



STATE DEVELOPMENT AND REGIONAL INDUSTRIES COMMITTEE

Members present:

Mr CG Whiting MP—Chair
Mr MJ Hart MP
Mr RI Katter MP
Mr JE Madden MP
Mr JJ McDonald MP
Mr TJ Smith MP

Staff present:

Ms S Galbraith—Committee Secretary
Mr B Smith—Assistant Committee Secretary

PUBLIC BRIEFING—INQUIRY INTO THE AUDITOR-GENERAL'S REPORT 15: 2021-22, *LOCAL GOVERNMENT 2021*, AND AUDITOR-GENERAL'S REPORT 17: 2020-21, *LOCAL GOVERNMENT 2020*

TRANSCRIPT OF PROCEEDINGS

MONDAY, 20 JUNE 2022

Brisbane

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The committee met at 10.49 am.

CHAIR: I declare open this public briefing for the committee's inquiry into Auditor-General's Report 15: 2021-22, *Local government 2021*, and Auditor-General's Report 17: 2020-21, *Local government 2020*. My name is Chris Whiting. I am the member for Bancroft and chair of the committee. I would like to respectfully acknowledge the traditional custodians of the land on which we meet today and pay our respects to elders past, present and emerging. We are fortunate to live in a country with two of the oldest continuing cultures in Aboriginal and Torres Strait Islander peoples, whose lands, winds and waters we all share. With me today are: Mr Jim McDonald, deputy chair and member for Lockyer; Mr Jim Madden, the member for Ipswich West; Mr Michael Hart, the member for Burleigh; Mr Tom Smith, the member for Bundaberg; and Mr Robbie Katter, the member for Traeger, who will be here soon.

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BRAHMAN, Mr P, Assistant Auditor-General, Client Services, Queensland Audit Office

BROWN, Mr Darren, Senior Director, Queensland Audit Office

NARASIMHAN, Mr Sri, Senior Director, Queensland Audit Office

WORRALL, Mr Brendan, Auditor-General, Queensland Audit Office

Mr Worrall: The reports summarise the results of the audits of the 77 local government areas and the entities they controlled over the last two years. As Auditor-General, despite the disruption of COVID I have personally visited 58 of the 77 local governments where I have met with mayors, councillors and chief executives to better understand their operating environment and challenges. My opening statement will focus on the latest results of local government audits and any primary themes and recurring issues.

At the time of the report I had certified 75 of the 77 councils. The financial statements of these councils are reliable and comply with the relevant laws and standards. Of the 75 councils, 62 met their legislative deadline, 10 met the extended time frame granted by the minister, and three received ministerial extensions that did not meet the extended time frames. I continually stress the importance of financial statements being made public in a timely way for all public sector entities to ensure the information is available to decision-makers and communities. Despite this, I note there has been a substantial deterioration in the number of councils having their financial statements certified earlier.

I acknowledge that councils have made efforts to reduce the number of significant deficiencies we identified in their control environment in recent years. At 30 June 2021, the number of unresolved significant deficiencies was the lowest in five years. However, 86 significant deficiencies, or two-thirds of all unresolved significant deficiencies, are still unresolved more than one year after being identified. A significant deficiency, by definition, is something that really needs to be taken care of as a matter of urgency because it is an underlying issue with control of the governance environment.

For the last few years we have seen persistent problems with councils' information systems, risk management, and procurement and contract management practices. For several years we have also recommended councils strengthen their governance, including the establishment of an audit committee and an internal audit function. Despite this, 15 councils do not have an audit committee. Of those that do have a committee, at three councils the committees did not meet in 2020-21 and at Brisbane

two councils committees only met once. This means that 20 councils did not have an audit committee function that was established and functioning at 30 June 2021. Twelve councils were also in breach of their legislation, six councils did not have an internal audit function, and another six councils with an internal audit function did not have any internal audit activity during 2020-21.

Councils are also recovering from the financial impacts of COVID. As a result, fewer councils are at a moderate or high risk of not being financially sustainable; however, there are still 45 councils with either a moderate or high risk of not being financially sustainable. This is approximately 60 per cent of the 77 councils. Over the last few years we have been recommending to the department that it consider changing the current financial sustainability measure. The department is currently working on a new framework that groups councils in different categories with different benchmarks. Once implemented, this should provide a better way to assess sustainability compared to the existing framework, which is somewhat one-dimensional. I would encourage you to access the local government data dashboard, where you can find your local council and export its financial data and compare it to other councils. We are happy to take questions in relation to those two reports.

CHAIR: Thank you, Mr Worrall. What you have emphasised in those two reports is that there are some consistent themes over the years. My question specifically is about independent audit committees. If you have an independent and active audit committee it will address things like asset management and systems vulnerabilities. What is the best option: establishing an independent risk management committee that looks at cybersecurity and risk; or establishing an independent audit committee and expanding their role to look at risk management, cybersecurity and asset management?

Mr Worrall: I will attempt to answer that question. There are a couple of things there. We did an audit on the effectiveness of audit committees in the state sector. We have plans to do one in the local government sector. I think we will do that audit the year after next. That has been punted a couple of times because more pressing things have come up. Maybe Sri can add to this. The audit committees that are established in local government are actually largely independent because pretty much they are comprised of councillors. Councillors are elected members, so they should not be involved in the day-to-day management of council. I would draw the analogy with a public company and non-executive directors, so I think that is okay. Some of those committees definitely have other subject matter experts on them—people who are maybe skilled in audit matters or financial reporting matters—to help that committee. That is where they should be heading.

A lot of committees in the state sector probably are audit and risk management committees. They are looking at financial reporting and overseeing the activities of internal audits, so they would be approving the internal audit program. Those reports would be coming to the committee. They would have a process to manage the recommendations in either those reports or the reports that have come from the Auditor-General and holding management to account around the implementation of those recommendations within an agreed time line.

As I said, a lot of those committees would have a risk management function under them. I would say that most do. That seems to be the common practice today. I would say that does sort of sit in that domain, as long as the committees have the appropriate skill set to oversight that but also appropriate reporting mechanisms coming to the committee. If they have risk management, they need line of sight of risk management—not at the granular detail, but they certainly need to be getting updates on that.

All assurance activities come through the committee. There may be other assurance activities that are not done by external audit, not done by internal audit, but are in fact assurance activities. For example, an entity might actually get somebody to do an investigation about how they are managing their taxation exposure, whether it be FBT or GST, and I think that is something that probably should come to that committee as well so that, if there are any recommendations or any risks, they have line of sight of that. Obviously, each entity is at a different stage of maturity around that. I might just leave it at that. I do not know if Sri wants to add anything more specific.

Mr Narasimhan: I think Brendan covered most of that. In our report we have also made a recommendation to those entities that have an audit committee or are looking to establish one to go back and visit the recommendations we did on the states, which Brendan alluded to earlier, and try and implement some of the action plans that came with that. The question you asked about whether you incorporate risk as part of the audit committee or it should be a separate one is also covered in our report on audit committees and state entities, so that should cover that altogether.

Mr Worrall: I think there is a correlation between not having an audit committee, or not having an effective audit committee, and issues around financial reporting including maybe timeliness but also definitely issues around management dealing with issues that have been raised by audit, whether

that be by internal audit or external audit. The longer in the tooth some of those issues are, probably the less effective the audit committee is. The way we would see it, the audit committee is there to help those charged with governance. In the local government context, ultimately councillors are there to help them hold management to account around the proper functioning of the entity.

CHAIR: Absolutely. From the learnings we have seen I think their role is independent—not people from the organisations but people from outside the organisations with appropriate skills and qualifications.

Mr Worrall: Yes. In the audit we did in the state sector we looked at departments and statutory bodies. Generally, for statutory bodies those committees were independent. It was typically made up of non-executive directors, board members or a subset of board members. They are not involved in the day-to-day management of the organisation. They may have supplemented that with subject matter experts. The departmental space is a lot less clear. Most of those committees had some independent people on them. There was the odd one that was fully independent, but I would say that most of those committees were dominated by management. They included deputy directors and assistant directors-general, so I struggle to understand how that committee can then—

CHAIR: Give oversight.

Mr Worrall: Exactly. How can you hold yourself to account? The other thing about the local government sector in relation to audit committees is that in the past some of the reluctance was to do with geography, because some of these entities are very remote and may not have the requisite skills if they need other advice to help them. Technology and what has happened through COVID now sort of debunks that as a barrier, because there are some committees that are remote but they have some subject matter experts that sit in these committees. They might be on the coast somewhere or in a large regional town a long way away, but they definitely add value. They have specific knowledge, so they can actually add some value not only to the councillors in doing their job but also to the local government, ultimately.

CHAIR: Would it help if those audit and risk management committees had set meeting times? The ones I have seen had an honorarium involved as well to help build the role of the independent person on those committees. Are they features of independent audit committees we have seen in other entities?

Mr Worrall: A typical audit committee in pretty much any sort of entity would need to meet a minimum of five times a year—I would say every quarter—but also they would need to have a meeting during the financial reporting season. Ultimately, the financial reports would come back through the committee before the report was actually certified by management or the chair or whatever type of entity it is. That would come through the committee and they would have a recommendation, 'It's okay to certify,' because that committee would have already ticked off on a pro forma set of financial statements. It would have been getting reports from management around the audit process and it would have reports from external auditors around the audit process, so it would ultimately have all the information to then make a recommendation that they are satisfied the report is okay to be signed, having heard from all parties.

Mr McDONALD: With regard to these independent audit committees, was there a theme or understanding of why councils have not established them? Are there common recurring themes?

Mr Worrall: Some of the reluctance, as I said, was to do with geography. Some years ago, before I came on the scene, there was some quirk to do with categories of councillor remuneration, I think it was, which then somehow made it non-compulsory for certain councils to have an audit committee. It was almost by accident. When that happened, as we said, 15 decided to opt out, not to have an audit committee, because they felt they were not getting value from it. Maybe they were not getting value from it, but I think some of those arguments about geography are not really there anymore. They can get value from it if they embrace it.

Mr HART: They would normally be audit and remuneration committees, wouldn't they?

Mr Worrall: In the private sector, not in the public sector. There are no audit and remuneration committees in the public sector. GOCs might have a remuneration committee, but typically that would be separate from the audit committee.

Mr McDONALD: With regard to audit committees, is there an overlay with those councils that do not have an audit committee and underperformance?

Mr Worrall: Yes, there is. There is a correlation between their maturity of financial reporting and the timeliness of financial reporting and also a correlation between the ageing of issues raised by auditors. You can see how that could happen, because if there is no committee there is not really anybody helping the councillors hold management to account around these sorts of things.

Mr McDONALD: A number of us on this committee have extensive local government experience. I remember when we started the independent audit committee at Lockyer. I was part of that, and when we were starting to form it I struggled to understand what it was about. I am just using that personal experience. I wonder if it is a lack of education or awareness across the state of the effectiveness these audit committees can bring.

Mr Worrall: As I said, there could be a maturity issue. If you had one in the past and you did not have the right people helping you along the way then you may have ended up disappointed. Now you can get the right people without having to pay a whole lot of travel expenses and those people having to take a lot of time out of their diary just to get to the entity. They do not need to do that for every meeting. Maybe they want to do that once a year, but the other four meetings they could just do through Teams or Zoom or something like that.

Mr McDONALD: I certainly think a bit of education can happen. We used it with great success, bringing in local accountants.

CHAIR: I saw it at Caboolture as well. It was very successful.

Mr Worrall: Our plan is to do that audit and shed more light on some of the better practices, particularly in some of these smaller local governments where they do not have a committee in process or they deal with challenges such as being remote and things like that.

Mr McDONALD: For sure. My next question relates to cybersecurity and cyberthreats. I note that 32 councils did not have sufficient controls in place. I turn my mind to some of the other inquiries we have been part of regarding state assets, particularly essential water assets with local governments across the state. What is the reality of the threat with regard to those councils?

Mr Worrall: I think it is real. I would have said in the past that the cybersecurity threat is probably the No. 1 risk for all public sector entities. I would put local government in that. There was one local government that was subject to a ransomware attack two or three years ago. I went there a couple of years ago and spoke to the mayor about it.

Mr McDONALD: We spoke with them in another inquiry.

Mr Worrall: What happened there was they turned up for work on a Monday morning and they could not do anything. They had to move to a paper situation for a few months. In a way, they were lucky because their insurer paid off the ransomware people and they got the encryptions back and they were able to reinstall their data, but there is no guarantee you will get the encryptions back. If you think about it, who would have heard of that local government—I think it was—Tambo; this is all public information. Who would have heard that Blackall-Tambo was subject to a ransomware attack from offshore? I would say that if it can happen to Blackall-Tambo it can happen to anybody.

Mr McDONALD: Did they have an independent audit risk committee?

Mr Worrall: I cannot answer that.

Mr Narasimhan: Yes, they do have an audit committee.

Mr McDONALD: Was IT part of that?

Mr Narasimhan: I would not know that, but they definitely had an audit committee.

Mr Worrall: Coming back to the question about risk, I think you also asked something about cybersecurity. If the audit committee has risk as its responsibility—and what I am saying is that most do—then that would definitely include cybersecurity risk. They need to have line of sight of not just the risk but also how management is dealing with that. To my mind, when it comes to cybersecurity management needs some governance oversight so they are getting some reporting about what sort of activity is happening and what sorts of attacks are happening. They also need oversight about how they are mitigating these risks and what sorts of red flags they have in place and what they are telling us. There is a governance level but there is also an operational level. It is not something you can just give to the technical people to manage and forget about. There needs to be both things happening.

The other thing is that on the new audit plan we published on the website about three or four weeks ago we have an audit planned next year around how public sector entities respond to cybersecurity attacks. We did the audit on cybersecurity; now we are going to do an audit on how they are set up to respond to an attack. We have seen that a number of public sector entities here in Queensland have been the subject of attacks.

Mr McDONALD: With regard to your audit, I was asked this by a councillor recently and I did not know the answer so I thought I would ask this today. In terms of grants that councils receive, particularly for capital projects, you might have a council with a balance sheet of \$5 million yet they

get a \$2 million grant for a community centre. How are those grants dealt with within those councils and your audit for depreciation? Obviously, getting an asset like that loads up their depreciation quite high and they are not going to renew that asset unless they get another grant.

Mr Worrall: I could probably talk quite a lot about this subject. I have seen a number of assets when I have been moving around the state in local government that seemed like a good idea at the time. Whether it be state or federal, they got a grant to construct an asset, but that is all they got. They did not get funding to maintain the asset. Maybe they did not get funding to staff the asset if it needed to be staffed. The ones that need to be staffed are things like swimming pools and sports centres. There was one local government I went to about three years ago that received some funding in the last 20 years to construct a sports facility, which they did, but they are having trouble keeping it because they could not really afford to keep it. It had to be staffed and all of these things. Of course, you cannot take those things away from the community once they have been there for a period of time. It is definitely an issue. It might look like a good idea at the time, but they then have ongoing maintenance costs, which they need to pay for, and they may need to staff it, which they need to pay for, and insurance. There are definitely overheads around it, so there is that aspect.

The other aspect which I cottoned onto earlier in one of my tours around local government—I think it was in the gulf—relates to grant funding generally. Maybe it was not specifically capital funding, but it was more about funding envelopes beyond one year. Some of these remote councils may not have 1,000 ratepayers so they are always going to be dependent on support from government, whether it be state government or federal government, to overcome some of their natural disadvantages like remoteness, economies of scale and those sorts of things. If that envelope was longer than one year they could make some business decisions that would help them mitigate some of the sustainability issues. It would not solve it, but they could manage it better. I had a recommendation a couple of years ago in a report which the department of local government has started to act on. I think they are doing that in relation to grant funding, foreshadowing funding envelopes beyond 12 months.

In terms of our audit activity around grant funding, because I think that was the other part of your question, sometimes there may be grant acquittals in relation to specific funding, in which case they may need to be signed off by auditors, in which case we may be signing those off. If it is a big lot of money coming in, then that is likely to draw some audit activity anyway because there are other risks around capital spending. Procurement can be a risk, whether they are capitalising it on a timely basis or whether they might be gilding the lily a bit about maintenance money being shoved into capital because that might make the bottom line look a little better. We would always see those risks anyway.

Mr MADDEN: I find this all fascinating, as a former councillor. I do not think I asked enough questions as a former councillor. With regard to funding, Mr Worrall, I am concerned about your comment that 42 per cent of councils in the long term do not have financial security. I am a bit concerned about that, obviously. It is a lot of councils—almost half. With regard to money that councils receive in their budgets, as best I can understand it falls into three categories: rates, grants and also money each council receives from the state government each year, and I think you referred to it as financial sustainability grants.

Mr Worrall: Yes.

Mr MADDEN: Can you give us a summary of how that works? I know that you are concerned about the ratios. Is it purely based on the number of residents or is it based on the number of ratepayers?

Mr Worrall: You are right: they get those three sources of funding, but they also may get other funding.

Mr MADDEN: From the state government?

Mr Worrall: No, they might generate their own revenue.

Mr MADDEN: True.

Mr Worrall: They would get developer contributions that may not necessarily be cash; it could be cash, but they might get assets gifted to them as part of that process. They also may have some business undertakings. Some of those local governments might run childcare centres, hostels or other activities that may generate some sort of revenue. In relation to the financial assistance grants—

Mr MADDEN: Is that what it is called: financial assistance grants?

Mr Worrall: Yes, the FAG grants.

Mr MADDEN: That is the one they get based on the number of ratepayers?

Mr Worrall: Yes. Sri can answer that more definitively than I can. The FAG is really coming from the GST bucket of money and the state is like a postbox. It is really flowing through from the federal government based on criteria, which I think is people.

Mr Narasimhan: Yes. The population drives the amount of money you get from the financial assistance grant. At the moment the grants commission has done a review of that and they have actually revisited the model. They are coming up with a model that is not entirely dependent on population but on other factors too. That will be implemented from the 2023 financial year, which is the next financial year.

Mr Worrall: There has been a bit of noise where there might be some large councils somewhere on the eastern seaboard that get financial assistance grants purely based on population. There has been noise that maybe those councils do not need those financial assistance grants and that might be better going to some councils that have more natural disadvantages.

Mr MADDEN: I could not agree more.

Mr Worrall: We did an audit about three years ago on rates and other charges in the local government sector. That was really about: are the local governments setting their rates and other charges at an appropriate level and is there some science behind how they are setting those charges? What we were saying, really, was that they need to be setting the charges at levels that are at least recovering their costs on whatever those services are.

Mr MADDEN: Could you give us some reference to that report? It is something of interest to me.

Mr Worrall: Yes. I am pretty sure it is called *Rates and other charges*. We have done a number of pieces in this whole sustainability space.

Mr MADDEN: That would have been the central focus of that report, I imagine.

Mr Worrall: That was one. We also did one on the cost of local government services. That was really: do they actually understand the true costs of services they are delivering, because if you do not understand that how can you set your charges at an appropriate level? We found that there was quite a variation in the maturity of understanding. We only chose a subset of councils. There was one council that I recall that was providing some aged-care services, from memory. They actually had no concept of allocating overheads and things like that. I think the example we drilled down into was that there was a whole lot of computing equipment at a particular part of council—it might have been this aged-care facility—that was not being used. We did some rudimentary overhead allocation and, based on that, clearly they did not understand how much things were costing.

Mr MADDEN: On another issue separate from that, you were talking about cybersecurity and the terrible situation with Blackall-Tambo. There are two things with regard to that. It sounds pretty simple, but is it possible to download hard drives separately each day? Is that feasible as a daily backup? Would that have overcome the problem at Tambo?

Mr Worrall: It is not quite as simple as that. It may have, but it also might depend on where the attack is. Some of these attacks are actually on backup systems. Backup systems, typically these days, would not be held on premise, because it is very risky if you are holding your backup system at the same place your main operations are. The other thing is that more and more entities are moving away from on-premise type systems to systems being hosted in the cloud. If they are hosted in the cloud, all your data and your operating systems are actually somewhere in some sort of data centre around the country. In some ways that mitigates the risk somewhat because there is another layer of firewall that you would need to get through.

Mr MADDEN: So it is not as simple as that?

Mr Worrall: No, it is not as simple as that, because some of these attacks could be on the core system or could be on the backup system—or they could be on both, and then you have real problems.

Mr MADDEN: I know that we are focused on somebody coming in and doing all of those nasty things, but did you consider the issue of hacking from within councils—that is, council members inappropriately accessing information? Was that part of your brief?

Mr Worrall: When we did the cybersecurity audit?

Mr MADDEN: Yes.

Mr Worrall: No. The purpose of that audit—and we did a local government, a statutory body and the department—was whether we could actually access their ‘crown jewels’ of information. We played by the law in doing that. We were able to achieve that at each of those entities, including the Brisbane

local government. We did not look at whether people within were doing inappropriate things; we just tried to access information. In at least one of those we accessed it by actually accessing their premises.

Mr HART: Brendan, the government has an IT best practice policy in place, doesn't it?

Mr Worrall: It does. It has Information Standard 18, I think it is.

Mr HART: Does that apply to councillors?

Mr Worrall: It does not apply to local government, no.

Mr HART: Robbie and I have been on this committee since 2012, on and off. The issues that you are talking about today do not sound too different to what they were 10 years ago. Are things getting better or worse in local government?

Mr Worrall: If you are talking about sustainability, for example, the reality is that, like I said earlier, some of these councils have natural disadvantages. They have large geographical territories. They may have two or three towns within that local government area and none of those towns are particularly larger than the other, so they will not get economies of scale with things like waste disposal, swimming pools or libraries. They are in a real conundrum in terms of how they get some efficiencies out of that. They may have very much a reduced rate base so there are not many ratepayers. They may have a limited ability to generate substantial own-source revenue. The reality is that they are always going to need additional funding sources over and above what they can generate themselves. I think that is the reality.

Even in my own reports, I guess, I have tried to change the language a little bit because in some ways 'grant dependent' has a connotation that they are not paying their way. I think it is more that that is the reality of the situation and they are going to need funding support, no matter what.

Mr HART: We are going to run out of time so we need some short answers, Brendan, and I have a whole series of questions. Do you think we will ever get to the stage where audit and risk committees will have to be standardised, legislated and certain qualifications required for each councillor? Will it be a future recommendation?

Mr Worrall: It could be a recommendation in my future report, but I guess we will have to—

CHAIR: It could be our recommendation, too.

Mr HART: It could be ours, too. During your opening statement you said that a number of councils were in breach of the legislation.

Mr Worrall: There are six councils that are supposed to have an internal audit function but do not have an internal audit function.

Mr HART: What are the consequences to those councils of breaching their legislation?

Mr Worrall: I cannot answer that.

Mr Narasimhan: It is not a significant breach, if I may put it that way. It is a breach of regulations, because every local government in Queensland needs to have an internal audit function. Basically, if you do not have one, other than having issues with your governance and your inner controls, which we see quite commonly in those 12 councils, it is not a significant breach of legislation that warrants some sort of penalty or something.

Mr HART: On page 10 of your report you talk about two council related entities. You emphasised a matter in your audit opinions about their ability to pay their debts. Has anything changed with those two entities? Have things improved there?

Mr Worrall: I think one of those was actually a local government and I think one was actually a controlled entity of the local government. The local government was Wujal Wujal, which is south of Cooktown, just on the other side of the Daintree. That is really about there being significant uncertainties about: can they pay their debts as and when they fall due? The accounting standards and the auditing standards require us to actually look at that, which means looking at 12 months from when they have actually signed the financial report. In their financial statements they would have made some disclosures around what these significant uncertainties were and what they were doing to mitigate that but, at the end of the day, there are still some uncertainties.

Mr HART: On page 29, I think it is—I cannot locate it at the minute—the department of local government is supposed to put an implementation in place by the end of this month, 30 June this year. Do you know whether that is actually in place?

Mr Worrall: Was that the sustainability ratios?

Mr HART: Yes.

CHAIR: The financial sustainability framework.

Mr Worrall: I can talk about that. That was their plan, to have some new ratios coming in for the new financial year, from 1 July 2023, which are applicable for that financial year. You will need to get an update from them, but I think that is looking unlikely just based on discussions we have had. They have had at least one consultation round with local governments on that and have got feedback, but I think they are still working through it. So I think they are going to struggle to hit that target is what I would say.

Mr HART: How long ago did the department write back to you and say that they would do that?

Mr Worrall: They would have written back to us—

CHAIR: Member for Burleigh, we can write to the department and ask for an update on the implementation of their financial sustainability framework.

Mr Worrall: I think they wrote back in relation to the 2020 report, because I think initially they were looking to have it in from 1 July last year.

Mr Narasimhan: Correct.

Mr Worrall: That was the first time they tried to—

Mr HART: We might ask them.

CHAIR: Definitely.

Mr Worrall: Initially they wanted to have it in from 1 July 2021. I think it is looking unlikely it will be in from 1 July 2022.

CHAIR: Certainly we can write to the auditor or the department on that.

Mr SMITH: Going back to the councils and breach of the act for not having an effective audit function, ultimately does that fall on the head of the CEO, the mayor or the department to ensure that these are actually in place?

Mr Worrall: I would say if it is a legislative requirement or a requirement in regulation then ultimately the primary responsibility comes back to the council. They are the ones charged with governance over that entity. That is one of many things they would need to comply with.

Mr SMITH: Therefore it would be more the CEO than necessarily the elected officials?

Mr Worrall: No, ultimately the elected officials are those charged with governance. The CEO and the management team are really there to implement the policy framework put in place by those charged with governance. That is how I would see it.

Mr SMITH: In relation to poor asset management in the report and councils identifying found assets not previously recorded, could you please provide some examples of these found assets and then perhaps provide some explanation as to how councils effectively lose track of their assets?

CHAIR: Anything underground.

Mr Worrall: It is probably not so much a case of losing assets; it is more a case of never having had those assets recorded in the first place. You are quite right: a lot of it is in relation to assets that you cannot see, but it all comes back to their information systems. They have not had good information systems around assets, from either an engineering or an accounting point of view, and that is the problem. It is only when they start to upgrade those information systems that they suddenly find assets. It is a real problem. A lot of them are actually infrastructure assets that are underground—pipes and that sort of thing.

Mr SMITH: Going to where there is moderate and high risk of councils being financially unsustainable, when we talk about high risk, in terms of your view on that, is it meaning that within 12 months they could be gone or there is no way out for them, they are going to have to rely purely on government grants and so forth? Could you elaborate a bit more on high risk?

Mr Worrall: The high-risk ones are definitely at the highest end of the spectrum in terms of the financial indicators not being good and their ability to change that being somewhat limited. So, yes, they can try to maximise the revenue that they control and minimise their costs—they can do all those things—but that will only get them so far. I think the reality for some of those ones, particularly these remote ones that have a limited rate base and do not have economies of scale and those sorts of things, is that ultimately they will be dependent on other sources of funding beyond what they can generate themselves.

Mr SMITH: They cannot increase their own revenue—they have maxed it out—and are going to rely on external sources?

Mr Worrall: Their revenue base will be limited anyway. Diamantina is a good example. It has two main towns: Birdsville and Bedourie. They are hundreds of kilometres apart. There is pretty much nothing else in terms of settlements. The geography is probably the size of Tasmania and it has fewer than a thousand ratepayers. I think it has nine-hundred-and-something ratepayers. The options for creating other forms of revenue in their own right for some of these councils are very limited.

Mr KATTER: You talk about life cycle costs and giving advice to councils. I draw on my own experience in Mount Isa. Often it felt like some of those government departments—Tourism or whoever is handing out the funding—are encouraging—and the build in that case was the rodeo grounds—and then another department has come back and said, ‘You are not financially sustainable.’ You alluded to that before. Do you want to comment on that? You have already touched on it, but it seems to me it is the same head entity that is playing a role in encouraging the behaviour that generates these bad outcomes.

Mr Worrall: Yes, and I think there probably needs to be some maturity on both sides around some of these things. While it is nice to get a new asset for the benefit of the community, I think both state and local government need to realise that the cost of the asset is only really the start of it. Any asset has ongoing costs, whether it be maintenance, insurance or staffing, and that is the challenge. There needs to be a bit more maturity around some of those decisions, I think, from both sides. Funding for the asset might flow but no other funding flows. That is typically what tends to happen. Then over time the local government realises that maybe it was not such a good deal after all because they are struggling to afford it.

CHAIR: The time for the briefing has expired. Member for Burleigh, are there questions you wanted to forward through?

Mr HART: I only really have one other question.

CHAIR: Let us try that one.

Mr HART: If a council spends more money than they earn, where does that money come from?

Mr Worrall: It is a good question. It could come from a few sources—it could come from cash reserves; it could come from borrowings—but you can see that over time that will not be sustainable. You can only spend what you have. You can only overspend in the short term. In the medium to long term that will not be sustainable.

Mr HART: They can also go to Treasury and ask for a one-off supplementary?

Mr Worrall: They potentially could. They could increase their loan capacities.

Mr HART: How many councils are in that position?

Mr Worrall: I think as a sector the borrowings for local government have generally been quite low. I think there might have been a bit of an increase just in the last couple of years, but I think generally speaking, if you look at the asset base and you look at their net assets, their net assets are actually quite high and the extent of borrowings is actually quite low. By the same token, you would only want to borrow based on the economics of what you are in for giving you some payback over time, and then you will be actually able to afford the repayment of any loans.

Mr HART: Do they have to get permission to borrow?

Mr Worrall: Yes, they do have to get permission. I think the borrowings all go through QTC.

CHAIR: Yes, Treasury has a tight rein on that.

Mr Worrall: QTC is actually quite active in that space, in doing financial reviews of local government. I think if a local government wanted to borrow or increase its borrowing capacity they would probably be subject to some review by QTC before they actually leant the money anyway.

CHAIR: One last quick question from the deputy chair.

Mr McDONALD: In your answer to that question I thought there was something we had not touched on and talked about from the other side of things. A lot of councils have large cash assets. With the conservative nature of government and councils—you do not want people playing the share market with that cash—there is very limited scope for councils to grow that cash asset. Has there been any work done around opportunities for councils?

Mr Worrall: Again, I think they are limited in terms of how they can invest their moneys. I think that would need to go through QIC with those sorts of investments. Not so much in this state, but, if you can remember back to the GFC, in Western Australia there were a number of local governments that were severely hit because they had invested in some sort of derivatives which all went pear-shaped with the GFC and they did their money.

CHAIR: The time allocated for the session has expired. We have a question on notice in relation to the rates and other charges report. Thank you very much for your time today. That concludes the public briefing. Thank you to our Hansard reporters and thank to you the secretariat. A transcript of these proceedings will be available on the committee's webpage in due course. I declare this briefing closed.

The committee adjourned at 11.39 am.