



Submission to the

Infrastructure, Planning and Natural Resources Committee

Inquiry into the long-term financial
sustainability of local government

Local Government Association of Queensland

May 2017

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References:

- LGAQ submission to the Queensland Productivity Commission *Inquiry into Service Delivery in Queensland’s remote and discrete Indigenous Communities* June 2017
- LGAQ *Queensland Local Government Advocacy Action Plan* April 2017
- LGAQ *Managing for Long Term Financial Sustainability - Survey Results* March 2017
- LGAQ Digital Productivity Report 2015
- LGAQ submission to the Australian Productivity Commission *Public Infrastructure Inquiry* 2014
- AEC Group / Orion Consulting (for the LGAQ) *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach* 2013

1. Executive summary

Councils manage significant infrastructure assets and services for their communities. Each year they collectively spend \$9 billion to serve a resident population of 4.8 million people, and manage \$98 billion of non-financial assets.

These responsibilities are undertaken in a financially responsible manner guided by regulations, advice and oversight by State and Federal government agencies.

Councils must manage their budgets in line with regional economic cycles and hand down responsible budgets that help moderate these cycles, both during periods of growth and to support communities during times such as drought and natural disaster.

The 'own-source' revenue mechanisms available to local government are regulated and these are further controlled from time to time, such as State decisions to cap developer contributions.

In this setting, councils raise own-source revenue within the constraints of what is permitted and appropriate. This includes consideration of demand for services, growth and local economic circumstances, and their communities' capacity to pay.

The sustainability of communities achieves broader outcomes, and their continued operation and future prosperity not only affects council finances, but also regional, state and national economies.

The local government sector overall collects 3 percent of total public sector revenues in Australia. This modest share of public sector revenue that is raised, compared with the relatively large scale of infrastructure assets and service responsibilities, makes local government highly reliant on reliable transfers from other levels of government.

There is also an expectation that councils are able to meet the whole-of-life costs associated with major public infrastructure assets that have been significantly funded through grants and transfer payments from other levels of government over many years.

The 'boom and bust' cycle of grant and subsidy programs made available to local government from time to time, including 'competitive' (non-allocative) programs and those only available for new capital works, does not support meaningful long-term financial planning by councils.

Councils continue to actively seek out regional collaboration, shared service models and support through the LGAQ and its subsidiaries to help pursue efficiencies and cost savings. The LGAQ Advocacy Action Plan sets out initiatives through which the Association expects to advance the financial circumstances and capability of councils, for the benefit of their communities.

2. The Local Government Association of Queensland

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association established solely to serve councils and their needs.

The LGAQ has been advising, supporting and representing local councils since 1896, allowing them to improve their operations and strengthen relationships with their communities.

The LGAQ does this by connecting councils to people and places; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions; and delivering them the means to achieve community, professional and political excellence.

3. Inquiry scope and additional points of reference for the Committee

The Inquiry will consider the long-term financial sustainability of local government and the issues arising from Auditor-General's Report 2: *2016-17 Forecasting long-term sustainability of local government and the Auditor-General's Report 13: 2016-17 Local government entities: 2015-16 results of financial audits*, including consideration of the following matters:

- a. financial planning and long-term forecasting
- b. asset condition data and asset management plans
- c. decision-making frameworks for major infrastructure asset investments
- d. community engagement on future service levels
- e. financial sustainability targets
- f. organisational governance
- g. strategic planning and organisational capacity
- h. budget transparency
- i. financial sustainability ratios
- j. procurement policy and value for money
- k. other matters the committee determines are relevant to the inquiry.

The LGAQ notes the Inquiry will also have regard to other matters considered relevant, and the LGAQ has provided a response to 'questions on notice' relating to its subsidiary *Local Buy* which arose during the Association's appearance before the Committee on 10 May 2017.

Additionally, the LGAQ draws the Committee's attention to other key submissions and references relevant to the scope of this Inquiry as follows:

- Information on some of the contributions that LGAQ subsidiaries make that support the efficiency and productivity of councils is provided in Section 5 of this submission.
- The LGAQ has recently completed a survey of all councils, *Managing for Long Term Financial Sustainability - Survey Results* March 2017, and summary findings are provided in this submission.
- The LGAQ has prepared a submission to the Queensland Productivity Commission's current Inquiry into *Service Delivery in Queensland's remote and discrete Indigenous Communities*, and recommends this as a reference regarding challenges specific to Indigenous Councils.
- The LGAQ's submission to the Australian Productivity Commission's 2014 *Public Infrastructure Inquiry* may be a useful reference on the contributions to infrastructure made by local government.
- In 2013 the LGAQ commissioned a comprehensive study to identify factors that influence the long-term financial sustainability of councils, which were identified by council segment. This report is discussed in more detail in Section 4 below and the full report can be made available to the Committee for the purposes of the Inquiry.

4. The significance of local government to economic activity

The local government sector is a key provider and manager of infrastructure including community facilities, roads and bridges, stormwater management, water supply and treatment. The infrastructure and services provided by councils support the operation of regional economies and the communities they sustain. In turn, these regional economies connect and constitute State and national economies.

Consequently, the scale of the asset management task is considerable, with Queensland local governments managing \$98 billion of non-financial assets. The Commonwealth general government sector (which excludes public financial and non-financial corporatised entities), by comparison, manages \$132 billion of non-financial assets (ABS 5512 2015-16).

Almost all of the initial cost of major infrastructure for which local government is now responsible was significantly funded over many years by grants from Federal and State governments. Councils have subsequently been required to fund the 'whole of life' costs of these expensive public assets. Queensland councils spend \$9 billion each year to serve a resident population of 4.8 million people, plus interstate and international visitors.

Councils provide a wide range of infrastructure and services across areas with vastly differing population densities. Of Queensland's 77 councils, 56 have population densities of fewer than 10 people per square kilometre (ABS 3218.0). Population density and local economic activity are fundamental determinants of a council's capacity to generate own-source revenue and to achieve delivery and other operating efficiencies.

Councils are also under constant pressure to increase the number and expand their range of services, including as a result of rising community expectations in some communities, increasing demands from other levels of government and changes in standards and legislation.

Councils must find a 'balance' between meeting these demands, growing their own source revenue (where possible) and dealing with the 'boom and bust' cycle of Government grant and subsidy programs. Long term structural issues associated with Australia's Federation, such as vertical fiscal imbalance, also add to the complexity of the financial sustainability challenge that councils confront.

5. Factors affecting local government long-term financial sustainability

As noted above, in 2013 the LGAQ commissioned a report prepared by the AEC Group and Orion Consulting, *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach*. The LGAQ would be pleased to make the full report available to the Committee for the purposes of this Inquiry.

The analysis in that report identified the following council views on the challenges they face:

- **Indigenous:** lack of own source revenue streams and the ability to fund infrastructure renewal.
- **Rural/Remote:** the level of economic activity to support the local rate base and community capacity to pay, along with the ability to fund infrastructure renewal.
- **Rural/Regional:** appropriate long-term financial and asset management planning, and the ability to fund infrastructure renewal given the lack of Queensland Government subsidies.
- **Resources:** impact of high levels of economic activity on infrastructure capacity and service delivery, ability to attract and retain appropriate resources in competition with the mining sector, and the ability to recoup sufficient revenue from the mining sector.
- **Coastal:** the need to fund growth-driven infrastructure faced with infrastructure renewal pressures and capped infrastructure charges, devolution of (and therefore increasing) responsibilities, and the impact of policy and regulation on resourcing.
- **SEQ:** the ability to effectively manage, plan, deliver and fund growth-driven infrastructure when faced with infrastructure renewal pressures, capped infrastructure charges, removal of State Government funding assistance for major infrastructure and pressure on debt balances.

All segments also raised the issue of devolution of responsibilities from other levels of Government as a significant factor impacting financial sustainability. This point, and those highlighted against each segment above, have been validated in the results of LGAQ's 2017 *Managing for Long Term Financial Sustainability - Survey Results*. Key findings from this survey include:

- 100% of Mayors who responded indicated that their council supported extending the eligibility criteria for grants to **include maintaining and renewing the condition and capacity of existing assets**.
- 94% of Mayors who responded considered that there were further opportunities to **investigate cost-sharing, resource-sharing and shared delivery arrangements** with other levels of government and other councils.
- 83% of Mayors who responded believe they are either **currently managing for long-term financial sustainability or will have implemented systems and procedures to be in that position by 2020**, the current term for local governments.
- 17% of Mayors who responded indicated that **their council required help with systems and procedures to support them in the short term**.
- 78% of Mayors who responded identified **Commonwealth and State funding** as the highest priority external factor, followed by **economic activity in the region**.
- 58% of Mayors who responded identified **own-source revenue** as the number one priority internal factor, followed by **asset renewal**.

LGAQ’s 2013 study also reported on potential solutions that councils considered would help address the issues contributing to their financial sustainability challenge as outlined in Table 1 below.

Table 1: Internal and external controls impacting council financial sustainability

Segment	Internal	External
Indigenous	<ul style="list-style-type: none"> • Reduce the prominence of operating deficits. • Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure: <ul style="list-style-type: none"> ○ More cost effective administration and compliance functions; and ○ Appropriate access to specialist management and technical expertise. • Workforce strategies to better manage and build capability of the local workforce. • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement. 	<ul style="list-style-type: none"> • Ensure appropriate external operational and grant funding assistance given sustainability is entirely dependent on such funding. • Reduce compliance burden. • No additional devolution of responsibilities. • Explore alternative options for the delivery of government services with greater utilisation of local providers. • Explore long-term strategies to improve skill levels of local people to fill local, State and Commonwealth jobs. • Recognition of the broader role performed by Indigenous councils in providing a range of services in their communities and appropriately fund for these services.
Rural/ Remote	<ul style="list-style-type: none"> • Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure: <ul style="list-style-type: none"> ○ More cost effective administration and compliance functions; and ○ Appropriate access to specialist management and technical expertise. • Workforce strategies to assist in the attraction and retention of professional and skilled technical employees, either at the local or regional level. • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement. 	<ul style="list-style-type: none"> • Ensure appropriate external operational and grant funding assistance given sustainability is heavily dependent on such funding. • Ensure that contract works arrangements with other levels of Government remain in place or begin making arrangements to amend resourcing and costs as appropriate if they are at risk. • Reduce compliance burden. • No additional devolution of responsibilities.
Rural/ Regional	<ul style="list-style-type: none"> • Reduce the prominence of operating deficits. • Continue to monitor the appropriateness of rating levels given that a high rating effort already exists, and review the efficiency of existing rating structures (in terms of the incidence placed on different ratepayer classes). • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement. 	<ul style="list-style-type: none"> • Ensure appropriate external operational and grant funding assistance given sustainability is influenced by such funding. • No additional devolution of responsibilities.

Segment	Internal	External
Resources	<ul style="list-style-type: none"> • Ensure appropriate funding of infrastructure required to service the resources sector through direct contributions, particularly where there is a high risk of that infrastructure becoming stranded in the event of the resources sector exiting from the Local Government area in question. • Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure: <ul style="list-style-type: none"> ○ More cost effective administration and compliance functions; and ○ Appropriate access to specialist management and technical expertise. • Workforce strategies to assist in the attraction and retention of professional and skilled technical employees, either at the local or regional level. • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement. • Continue to monitor the appropriateness of rating categories and levels applied to the resource sector to ensure adequate revenue is generated to meet the demands placed on infrastructure and service delivery. 	<ul style="list-style-type: none"> • Appropriate facilitation and funding of infrastructure required to meet resources sector needs by other levels of Government and the resources sector. • Ensure appropriate external operational and grant funding assistance given sustainability is influenced by such funding. • Reduce compliance burden. • No additional devolution of responsibilities.
Coastal	<ul style="list-style-type: none"> • Reduce the prominence of operating deficits. • Proactively monitor the ongoing impact of providing growth infrastructure on future borrowing capacity given recent significant increases in debt. • Continue to monitor the appropriateness of rating levels given that a high rating effort already exists, and review the efficiency of existing rating structures (in terms of the incidence placed on different ratepayer classes). • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement. 	<ul style="list-style-type: none"> • Appropriate external funding assistance for growth infrastructure, including the removal of infrastructure charges caps. • No additional devolution of responsibilities.
SEQ	<ul style="list-style-type: none"> • Reduce the prominence of operating deficits. • Proactively monitor the ongoing impact of providing growth infrastructure on future borrowing capacity given recent significant increases in debt and the likelihood for constrained borrowing for a number of Local Governments moving forward. • Commitment to long-term financial sustainability and asset management planning. 	<ul style="list-style-type: none"> • Appropriate external funding assistance for growth infrastructure, including the removal of infrastructure charges caps. • No additional devolution of responsibilities.

The findings from these studies continue to inform LGAQ’s advocacy priorities and services to councils. Many of the items in the LGAQ *Advocacy Action Plan* April 2017 have been developed in response to opportunities identified by councils, which are noted in the following section.

6. LGAQ priorities for improving council productivity

The LGAQ *Advocacy Action Plan* April 2017 (<http://bit.ly/LGAQ2017AAP>) includes the following action items intended to produce improvements in council productivity and financial sustainability:

- A dedicated allocative annual fund for local job creation linked to maintenance and capital works similar to the Works for Queensland Program.
- Targeted employment programs to ensure the local government workforce remains capable and productive.
- Timely access to government data relevant to local government performance to support the *Better Councils, Better Communities* initiative by the LGAQ.
- A grants and subsidies framework that enables greater certainty and long term planning for councils to better manage their assets.
- Funding to establish a regional network of expertise which promotes and supports councils sustaining their local assets.
- Legislation that ensures equitable infrastructure funding for local government in Priority Development Areas (PDAs) and strategic port land.
- Amendments to the Local Government Infrastructure Plan process to remove inequities, red tape and unnecessary costs on councils.
- Equitable arrangements for planning and funding of new infrastructure designations, including in relation to schools.
- An upfront recovery funding model for Natural Disaster Relief and Recovery Arrangement (NDRRA) that provide certainty and does not leave councils worse off.
- Increased and continued funding of the Queensland Water Regional Alliance Program (QWRAP).
- A dedicated funding program for water and sewerage services in regional communities.
- Increased funding through the Transport Infrastructure Development Scheme, with a revised contribution methodology for rural and remote councils.
- Fair and transparent pricing frameworks for State Government-owned utilities to minimise operating costs and cost of living pressures in communities.
- Remake of the State government Financial Aid program including of funding to pre-2012 levels.

Further to the *Advocacy Action Plan* initiatives for which funding and implementation support is being sought, the LGAQ is advocating for a change to capital grant programme eligibility criteria to include asset renewal and non-capital infrastructure solutions. The aim of this proposal is to support improved asset maintenance as well as alternative solutions to infrastructure management, in place of an approach that only awards grants for new capital works. This proposal is currently with the Department of Infrastructure, Local Government and Planning for consideration.

7. LGAQ support and initiatives for improving council productivity

The LGAQ, its subsidiaries and its 77 member councils continue to actively pursue a broad program of initiatives to improve capability and capacity, both as individual councils and regional groups. This includes collaborations that establish regional approaches to planning and operations to create scale and scope benefits, leading to more efficient delivery solutions.

7.1. Regional partnerships and alliances

The Queensland Water Regional Alliance Program (QWRAP) is an industry-led initiative, now in its sixth year, created to respond to calls for reform of water and sewerage services in regional Queensland. Within the last five years, the program has encompassed 34 councils representing 65 per cent of Queensland's regional population and almost 60 per cent of its land area.

In partnership with the Queensland Government and qldwater, the five groups are achieving significant cost savings, greater efficiencies, and improved services. The modest investment through the Department of Energy and Water Supply has enabled councils to jointly procure much needed services like reservoir cleaning, water mains cleaning, sewer relining, and regional audits at a savings of more than \$3M to date. Not only will this extend the life of the assets, but already regional communities are noticing the improvements in water quality.

The Roads and Transport Alliance is a cooperative governance arrangement between the Department of Transport and Main Roads (TMR), the Local Government Association of Queensland (LGAQ) and Queensland councils.

Formed in 2002, the Alliance was established to address shared road and transport challenges across Queensland. Its objectives include to maximise the economic, social and environmental benefits of joint investments in the State's transport network, and to achieve maximum efficiencies through joint and innovative approaches to road stewardship, network planning, program development, purchasing and resource sharing.

7.2. LGAQ and LGAQ subsidiary services

In serving individual councils, the LGAQ and its related business entities offer over 100 products and services to councils that provide opportunities to achieve efficiencies and productivity improvements.

In addition, the LGAQ fosters regional innovation and collaborations designed to share both systems and actual resources to achieve better practice. The **Better Councils, Better Communities** initiative, launched in 2014 and programmed to continue to 2020, helps councils to identify and analyse their performance and opportunities for improvement over time.

Supported by LGAQ's local government performance benchmarking service, Ready.Set.Go, **Better Councils, Better Communities** aims to help councils improve their business operations decisions, workforce productivity and infrastructure management.

LGAQ's **Total Solutions** continues to provide training and advisory support to councils to develop capability across a range of skills, including financial and asset management. Over the past two years, LGAQ's Total Solutions courses have provided training in financial management related skills to 1400 council officers and elected members.

Total Solutions also supports councils in attracting key personnel who can contribute to councils' capabilities to more effectively manage financial and asset matters. Total Solutions helps identify audit committee members to assist councils that are required or choose to convene an audit committee as part of their financial management systems.

LocalBuy, LGAQ's procurement business, provides benefits to councils who purchase products and services through its information and communication technology (ICT) supplier panels. These services allow councils to benefit from aggregated demand, and lower transaction costs.

The LGAQ and its entities also support councils to seek productivity gains through the **adoption of technology**. This is pursued through education, including the dissemination of case studies via Innovation Roadshows, producing the **Digital Productivity Report** and supporting pilot projects.

The LGAQ's 2015 Digital Productivity Report showed that an increasing number of councils are planning to invest in smart solutions, including smart infrastructure technologies, drones, asset management solutions and advanced business analytics to obtain productivity benefits.

Local Government Infrastructure Services (LGIS) provides a range of services and support to councils undertaking infrastructure projects, including work on innovative solutions to current challenges. Winton Shire Council and LGIS have worked together to design and procure a geothermal power plant to service the town, scheduled to be operating in the second half of 2017. This is estimated to save the community \$20 million over 20 years, subject the implementation of a local network solution which will avoid a non-viable connection to the Ergon distribution network.

LGIS also provides a range of services and support to councils undertaking infrastructure projects, including services and products in asset management:

- Asset Management Plan Development;
- Improving Data Integrity and Condition Assessment Programs;
- Asset Life Cycle Optimisation;
- Financial Planning and lifecycle Depreciation modelling of assets;
- Capital Expenditure Prioritisation.