

2010

Submission to the Public Accounts and Public Works Committee - Remote Council Issues

Submission from the Combined Indigenous Councils

There have been significant improvements in financial compliance and governance within indigenous councils in recent years but there are still fundamental challenges regarding the future financial viability of our Councils and communities. Put simply, the current funding models do not support the range of services to be provided by remote indigenous Councils.



Introduction

This is a joint submission to the Public Accounts and Public Works Committee (PAPWC) from the 16 Councils listed below:-

Cherbourg Aboriginal Shire Council	Pompuraaw Aboriginal Shire Council
Doomadgee Aboriginal Shire Council	Woorabinda Aboriginal Shire Council
Hope Vale Aboriginal Shire Council	Yarrabah Aboriginal Shire Council
Kowanyama Aboriginal Shire Council	Wujal Wujal Aboriginal Shire Council
Lockhart River Aboriginal Shire Council	Torres Shire Council
Mapoon Aboriginal Shire Council	Northern Peninsula Area Regional Council
Napranum Aboriginal Shire Council	Aurukun Shire Council
Palm Island Aboriginal Shire Council	Mornington Shire Council

The Councils welcome the opportunity to respond to the PAPWC discussion paper as we represent some of the smallest and most remote councils in the State. This submission is structured to respond to the questions raised in the discussion paper and rather than simply highlighting problems, we take this the opportunity to identify positive outcomes and ideas for the future.

Invitation

We believe that there is no substitute for on-site engagement to obtain a true understanding of the challenges and issues facing remote councils. Accordingly, we would invite members of the Committee to visit some of our communities such as Kowanyama, Mornington Island and Aurukun to see both the positive steps being undertaken and also some of their particular challenges in providing services in extremely remote communities. If the Committee members would like to take up this offer, we would invite you to contact the Kowanyama, Mornington Island and Aurukun Council CEOs to make the necessary arrangements. We believe that a visit would provide valuable context for your Committee's review.

General Comments

It is noted that the Discussion Paper has been issued in response to a number of Auditor General reports to Parliament in recent years that identified issues of concern in relation to governance and financial management in remote and indigenous councils.

At the outset, we believe that it is important to recognise the significant improvements in recent years. As the Committee would be aware, there are two elements in relation to local government financial statements - the timeliness of the financial statements and the quality of the financial statements.

In relation to timeliness, there has been significant improvement in recent years from our Councils as evidenced by the number of Councils meeting the annual 15 September deadline for completion of draft financial statements.

07/08 Completion Rate	08/09 Completion Rate	09/10 Completion Rate
2 out of 16	14 out of 16	16 out of 16

This improvement has been achieved by:-

- ✓ more focus by individual Councils
- ✓ continuity of key staff at more Councils
- ✓ support by the Department for some Councils where needed; and
- ✓ improving financial controls and management within a number of councils.

In relation to the quality of financial statements, for many years quite a number of indigenous councils received disclaimed audit results i.e. the auditors were unable to form an opinion as to the veracity of the financial position of those councils. Although not all audits have been finalised by the Queensland Audit Office for the past financial year, it is believed that for the first time there will be no disclaimed audits for indigenous Councils this year. Nevertheless, the ultimate goal should be to have all councils receive unqualified audits and clearly, there is progress towards that goal.

Nevertheless, while there has been good progress in relation to financial accountability, there remain significant challenges in relation to financial viability.

Put simply, the services required (or expected) to be provided by our indigenous Councils is not matched by existing funding sources. With limited capacity to raise traditional local government rate revenue in our communities, remote indigenous local governments are facing significant long-term financial challenges.

Now that the push for improved governance and financial management has begun to take effect, we believe that it is opportune to focus on the future financial viability of remote councils and their communities i.e. recognition of the role of remote Councils and the funding required to allow them to deliver the services needed.

Fixing a Photocopier

It costs more to do business in remote communities. Every Council needs a photocopier - a basic piece of office infrastructure. In urban areas, if it breaks down you call your local photocopy repair office who send a technician within a matter of hours or perhaps a day. If the office photocopier breaks down at Mornington Island, it can remain out of operation for days if not weeks. With airfares from Mt Isa, overnight accommodation etc, a service call can cost over \$1000.

Key challenges to long-term financial viability

There are a number of challenges to ensure the long-term financial viability of remote indigenous councils. The committee should note that we believe that reference to long-term financial sustainability implies that Councils will somehow be able to become financially self-sufficient. That is clearly unattainable and a better focus should be on the long-term viability of our councils and communities.

What are some of the key challenges for long-term financial viability?

Managing assets

Most indigenous councils face a common problem of managing ageing infrastructure. While we support the requirement for all councils to develop asset management plans, we believe that there simply will not be the funding sources to support the maintenance and replacement of existing infrastructure. Effectively, asset management plans will highlight this more accurately but will not solve the problem - they will simply define the extent of the funding shortfall to maintain existing assets.

Current funding models for infrastructure

When new infrastructure is constructed, funding is generally provided by State or Commonwealth governments for the particular project. These capital contributions are certainly welcomed by indigenous councils but it is noted that at the time that decisions are made to construct new infrastructure, little consideration is given to the “whole of life cost” of that infrastructure i.e. how will the Council maintain and replace that infrastructure in the future. New infrastructure increases Council requirements to fund depreciation and increases operating costs but normally, there is no additional income stream to support that need. Consideration should be given to requiring whole of life costs to be assessed at the time that new infrastructure is proposed with a view to ensuring that adequate funding is available for ongoing maintenance etc.

Devolution

In remote communities, local government is often the only level of government physically represented in the community or, even if other levels of government are present, local government is often seen as the local community hub with long term staff. As such, it is certainly attractive for other levels of government to use local government to deliver services. The funding provided, however does not always match the service required to be provided. Examples include Centrelink services, postal services and Community Justice Group management. Local governments in remote communities generally deliver a broader range of services than other local governments, but the major challenge is that the funding models from other levels of government do not always cover the expenditure required to deliver these services in a remote community and Council must often deliver these services because there is a lack of alternative suppliers. Increasingly, our indigenous Councils have to cease providing these additional services because they are not fully funded and as a result, our communities are either not receiving the services required or have to accept lower standards than in mainstream Councils. The effect of this issue is that remote local governments have become distracted from their core local government services. They are expected to provide more and more services, but many Councils are responding to this funding shortfall by going back to

providing only core local government services. While this is improving the council's financial bottom line, there can be a significant impact on the local community.

Pressure on underlying cost structures

Remote indigenous councils have increasing pressure on the cost of delivering services. There has been no fundamental change in the principle grant funding source i.e. SGFA. However, due to matters beyond our control, our expenditure obligations have increased without the necessary increase in revenue sources. Some examples of this increase in expenditure include:-

- Impact of decisions by the Remuneration Tribunal - previously, indigenous councils set their own salary levels for elected representatives. With the introduction of the Remuneration Tribunal, Councillor remuneration is now set on an annual basis by the remuneration Tribunal according to the size etc. of the local government. Across the board, the total remuneration paid to elected representatives has increased substantially without any change to the SGFA. For example, at Mapoon Aboriginal Shire Council, total remuneration for all Councillors when set by Council itself was \$63 000 but the Remuneration Tribunal set it at \$293 000 – an increase of \$230 000 which has to be found by Council from limited revenue sources.
- Town planning - many remote indigenous councils are just commencing their first town planning schemes. Often, funding for the preparation of the first town planning scheme is provided by a special grant which is appreciated by the councils. However, there is no funding for managing the planning scheme once adopted. While application fees may assist, they will not cover enforcement costs, appeals etc.
- Waste disposal - rising environmental standards have meant that remote indigenous councils need to spend significant amounts of money on improving their local landfills and sewerage disposal systems. Given their remote location, previous practices were often quite relaxed, but new EPA requirements demand that local governments need higher compliance standards which impact on funding. Funding for the original infrastructure is not provided

Rising Costs of Governance

Recent changes to statutory requirements and a greater focus on improved governance have generally been positive, but come at an increased cost. Examples where Governance costs have increased as a result of new or increased obligations include:-

- *privacy legislation*
- *risk management*
- *preparation of asset management plans*
- *community engagement*
- *development of long-term financial plans*
- *WH&S*
- *right to information*

There is no additional funding for these extra requirements and while each of them on their own is not significant in terms of funding impact, the cumulative effect on remote indigenous Councils is substantial.

on a whole of life cost basis and increasing compliance standards impact on the Council's funding base.

Community Expectations and Need

We provide services to some of the most disadvantaged communities in Queensland. The need for support and services to our communities is quite significant. Because we are usually the sole public face of government in our remote community, our residents look to us for solutions even though the issue may not be a traditional local government function. This has meant that as well as core local government services, there is always pressure on councils to provide additional services or to auspice other organisations to provide those services.

Councils are continually approached for "in kind" assistance by Federal, State Government agencies, NGO's and other organisations which Council must fund. Examples such as free accommodation in Guest Houses, free use of staff accommodation, free use of halls, office space, peppercorn rents (Government Reserves) on land and many more. The usual argument put forward in these cases is that they are supplying a community service.

Rising Costs of Governance

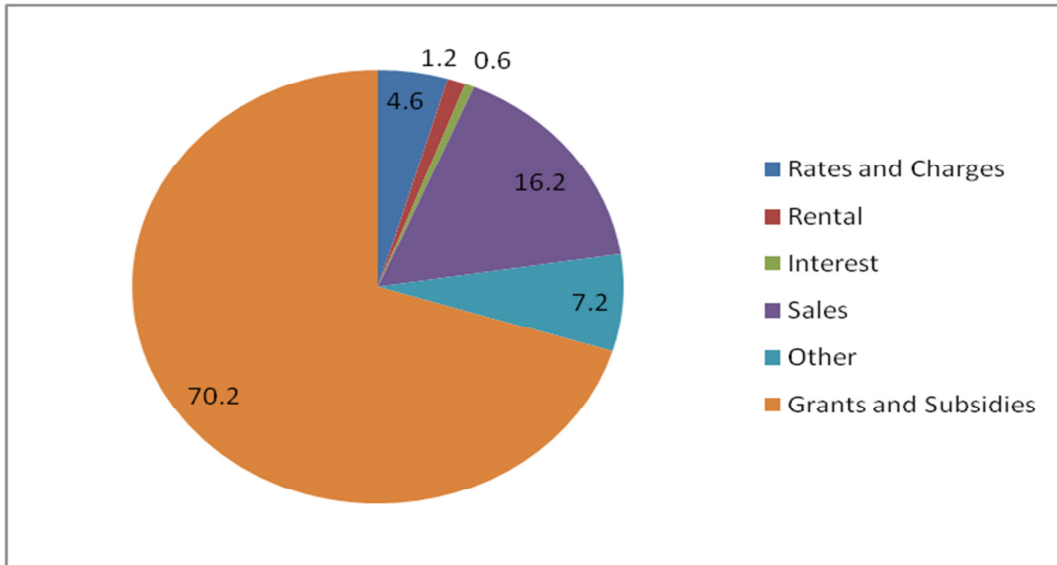
Like all local governments, remote Councils face increasing governance obligations. Many of these obligations are suitable and appropriate to larger organisations operating in regional areas. However, obligations under the various legislative frameworks do not differentiate between remote councils and major regional Councils. For example, all local governments need to prepare and implement disaster management plans. This is a desirable and important governance obligation, particularly given the remote location of many of our Councils. However, it adds to the administrative burden of the Council. For those Councils with their own source revenue, this can be relatively easy to absorb, but for those remote Councils reliant on SGFA funding, the cumulative impact of additional governance requirements adds a financial burden. Indigenous Councils are also involved in developing Community Safety Plans.

Limited Control over revenue sources

One of the difficulties facing our Councils is the limited ability to influence all of our revenue sources. For example, mainstream Councils can increase rates and charges to offset increases in their operating costs. Most mainstream Councils find that their operating costs are increasing faster than the Brisbane CPI index and raise their rates accordingly (often using the LGAQ cost index). However, our revenue sources are not increasing at the same rate. As an example, the State Government is currently negotiating 40 year leases in our communities. The government proposes to pay to Council under the lease an equivalent to rates set at \$800, with that amount being indexed by Brisbane CPI each year. This amount is not realistic in terms of rates charged by mainstream Councils (bearing in mind that our costs are higher due to our remote nature) and the annual increase has no relevance to real cost increases outside of Brisbane. However, we have limited ability to influence these amounts which are set by the State, but have no relationship to the core local government services we need to provide.

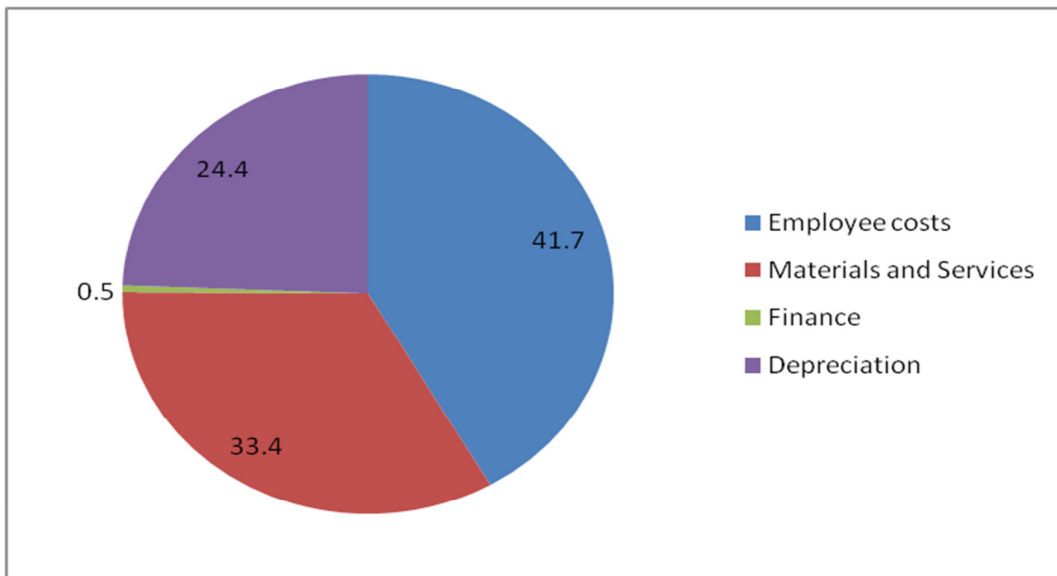
Funding Models and the Provision of Core Local Government Services

Local governments receive most of their untied funding from the SGFA and FAG grants. Most other grant funding is tied to a particular purpose i.e. it can only be used for the specific function or purpose of the grant. A typical local government revenue mix would see almost 70% of its total revenue coming from grants and subsidies but only a small proportion of the total amount of grants and subsidies is untied.



Source – Kowanyama Aboriginal Shire Council financial statements.

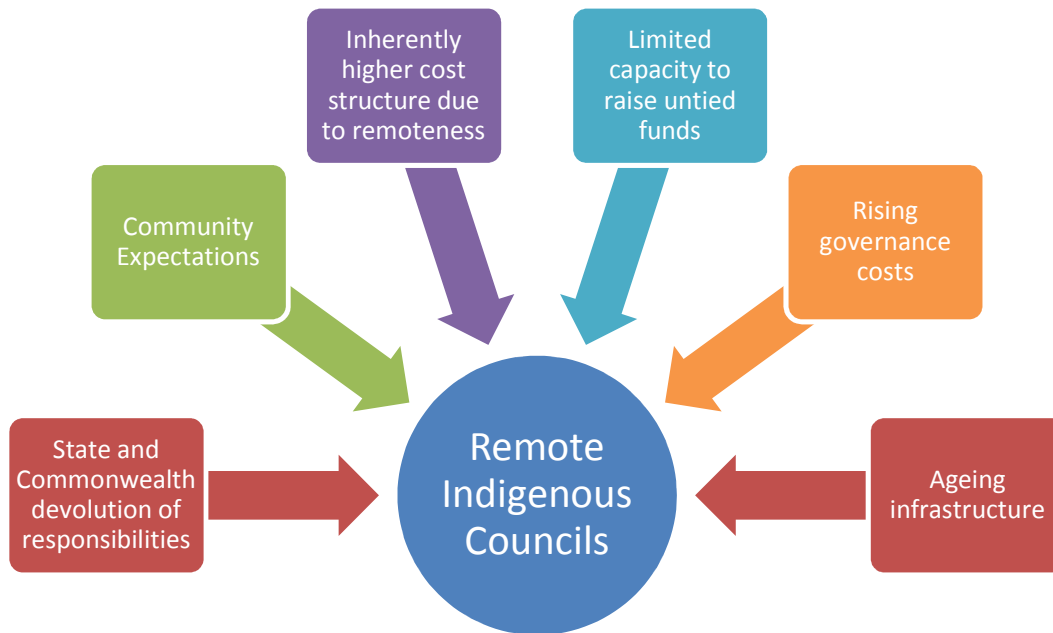
Typically, most of a Councils expenditure is spent on wages, purchasing materials and services and asset management.



Source – Kowanyama Aboriginal Shire Council financial statements.

With limited capacity to raise its own-source revenue via rates and service charges, remote indigenous communities are highly dependent upon untied grants for basic service provision. Any change in the cost structure for core service provision or a requirement to provide additional services is not currently matched by an equivalent change in the SGFA or FAG grant.

The pressure that remote indigenous Councils are under in terms of financial viability can be described below.



SGFA - There have been a number of reviews undertaken of the SGFA grant, but these recommendations have not been implemented. The Committee should propose that the recommendations by Deloitte in the latest SGFA review be implemented so that further funding is provided to indigenous councils reflecting the true cost of providing services. Further, the SGFA grant is currently only increased by CPI on an annual basis. CPI has no relevance to the cost structure of remote indigenous councils. The Local Government Association of Queensland produces annual research which shows that the true CPI-type figure for local government is normally about 1% higher than CPI and SGFA. Increases should be indexed using that method rather than CPI.

The SGFA last year also required Councils to spend any increase in funding on employment to assist the government in meeting its policy target for jobs creation. Councils were not provided with any discretion.

This response to the discussion paper is not designed to deal with technical arguments about the need to increase the SGFA grant. Instead, we simply propose that the previous recommendations to increase the SGFA grant be implemented.

Responses to specific questions raised by the Discussion Paper

How can capacity building in remote councils be achieved?

It takes time to build capacity at a local level and it doesn't happen overnight. In our experience, the key starting point is to improve local governance practices. This has certainly been occurring within the indigenous councils in recent years. Some of the key issues are:-

- continuing to improve the understanding of roles and responsibilities of elected representatives
- developing long-term plans and sticking to them
- better understanding of financial management
- continuity of key staff
- taking responsibility for our challenges.

However, more can be done. One of the difficulties is that many government projects in our communities are managed remotely which does not build local capacity. Projects funded by grants from the state and federal governments should be managed by the Council in our own community which builds capacity over time. Successful delivery will also build trust in the capacity of local communities to manage funds and develop project management skills. Bringing in outside project management doesn't build long-term capacity, develop local project management skills or inject additional wages into our communities.

What are the advantages and disadvantages of financial controllers?

We believe that financial controllers should only be used as a last resort in extreme situations (e.g. systemic fraud or a fundamental breakdown of financial controls). Financial controllers do not add long-term capacity to the financial management of local government. They are simply a short-term fix.

In our experience, we believe that a much better approach has been the use of Business Coaches. These have been used successfully in recent times at Pormparaaw and Mapoon Councils. The use of business coaches adds long-term capacity and value to the local government. The use of local government experienced professionals as the Business Coaches has been well received because they understand local government issues and can pass on their experience. Business coaches are a much better long-term solution than financial controllers.

What are the short and long-term impacts of the new Local Government Act on remote councils?

Overall, the new Local Government Act has had a positive impact on improving governance practices by refocusing on roles and responsibilities and the supporting training for this element has also been successful. However, the new Local Government Act has had significant resource implications. There are many new requirements on councils for which there is no funding source for remote

Success Story in the Making

At Hope Vale Aboriginal Shire Council, a long-term approach is taken to developing local staff. Roxy is a local staff member who has been studying local government via an LGAQ certificate IV program. Roxy is now managing many of the day to day financial issues for Council and will hopefully undertake formal financial management study in the future.

indigenous councils. For example, the new Act requires communities to develop 10 year community plans. While a worthwhile objective, the development of these plans will have resource implications for which there is no additional funding. Other examples in the new Act include requirements for performance reporting, internal audit functions etc. Some indigenous councils have been quoted up to \$70,000 to provide annual contracted internal audit functions due to their remote location as there is no local expertise in this specialised area.

It is the cumulative impact of these additional requirements that has the greatest effect on the cost base of local government. These costs rise, but there is no equivalent rise in untied grants.

What are the advantages and disadvantages of the Act requirement to have an internal audit function within Council?

We recognise that this is a desirable goal from a good governance perspective. When implemented properly, it can improve internal controls and governance practices. Almost all of the remote indigenous councils are too small to have a dedicated internal audit staff member. Due to our remoteness and difficulty of access, it is going to be another cost imposition without additional funding sources. While some councils have been quoted up to \$70,000 to have this function provided by external consultants, it is inevitable that as remote indigenous councils, it will cost us more to receive an equivalent service compared to non-remote local governments.

Audit Success Story

Lockhart River Aboriginal Shire Council had received a qualified audit reports for around ten years. Through a concerted effort by Council from 2008, the Council was able to achieve an unqualified audit result and also receive an award for quality of its annual report. It successfully focused on improving its internal controls and governance.

This performance has been sustained ever since.

Clearly, there are opportunities to share resources between several indigenous councils to reduce costs, but the bottom line is that this additional requirement needs to be complied with without any additional funding being available. The catch 22 of this approach is that resource sharing often results in reduced capacity building at a local level.

In relation to audit generally, it is also noted that as remote indigenous councils, the cost to us of our annual audit by the Queensland Audit Office is higher than non-remote councils. This is due to travel, accommodation and other costs associated with undertaking audits in remote locations. It is another example of a higher cost base in doing business in remote parts of Queensland.

As a separate but related issue, it is also noted that we are faced with a myriad of different acquittal processes for grants and subsidies provided by other levels of government. There are different requirements between different state government departments for acquittals of grants and subsidies. Each has its own methodology and different requirements which results in extra time and effort in complying with acquittal processes. It is suggested that these should be streamlined so that there is a whole of government approach to the acquittal process which would simplify the administrative obligation in acquitting grants and subsidies.

Has the appointment of government champions been successful? Why or why not?

Put simply, this depends on the individual community champion. Many have been successful, but some have not. Those that have been successful had the following characteristics:-

- ✓ the champion was personally committed to the role
- ✓ they visited frequently and listened to local issues
- ✓ they built relationships with local council and community leaders
- ✓ they do not try to tell the community what to do or simply come to inform the community about government policy
- ✓ they were especially effective where the champion was a senior member of a Department that looked after issues facing the local community (e.g. if a community had a problem with housing and the champion was from the relevant department)
- ✓ the champion had access to resources to help solve problems on the ground.

Is the Council engagement approach being employed by the Department of infrastructure and Planning working?

In relation to the support being provided by the Department of infrastructure and Planning, the following comments are made:-

- The Department should be congratulated for its support in providing business coaches and other resources where needed
- The Department needs to ensure that its staff understands local government issues. It would be helpful if more staff within the Department had a local government background, especially working in remote local governments.
- The Department should do more engagement with councils in their communities. While it is recognised that this has implications for the Department's budget, it is significantly more effective and will help departmental staff understand issues on the ground.
- Engagement by the Department with councils should be done on an "open mind" basis rather than "consulting" on decisions that have already been made. As an example, alcohol management plans have been the subject of consultation, but the reality is that decisions have already been made and consulting on AMPs is seen as a token consultation process.
- The Department should provide recognition of positive initiatives and improvements that have been made in recent years.

In relation to consultation generally by the State government, in some instances, consultation is happening in our remote communities without involving the local government. Some departments seem to have a preference for consulting with community representatives who have not been elected as opposed to formally elected representatives of the community. In all instances, state government departments must consult with the local government representatives when undertaking consultation on issues in our communities.

What are the advantages and disadvantages of bureau service provider and resource sharing arrangements?

In theory, the use of bureau services or shared service arrangements is attractive in terms of improved efficiencies. Indeed, there are already examples of shared service arrangements happening in remote regions (e.g. Hope Vale, Cook and Wujal Wujal share the costs of some specialised staff who provide service to the three councils). Many remote indigenous councils also have offices in Cairns which provide financial and other back-office support. Some of these offices are clustered together. A Cairns-based indigenous Council finance manager's network has also been established to encourage the sharing of solutions and perhaps resources across the Councils.

However, the use of bureau services and Cairns based offices also has a downside which is the potential to limit local capacity building within the community. If one of our goals is to build community capacity in remote regions, it is important to ensure that local services are provided by local people as much as possible. Also, the fragmentation of council staff in different locations can provide some challenges with management of the organisation. Often, a senior staff member is located in the Cairns office which means one less senior staff member on site at the Council office within the community.

What can be done to address the recruitment and retention of qualified staff in remote Councils?

In many remote communities, finding housing for staff is a key challenge. There are already examples of council staff living in temporary accommodation due to housing shortages. Council's limited housing stock is often under pressure from other government departments or NGOs to find accommodation for their staff. We also note some inequities arising in the standard of housing provided with State and Commonwealth government staff being able to reside in higher quality staff housing due to more funding being available at those levels of government compared to what we are able to achieve with limited funds.

Nevertheless, the successful retention of qualified staff is critical for long-term success. Those councils who have been able to achieve continuity have generally been successful because they have been able to maintain a consistent direction through long-term planning and implementation.

Anecdotally, there is also some evidence that it is more difficult to attract trade based employees to those remote areas where alcohol management plans are in place. This has been one of the by-products of the introduction of alcohol management plans.

Other issues for the Committee's consideration

We would like to identify a number of other issues for the committee's consideration.

Mentoring Programs - we believe that there are positive outcomes that can be achieved with well constructed mentoring programs. These mentoring programs can be at both the elected representative level and also staff level. There are a number of successful programs already in place (e.g. Wujal Wujal Mayor Desmond Tayley is in a mentoring program linked with Mayor Bob Abbot from the Sunshine Coast Council.) We believe that there may be opportunities to develop similar programs to develop local staff and build capacity at an officer level. These work best when there is

a long-term mentoring relationship that develops over time. Perhaps there is the opportunity to develop long-term mentoring relationships with larger mainstream Queensland local governments.

Building trust - we believe that it is important that over time, we are able to build trust with the State government with our improved governance arrangements and financial accountability. We recognise that this will take time, but it is important that this trust be earned with improved governance and financial accountability. If that is achieved, we believe that there are stronger grounds to shift the debate to financial viability rather than focusing on financial accountability. The issue of long-term financial viability is much more critical to the long-term future of our remote councils and communities.

Grant Acquittals

Because we are dependent on grants and subsidies for the majority of our income, we seem to spend a lot of time providing grant acquittals. This is understandable for reasons of accountability, but the variety of reporting requirements from across government results in higher administrative costs of compliance. Within the State government, every department has different acquittal processes and requirements. Efficiencies could be gained if a consistent approach was taken to grant acquittals by the different departments of the State government.

Submission contact

We understand that the Committee requires submissions to identify the name, address and contact details of the submitter. This admission is lodged on behalf of the 16 indigenous councils but if any further information is required please contact:-

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This submission was prepared following a workshop of many of the indigenous Councils held in Cairns in December 2010. That workshop was auspiced by LGMA (Qld) and facilitated by Brett de Chastel of de Chastel and Associates.

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