



# Submission

---

**To:** Infrastructure, Planning and Natural Resources Committee, Queensland Parliament

---

**From:** Managing Director, Client Advisory, Queensland Treasury Corporation

---

**Date:** 5 June 2017

---

## Potential involvement in assisting the Queensland Government to address local government sustainability issues

On 24 May 2017, Queensland Treasury Corporation (QTC) appeared before the Infrastructure, Planning and Natural Resources Committee to inform the Committee's inquiry into the long-term financial sustainability of local government. On 19 May 2017, QTC also provided a briefing note to the Committee on QTC's role in the local government sector (included at Appendix A).

The purpose of this submission is to supplement evidence already provided to the Committee.

In addition to providing debt and investment products, QTC provides an advisory offering for local governments aimed at supporting regional collaboration and building sector capability. QTC is considering how it may be able to extend its existing service offering to assist the Queensland Government to support the financial sustainability of the local government sector.

QTC could assist the Committee by implementing the following measures should they be deemed of value:

1. Assist in developing an appropriate set of financial sustainability metrics (ratios and benchmarks) for the various regional local government groupings.
2. Investigate regional management and governance structures which could deliver efficiency and improved sustainability outcomes for local governments through regional collaboration.
3. Provide focused implementation support to councils, particularly those in remote regions, to help improve financial management and planning.

An overview of these areas of focus is included below.

### 1. Assist in developing an appropriate set of financial sustainability metrics (ratios and benchmarks) for the various regional local government groupings<sup>1</sup>

While there is no one indicator that can assess financial sustainability in local government, current legislation requires councils to use three ratios to measure, and report on, whether they are financially sustainable. These ratios cover the assessment of operating performance (operating surplus ratio), fiscal flexibility (net financial liabilities ratio) and asset sustainability (asset sustainability ratio) of local governments.

---

<sup>1</sup> Groupings comprise Resource, Rural/regional, Rural/remote and Indigenous council groupings - QAO report Appendix D Adapted by QAO from LGAQ Report Factors impacting Local Government Financial Sustainability: A Council Segment Approach (September 2013)

In addition to the three specified ratios, there are a range of other metrics relevant to financial sustainability which are used by QTC, the Queensland Audit Office (QAO), the Local Government Association of Queensland (LGAQ), the Department of Infrastructure, Local Government and Planning (DILGP) and councils. The use of a broader range of indicators is not unexpected given the diverse economic, social, climatic, location, population and financial circumstances that impact local government operations across the State.

QTC considers that there is merit in reviewing financial ratios and the associated benchmarks used to assess the sustainability of local governments. The implementation of new sustainability metrics and benchmarks could be used to support improved forecasting and financial management practices.

QTC could review existing benchmarks and work with DILGP, LGAQ, QAO and local government stakeholders to determine the most suitable ratios and benchmarks appropriate for the various local government groupings and report back to the Committee.

## **2. Investigate regional management and governance structures which could deliver efficiency and improved sustainability outcomes for local governments through regional collaboration**

Queensland local governments collectively reported \$110.5 billion of assets as at June 2016 and this is forecast to grow to \$124 billion by June 2025. Of the total asset base, approximately \$98 billion represents property, plant and equipment (PP&E). Approximately 57 per cent of PP&E is made up of roads, drainage and bridge networks, with another key grouping being water, wastewater and waste, which accounts for 16 per cent.

Asset management has been identified as a key risk area for local governments, with a large number of councils not having robust asset management practices in place. Where financial decision-making is not underpinned by complete and updated Asset Management Plans, sub-optimal outcomes are likely. Lack of reliable data and analysis and limited access to skilled resources seem to be common issues across the sector.

In order to understand potential improvement opportunities, QTC could work with DILGP, LGAQ and other stakeholders to explore options for managing infrastructure regionally and the potential of this approach to improve financial sustainability of local governments. This options analysis could consider the following:

- Establishment of a Queensland Government asset management coordination group that could provide technical guidance and financial support for those local governments in need of assistance to significantly improve their asset management practices.
- Application of a consolidated business model (similar to the formation of Queensland Urban Utilities and Unitywater) for specific asset classes such as water and wastewater to produce strategic, economic and enhanced capability benefits.
- Establishment of long-term regional road contracting arrangements between local governments and the Queensland Government to utilise scale and scope to produce efficiencies.

## **3. Provide focused implementation support to councils, particularly those in remote regions, to help improve financial management and planning**

QTC has observed that smaller local governments and those in remote locations often experience difficulties attracting, retaining and funding sufficient, appropriately skilled staff in key disciplines such as finance, asset management and technical services. The difficulty maintaining skilled staff in key roles impedes the capacity of some councils to develop meaningful financial forecasts, establish critical strategic planning practices and adequately succession plan.

In response to these constraints, QTC could establish a team of finance and industry professionals that could be deployed to assist councils with core financial management, financial forecasting and asset management planning.

Services provided could include management support, direct assistance, training and capability building with respect to:

- preparing long term financial forecasts
- asset management practices and linkages to financial forecasting and reporting
- capital project decision making (using the Project Decision Framework), and
- consideration of service levels in the context of capital, financial and funding decision making

QTC already has expertise in providing similar assistance to councils through its advisory services and education program. This measure would be a natural extension of these existing services and, subject to the support of the Committee, QTC is prepared to consider increasing its current delivery capacity, through both employment and procurement of relevant external expertise, to deliver this outcome. As part of this offering, and once the needs and requirements were fully scoped and understood, QTC would develop appropriate linkages and collaborate with professional services firms to deliver these services.

Improving core financial and asset management practices will also support building a better profile of financial sustainability within the local government sector.

Finally, QTC acknowledges the challenges faced by local governments in managing for financial sustainability and is committed to supporting DILGP and councils in responding to these challenges. Should the Committee wish to discuss the three measures proposed, QTC would be pleased to attend a future hearing.

Mark Girard

Managing Director, Client Advisory

## Appendix A: QTC Briefing note to Committee of 19 May 2017



# Briefing

---

To:	Infrastructure, Planning and Natural Resources Committee, Queensland Parliament
From:	Managing Director, Client Advisory, Queensland Treasury Corporation
Date:	19 May 2017

---

## Queensland Treasury Corporation

### QTC Key Business Activities

Queensland Treasury Corporation (QTC) is the Queensland Government's central financing authority and corporate treasury services provider, and has responsibility for:

- sourcing and managing debt funding to finance Queensland's borrowing requirements in the most cost-effective manner, and
- providing financial and risk management advice and strategic advisory services to the Queensland Government and public sector bodies, including local governments.

QTC provides debt and investment products to all Queensland Government entities and local governments. This provides a significant advantage to Queensland local governments, providing ready access to low cost funding and high performing investment products.

### Local Government Loans

In accordance with the Statutory Bodies Financial Arrangements Act 1982 (SBFA Act), a local government is required to obtain the Treasurer's approval to undertake borrowings. Under a General Approval dated 23 May 2003 and issued by the Queensland Treasurer under the SBFA Act, the Department of Infrastructure, Local Government and Planning (DILGP) may grant approval for local governments to borrow from QTC. Separate approval of the Treasurer is, however, still required for borrowings not sourced from QTC.

Total local government debt sourced through QTC was \$5.5 billion as at 30 April 2017.<sup>2</sup> As part of QTC's risk management and in support of DILGP's loan approval process for local governments, QTC completes an annual borrowing assessment process. DILGP requires all local governments that hold debt with QTC to submit a 10 year financial forecast annually.

QTC offers fixed and variable rate loans to local governments, as well as a working capital facility. The terms of these loans are in line with a local government's borrowing approval from DILGP.

In addition to providing debt and investment products, QTC also provides an advisory offering for local governments aimed at supporting regional collaboration and building sector capability.

---

<sup>2</sup> Book value of QTC debt

## Regional Collaboration

QTC is supporting local governments to build awareness of opportunities for further regional collaboration in the sector which can be a key driver of financial sustainability. Economic conditions have evolved since amalgamations in 2008 and local governments continue to face issues of scale, skilled resource availability and consistency in frameworks for service delivery.

There are a number of challenges faced by local governments in managing for financial sustainability and QTC is committed to supporting DILGP and councils in responding to these challenges. QTC considers there are four key areas of potential focus:

- Development of financial capability to ensure that local governments have a strong understanding of their underlying financial position and any potential sustainability issues.
- Assisting all tiers of government to address regional funding priorities.
- Capacity of local governments to work cooperatively across regions to address regional issues holistically.
- Capacity of local governments individually and collectively to facilitate employment-generating regional development.

QTC is concurrently delivering a number of regional or specific client projects which support local governments to consider for themselves the potential benefits of regional approaches, or enhanced infrastructure management and regional delivery, for example Regional Strategic Financial Reviews.

## Regional Strategic Financial Reviews

QTC is supporting local governments to build greater awareness of the opportunity for further regional collaboration, which can be a key driver of financial sustainability. We are currently finalising a Regional Strategic Financial Review for six local governments in regional Queensland. This review informs regional planning in the areas of financial management, business strategy, governance and planning and infrastructure management. QTC intends to replicate this review process in other regions, with a number of strategic financial reviews for individual local governments across the State already completed.

## Building Sector Capability

QTC provides a number of free tools and frameworks to Queensland local governments to enable best practice financial management across the sector. QTC also manages an education program and works in conjunction with departments and agencies to facilitate education delivery outcomes.

## Project Decision Framework

The Project Decision Framework provides a complete practical guide, for local government elected representatives and officers, to making investment decisions on projects across council. The framework is supported by a suite of financial assessment and risk management tools to enhance decision making and minimise time invested by local governments. The framework has been well received by the sector.

## Local Government Forecasting Model

This long term financial forecasting model has been widely adopted across the sector with the majority of local governments using the model to prepare their 10 year financial forecasts. This model is a critical business planning tool providing local governments individually and the Queensland Government with an understanding of financial sustainability within the sector. This model is used as part of loan and credit assessment processes of DILGP and QTC.

**Education Services**

QTC has delivered a comprehensive finance and business education program for the past 10 years. In FY2016, QTC provided education services to approximately 1,000 state and local government participants. QTC delivers a combination of standardised and tailored client courses targeting both officers and elected representatives. QTC is part of the Local Government Association of Queensland induction process following local government elections.

QTC has been developing a significant enhancement of its education program. Commencing in May 2017, QTC is partnering with the University of Queensland (UQ) to deliver an expanded and scalable education program available to all local governments and Queensland Government entities. The program enables participant enrolment in a Graduate Certificate in Business Leadership majoring in Financial Leadership in the Public Sector, exclusive to the QTC-UQ partnership. The partnership was launched on 16 May 2017.

**Collaborative Asset Management Approaches**

QTC has worked closely with DILGP in the facilitation of a working group of relevant Queensland Government entities and local government stakeholders to determine a long term approach to improving asset management practices of Queensland local governments.

**Local Government Industry Association Support**

QTC has been a long term supporter of local government industry associations including the Local Government Association of Queensland, Local Government Managers Australia Queensland, Local Government Finance Professionals Association of Queensland, Australian Local Government Women's Association and other regional associations. QTC has provided professional resources to present at a range of association events. Major support is provided for the annual LGAQ and QTC Finance Summit.