 3	Funding 4	Owner
DMG-BKT Fibre Link Project	Building Our Regions	National Stronger Regions	Telstra		**Telstra Corporation**
Burketown Wharf Upgrade Project	Building Our Regions	National Stronger Regions	Marine Infrastructure Fund	Community Resilience Fund	**DTMR**

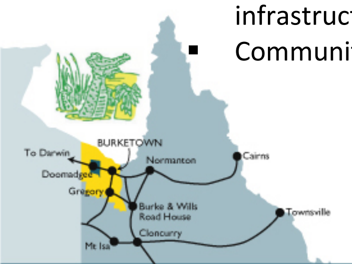
The DMG-BKT Fibre Link project delivers benefits to the entirety of the community, while the Burketown Wharf Upgrade Project (pending) will provide an upgrade to an asset linked to one of the more important industries in the Gulf: commercial/recreational fishing.

Council encourages a continued commitment to the eligibility of such projects for funding. Projects like the above deliver benefits to the whole community while removing the operational, maintenance, renewal, replacement and depreciation burden from Council.

b) Funding Programs and the potential to buy-out Council's position

The majority of funding programs, for very important reasons, require a co-contribution from Council to trigger eligibility for funding (or at least a compelling reason why the co-contribution requirements are not capable of being met). While recognising the importance of Council having "skin in the game", Burke Shire also contends that local governments who are able to successfully attract funding from multiple sources should be able to progressively buy their way out of the Council contribution. Benefits include:

- Ability to invest in other infrastructure capable of facilitating economic growth, jobs growth, remote liveability etc.
- Ability to more effectively manage the ongoing operational and maintenance costs of relevant infrastructure.
- Community belief in the operational capability of Council to deliver Value for Money.



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	Iteration 1 (project attracts initial funding from a funding agency)			
	Total	Council	State	
Proportional Buy-Out	$1,000,000	$500,000	$500,000	
Straight Buy-Out	$1,000,000	$500,000	$500,000	
	Iteration 2 (project attracts funding from multiple sources – all tiers of government)			
	Total	Council	State	Cth
Proportional Buy-Out	$1,000,000	$334,000	$333,000	$333,000
Straight Buy-Out	$1,000,000	$0	$500,000	$500,000
	Iteration 3 (project attracts funding from multiple sources from within the same tier of government			
	Total	Council	State 1/Cth 1	State 2 / Cth 2
Proportional Buy-Out	$1,000,000	$334,000	$333,000	$333,000
Straight Buy-Out	$1,000,000	$0	$500,000	$500,000

Observations

The practicability for this type of outcome will be contingent on the following:

- Funding programs sticking, more or less, to proposed announcement timeframes to provide a sense of certainty for Councils planning to target multiple funding agencies. Where more certainty exists, more creative funding strategies for infrastructure projects are easier to manage.
- The delivery timeframe for funding programs: longer delivery timeframes enable the multi-partnered approach while short turnaround timeframes can make this approach tricky.

3. Asset condition data and asset management plans

Burke acknowledges the value of conducting asset condition assessments and generating longitudinal data to measure asset performance. Council has also invested significant resources into building an asset management culture among elected members, executives and officers. In 2011, the imperative to develop these plans led to an injection of funding for their development. In the case of Burke, as with many other Councils at the time, the funding delivered a beautiful Asset Management Plan but very little in the way of capability improvement within Council.

In an interesting juxtaposition, Council's lack of Asset Management capability was most markedly disclosed in the same year that Council was at is most financially sustainable (in 2011 Council had reserves of $18.8m). The reverse is now true, with Council projecting operating deficits now and into

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the future (on the basis of depreciation) at the same time as its asset management capabilities have reached their highest evolution (in terms of asset conditions assessments, policy/strategy frameworks, investment decisions based on whole-of-life costing etc.).

Case Study – the Roads Component of the Financial Assistance Grant

Council conducts road asset condition assessments on an annual basis, maintains an accurate road and asset register, operates according to an ever evolving 5-year roads program, collates traffic movement data and re-categorises roads to reflect changing demand patterns and funding opportunities. Council also has a current and projected operating deficit which means that, despite significant advances in asset awareness and management, the roads themselves cannot be adequately maintained.

In a situation unique to NWQ, the Doomadgee Aboriginal Shire Council is situated within/surrounded by the Burke Shire Council (see image below).

All major roads into Doomadgee are controlled by the Burke Shire Council. These include the Doomadgee West Road (Highway 1 / Savannah Way / BSC LRRS network), which connects Doomadgee to the Northern Territory Border; and the Doomadgee East Road (Highway 1 / Savannah Way / BSC LRRS network), which connects Doomadgee to the Wills Developmental Road and Burketown).

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This situation is not accounted for satisfactorily by the methodology of the Grants Commission in relation to the Roads Component of the Financial Assistance Grant, which essentially allocates funding on the basis of road length and LGA population.

Burke, with a population of 584 (QGSO Project Population, 2016) maintains 172.045km of road network that directly services an Indigenous population of 1,410 (QGSO Project Population, 2016). This represents 29.6% of Burke's road network.

Suggestion 1: recognise the population of Doomadgee in calculating the allocation of FAGS Road Funding for the Burke Shire Council, which is one of the lowest in the State by virtue of this population anomaly.

2016-17 allocation - $402,558
2015-16 allocation - $400,339
2014-15 allocation - $393,513

Suggestion 2: enable all Burke Shire Council TIDS expenditure on Doomadgee West and Doomadgee East Road to be treated as ATSI TIDS expenditure (i.e. unmatched funding).

The intensive focus on developing asset management and financial forecasting practices and capabilities has necessarily led to increased organisational costs. This has taken place at the same time as remote/regional Councils have had funding frozen and/or reduced.

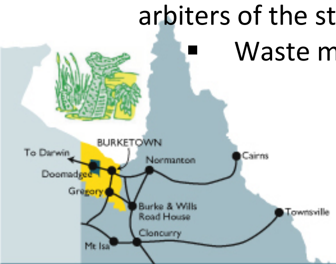
This has resulted in Councils becoming better storytellers. Unfortunately the stories they are able to tell focus on declining asset and financial sustainability. Having said that, Council notes with satisfaction the arrival of the Works 4 Queensland package and the reinstatement o Council Day Labour as an eligible component NDRRA REPA works; two developments that have the potential to significantly impact on Council's asset and financial sustainability.

Recommendation: that the injunction to implement more effective asset management and financial forecasting practices be matched with an additional (but capped) allocation of funding through the "governance" component of the Financial Assistance Grants to regional and remote Councils that is sufficient to offset or cover the additional consultancy costs required to develop and maintain this capability.

4. Community engagement on future service levels

Burke recognises the importance of community engagement in establishing service levels but would suggest that the State and Federal Governments (rather than communities) are the most important arbiters of the standards those services must meet:

- Waste management practices;



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- Water treatment guidelines;
- Sewerage treatment guidelines;
- Standard of accommodation supplied to tenants of Council properties.

Where changes to service level requirements increase costs to local governments and where those costs can not be passed on to ratepayers, the sustainability of these services is necessarily reduced.

Recommendation 1: that the Department of Infrastructure, Local Government & Planning map the increased costs associated with local government compliance with State-Cth mandated service level requirements to assess the impact on Councils' governance/operational costs.

Recommendation 2: that the Department of Infrastructure, Local Government and Planning map the increased costs associated with the devolution of powers to Local Government and the associated costs required to meet the service levels required by the devolution of power.

Recommendation 3: that the Local Government Association of Queensland consider developing a database of "Service Level Negotiations" – content, methodology, outcome – between Council and community to identify the suite of available avenues for legitimating ongoing asset and financial sustainability management strategies.

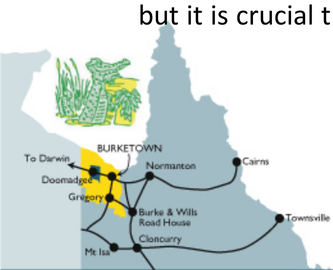
5. Financial Sustainability Targets

Legislated targets: Council outlines its commitment to reporting on the mandated Financial Sustainability Ratios in the Corporate Plan. The Finance Monthly Report provides a monthly update on these indicators which are published on Council's website.

Council's own targets: in April 2016, Council developed 65 Financial Sustainability Improvement Measures. This list included measures such as not replacing aging assets, handing roads over to DTMR, decreasing rates discounts, reducing valuation and audit costs, expediting mining exploration and production, establishing registers of prequalified suppliers to improve procurement efficiency, delaying the delivery of major projects, seeking multiple external funding partners for all capital projects, reducing delegations to conferences etc. These initiatives were further delineated in terms of Council's ability to influence change (high, medium, low) and also by the perceived degree of difficulty of implementing the initiative (high, medium, low). Fifty (50) of the sixty five (65) measures were within Councils direct influence and fifteen (15) were not.

Relative impact of sustainability initiatives
While Council will continue to pursue these kinds of initiatives, their cumulative relevance is dwarfed by funding announcements like the Works 4 Queensland program, which will provide Burke with $1.19m in unmatched funding that it is being allocated toward an infrastructure maintenance backlog.

Council intends to keep looking at ways to more effectively manage budgets, operations and planning but it is crucial that this Inquiry and future Auditor General reports recognise that these initiatives and



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commitments are a drop in the ocean in comparison to the impact of policy/funding decisions that create or remove the structural barriers to running sustainable Councils.

<u>Recommendation 1</u>: that the Works 4 Queensland Program (or similar) is funded over the next five years (minimum).

<u>Recommendation 2</u>: that the Office of the Auditor General investigates the impact of policy (funding) decisions on local governments as these relate to the financial sustainability of the sector and include reference to such impacts in future reports into the financial sustainability of the sector.

6. **Organisational Governance**

Effective governance costs money and it costs more in complex legislative environments.

Since the freezing of the indexation of the Financial Assistance Grants, the world has changed but the Local Government Grants Commission methodology has not. The potential exists for a major rethink of the "governance" component of the grant and how this is calculated:

- Given the increased devolution of powers to local government, the increased complexity of the legislative environment in which Councils operate, the increased demand for more effective financial planning and asset maintenance, is the "governance allocation" component of the Financial Assistance Grant to regional and remote Councils sufficient?
- Will a revised methodology account for the disproportionate impact on remote and regional Councils? Does it account for the increased impost placed on Councils by virtue of devolved powers?
- If not, how can the Grants Commission and the Department of Local Government begin to chart this impact to better capture the impact of ad hoc devolution of powers and increasingly broad and increasingly complex governance requirements?
- Is the Financial Assistance Grant the right mechanism for addressing these types of issues?

Case Study
Legislative complexity, cost and sustainability: gravel pits

Once upon a time, Council had a Sales Permit that enabled Council to access gravel/quarry material from "pits within the Shire." The Forestry Act 1959 was king. Even as late as the early 2000s, new pits could still be placed on the Permit with a minimum of fuss.

In order to establish new gravel pits to provide material for rural road maintenance activities, Council might now incur costs approaching the $100,000 mark. Multiple agencies are involved and multiple pieces of legislation operate to create a smorgasbord of costs and procedural uncertainties.

The accumulation of legislation is understandable given the environmental importance of the activity and the potential impact on native title and cultural heritage interests. Burke Shire, for example, has had to invest in external expertise – legal, engineering, survey, geotechnical, GIS, town planning – in order to negotiate the many hoops involved in securing new material for road

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maintenance work. The complexity of the terrain is created by the State and cold hard cash is required to navigate it.

This is core Council business and the costs can not be avoided. This legislative expansion places significant upward pressure on Council costs and where these costs cannot be offset, Council loses.

Legislation	Departments
Sustainable Planning Act 2009	Forestry & Fisheries
Sustainable Planning Regulations	Natural Resources & Mines
Local Government Planning Scheme	Environment & Heritage Protection
Forestry Act 1959	Infrastructure, Local Government & Planning
Environmental Protection Act 1994	Transport & Main Roads
Environmental Protection Regulation 2008	
Native Title (Queensland) Act 1993	
Aboriginal Cultural Heritage Act 2003	

Addressing the issue: Council has joined with other member Councils in the North West Regional Roads and Transport Group in applying for BBRF Community Stream Funding to attempt to codify an acceptable approach to moving through the difficult process of establishing new pits.

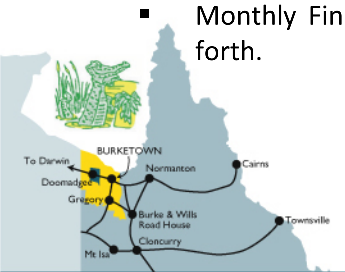
7. Budget Transparency

There are a number of factors that reduce the transparency of Burke's budget. These include:

- The impact of Flood Damage revenues and expenditure on the budget bottom line at the end of the Financial Year;
- The impact of funding announcements on financial projections, which require substantive budget amendments;
- Financial projections are routinely undermined by significant changes in the costs of procuring services, particularly in relation to road construction services, which introduce volatility to sustainability ratios not reflected in the static figures of the budget and the audited financials;
- Underlying expenditure assumptions in relation to Native Title and Cultural Heritage can be very difficult to predict;
- Council does not disclose specific budget allocations for capital projects where doing so would prejudice the tender process.

While it would be possible to ramp up efforts to promote interest and engagement with developing and digesting the budget, Burke does promote budget transparency in a number of ways:

- Publishing budgetary papers and budget updates/amendments online;
- Policies for allocating grants funding are clear and the allocation of grants funding is published;
- The Audit Committee plays a significant role in reviewing interim and end of year audits;
- Monthly Financial Reports provide details on budget variances, rates revenue, debtors and so forth.



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8. Financial Sustainability Ratios

Financial Sustainability Ratios are taken seriously by elected members and executive staff; they are also taken with a grain of salt given the volatility of these ratios throughout the year. This is particularly true for regional/remote Councils in receipt of Flood Damage allocations, which can significantly alter these ratios.

Recommendation: to account for this volatility, it may be desirable for the QAO to review Councils' sustainability ratios on a monthly basis.

9. Strategic Planning and Organisational Capacity

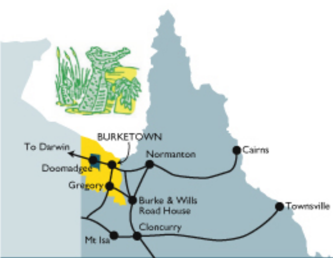
Strategic Planning:
As indicated previously, Burke Shire greatly appreciates the work of the Queensland Treasury Corp in establishing the LGFM and the Project Decision Framework. LGAQ's 'Better Councils, Better Communities' database is also extraordinarily useful for strategic planning purposes.

Project suggestion:
The establishment of a Capital Projects Database would drive improved strategic planning, reduce initial costs and increase organisational capacity among Local Governments. At present, multiple Councils approach multiple consultants to develop multiple project plans for very similar projects: swimming pools, water playgrounds, waste transfer stations etc.

Where these plans turn into projects, the infrastructure is delivered, operated and maintained. Life continues. By and large, the sector does not benefit from the information/knowledge acquired by individual Councils throughout this process. There is an opportunity to produce a searchable database of projects that would provide the following kinds of details:

- Cost of consultancy (to design a swimming pool: no. of lanes, length, shade structures, filtration/treatment system);
- Cost of asset acquisition;
- Cost of any contract variations;
- Lessons learned in the procurement phase: what would be done (if anything) differently next time
- Cost of ongoing operations and maintenance of infrastructure (wages, operational inputs, maintenance, renewals), updated annually to provide a real-life insight into operational costs;
- Operational inefficiencies discovered and remedied throughout the asset's life.

This would be a database requiring resourcing over a significant period of time to be of value. Yet the value is clear, with such a database able to provide key decision makers with an opportunity to reflect on actual acquisition costs, real time operational and maintenance costs and so forth prior to investing in initial consultancies.



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Recommendation: Burke Shire Council recommends that the LGAQ and/or the Department of Infrastructure, Local Government and Planning seek to secure funding to resource the development of such a database.

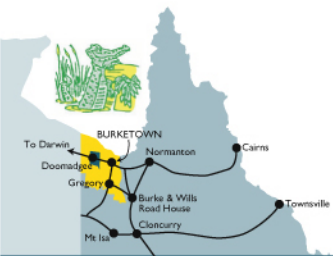
10. Procurement Policy and Value for Money

The most important Value for Money consideration for local governments impacted by flood damage relates to the eligibility/ineligibility of Council Day Labour to complete REPA work under the NDRRRA. The 2017 determination that Councils do represent value for money and will be able to use Day Labour to complete REPA work will go a long to addressing the financial sustainability issues faced by regional/remote local governments.

Stripping Councils of the ability to utilise day labour in NDRRA REPA Works had a dramatic impact on the sustainability of many Outback and NWQ Councils, including Burke. As indicated in the table below, Burke's Operational Revenue in 2010-11 was significantly increased by the receipt of funding to complete Flood Damage Works, most of which was spent the following year in 2011-12. The impact on Council's bottom line was significant, with Cash & Cash Equivalents increasing from $6,172,295 in 2009-10 to $14,407,072 in 2011-12.

	2013	2012	2011	2010	2009
Operational Revenue	$16,318,134	$16,695,311	$30,538,188	$7,123,314	$8,502,242
Capital Revenue	$232,805	$1,280,729	$1,209,435	$1,863,115	$1,874,427
Capital Income	$123,394	-$63,939	$1,209,435	$	-$1,497
Total Income	$16,674,333	$17,912,101	$31,832,512	$8,986,429	$10,375,172
Depreciation	$2,001,792	$2,740,656	$2,536,607	$1,611,573	$1,589,100
Operational Expenditure	$9,204,478	$23,560,840	$15,245,490	$8,945,707	$7,038,134
Capital Expenses	$	-$156,763	-$5,212	-$27,128	-$75,565
Total Expenses	$9,204,478	$23,560,840	$15,250,702	$8,972,835	$7,133,699
Net Result	$7,469,855	-$5,648,739	$13,254,117	$13,594	$3,241,473
Cash & Cash Equivalents at EOFY	$19,780,368	$14,407,072	$18,795,678	$6,172,295	$7,708,084

Where (remote and regional) Councils are able to utilise their own Day Labour to complete the Restoration of Essential Public Assets (REPA) under the National Disaster Recovery and Relief Arrangements (NDRRA), Councils and communities receive the benefit, with Councils coordinating and working alongside local contractors (and contracting external expertise where required). Where Councils are stripped of the ability to utilise their own Day Labour to complete REPA works, the scale and complexity of the work is often beyond the capability of local contractors (in isolation from Council) which results in REPA funding being directed toward larger, predominantly east-coast based contractors.



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This single policy decision – whether Day Labour is eligible/ineligible – has the ability to address the sustainability issues faced by many regional and remote Councils. Again, Burke was extremely gratified by the recent decision to make Council's Day Labour eligible once more and applauds the work of all involved in the lobbying required to restore a common sense policy.

Conclusion

Burke Shire Council would like to thank the Committee for the opportunity to provide a submission to the Inquiry into the long-term financial sustainability of local governments. We note that the terms of reference for this inquiry were shaped by the Queensland Audit Office's Report 2: 2016-17 *Forecasting long-term sustainability of local government* and Report 13: 2016-17 *Local government entities: 2015–16 results of financial audits*.

Council acknowledges the invaluable insights of these reports and Burke has certainly benefited from a commitment to, and improved capabilities in good financial forecasting and asset management practices in recent years. However, as indicated throughout this submission, Council would encourage the Inquiry to focus more broadly on those structural factors – shaped by State/Federal policy – that are the true determinants of the long-term sustainability of grants-dependent Councils.

Yours sincerely,

Cr Ernie Camp
Mayor
Burke Shire Council