INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES COMMITTEE

Members present:

Mr J Pearce MP (Chair)
Mrs BL Lauga MP
Mrs AM Leahy MP
Mr AJ Perrett MP

Staff present:

Dr J Dewar (Committee Secretary)
Ms M Telford (Acting Committee Secretary)

PUBLIC HEARING—INQUIRY INTO THE LONG-TERM FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT

TRANSCRIPT OF PROCEEDINGS

WEDNESDAY, 24 MAY 2017

Brisbane

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Committee met at 9.59 am

CHAIR: Good morning, everyone. I declare open the public hearing for the committee's inquiry into the long-term financial sustainability of local government. I thank you for your attendance here today. I am Jim Pearce, the member for Mirani and chair of the committee. Other committee members here today are: Ms Ann Leahy, the deputy chair and member for Warrego; Mrs Brittany Lauga, the member for Keppel; and Mr Tony Perrett, the member for Gympie.

Those here today should note that these proceedings are being broadcast to the web and transcribed by Hansard. The media may be present so you may be filmed or photographed. The committee's proceedings are proceedings of the Queensland parliament and are subject to the standing rules and orders of the parliament. Witnesses should be guided by schedules 3 and 8 of the standing orders.

The Parliament of Queensland Act 2001 provides that the committee may assess the integrity, economy, efficiency and effectiveness of government financial management by examining government and financial documents and considering reports of the Auditor-General. Today's public hearing will form part of the committee's consideration of matters for its inquiry into the long-term financial sustainability of local government and issues arising from the Auditor-General's reports Nos 2 and 13 of 2016-17. Before we commence could you all please make sure your telephones are switched off or on silent mode.

PARTON, Ms Kathy, Deputy Director-General, Strategy, Governance and Resilience, Department of Infrastructure, Local Government and Planning

CHAIR: I welcome Ms Kathy Parton from the Department of Infrastructure, Local Government and Planning. Would you like to make an opening statement?

Ms Parton: I do have a brief opening statement, if that is all right. The Department of Infrastructure, Local Government and Planning takes an active role in enabling and supporting councils to help them deliver effectively for their communities, especially through the administration of grants and funding programs. This morning I would like to outline a few of the department's current administered grants and subsidies programs for the committee's information.

The Local Government Grants and Subsidies Program is one of our key programs that supports councils to deliver key infrastructure projects to meet community needs, support economic growth and local jobs, contribute to sustainable and livable communities and align with state, regional and local infrastructure priorities. Under the 2016-17 Local Government Grants and Subsidies Program nearly $31 million has been allocated for 99 projects. Examples of eligible projects that have been funded include water infrastructure, town centre rejuvenation projects, streetscaping, tourism infrastructure and sewage treatment. It is a fairly broad program that covers a lot of infrastructure works.

The Community Resilience Fund supports local governments to fund disaster mitigation infrastructure to help build resilience to future natural disaster events. It also funds projects that protect existing essential public infrastructure and that safeguard residents in at-risk communities. All 77 local governments are eligible for funding under this program. For 2016-17 nearly $12 million was approved for 39 projects.

The Natural Disaster Resilience Program is a program jointly funded by the Australian and state governments. It provides funding for projects that address natural disaster risk priorities, enhance community preparedness and build resilience to disaster. Again, all 77 local governments are eligible, as are non-government organisations. For 2016-17, $25.8 million was approved under this fund for 84 projects.

In 2016-17 the department implemented a new streamlined process for administering those three programs. The enhancements that were made included a faster assessment process by consolidating the three grants into a single funding round. Previous funding programs placed the responsibility of selecting the most appropriate funding program for a potential project on councils. In 2016-17 we shifted this task to the department so councils would have a simpler application process.

We also increased the subsidy amount to up to 60 per cent for eligible projects, compared to 40 per cent in previous years. There was an expanded focus on projects that included existing assets rather than just funding new infrastructure.

Earlier this year the department also began administering a new program which is the Works for Queensland program. The 2016-17 Works for Queensland program is a $200 million funding program to support local governments outside South-East Queensland to undertake job-creating maintenance and minor infrastructure projects. This is funded under the State Infrastructure Fund. Some 65 councils were allocated funding for 723 projects in February of this year.

The department also administers a number of funding programs to assist Indigenous councils, including: the Indigenous Local Government Sustainability Program, which provides funding for the councils to increase their capacity, capability and sustainability; the Indigenous Economic Development Grant, which provides a contribution towards employment costs for local government service workers; and the State Government Financial Aid program, which is provided to Indigenous councils in lieu of their capacity to raise rates to fund the provision of local government services in communities.

The department also administers the Australian government's Financial Assistance Grant. This is a federal funding program which is distributed by the department according to the State Grants Commission and national guidance.

These are some of the department's major grants and funding programs. There are also a number of targeted programs such as the Torres Strait Major Infrastructure Program, an infrastructure grant to the Rockhampton and Livingstone councils to fund revitalisation projects following Cyclone Marcia and grants for show societies to conduct annual agricultural shows. In addition, the department has a $20 million Maturing the Infrastructure Pipeline Program, which I think was mentioned here about two weeks ago. This is part of the State Infrastructure Fund and provides early-stage assessment for infrastructure proposals from councils to help them get their projects off the ground.

We also currently have an Innovation and Improvement Fund opened. This offers financial assistance to councils to help them look at new and improved ways of doing land use planning and contribute to better planning in Queensland. This is focused on the introduction of the new planning legislation which commences on 3 July.

As part of the State Infrastructure Plan, the department is also currently undertaking a review of all local government grants programs across the state government in consultation with the Local Government Association of Queensland to try to streamline the multiple government grants and subsidies programs and use them to achieve better outcomes. The review will make recommendations of the framework for grant funding including objectives, scope and operating principles. The review report is expected to be completed by mid-2017. The review is still at the information-gathering phase, but early information is showing that in 2015-16 the state administered around $850 million in grants to local councils.

CHAIR: Excellent. How has the overall level of funding to local government changed over time? How does it compare now to previous years?

Ms Parton: Funding programs and allocations obviously change over time. There are various reasons for that. Sometimes it is due to decisions of the government of the day and sometimes because of the changing priorities for the state or federal government or for councils. If councils identify something as an issue, such as the financial sustainability report, then specific programs can be implemented to address those issues.

In terms of some major changes, in 2010 there was a decision to reduce the suite of funding programs to councils, including the water and sewerage infrastructure program. There was the Smaller Communities Assistance Program and a couple of other infrastructure packages. They were replaced and rolled into one program, which is the Local Government Grants and Subsidies Program, which is still in existence. It did not involve the same amount of money. It did have a broader scope of works so councils were able to apply for broader types of infrastructure. The water and sewerage program prior to that was very focused on the water and sewerage infrastructure. If councils did not need that type of funding then they were not eligible for that package.

The recent introduction of the Works for Queensland program has seen in the last financial year—that is, 2016-17—an approximately $120 million spend by councils. That has resulted in an overall increase in the amount of funding provided by the department to councils when you compare it with previous years.

CHAIR: What is the process for local government applying for funding? Is there a process in place for monitoring a successful local government in the way that they spend their money and the time frame? Has that money ever been used for other things?

Ms Parton: The department has a fairly strong monitoring role in terms of the expenditure of the funding. At the beginning of the funding round the councils submit an application that outlines a particular type of project and the department assesses that. If that application is successful a funding agreement is put in place. That really has milestones for payment. Councils usually report to the department monthly on their progress in terms of delivering the projects.

We have a set time frame, which is 12 months, from the signing of the funding agreement that councils have to complete their projects. Sometimes that does not happen and we do have councils that ask for an extension of time to deliver their projects. Quite often it is because of natural disasters or maybe something has not gone as planned with the procurement or they have discovered some issue with the site or something like that. These things happen.

Councils do have the ability to apply for extensions of time. The department does assess them fairly rigorously. Generally, the director-general has to approve an extension of time on funding under the grants packages. At least over the last 18 months, that I am aware of, the department has really been following up with councils to make sure they do spend that funding.

They have to acquit the funding at the end. They have to demonstrate to the department what the funding has been used for and acquit the full package financially. It is not really possible, without the department's approval, to shift those funds into a completely separate project or anything like that.

CHAIR: Has that ever been requested? Has it ever happened? Can funds not spent be used somewhere else?

Ms Parton: It has been requested and it is assessed on a case-by-case basis. Where a council applies for funding for a particular project and something happens, it might happen. I can recall an issue where a council was not aware that they would have to resume some land and that was not possible within the time frames of the department so they came back to the department and said, 'Instead of this project, we have scoped a different project and we would like to use the same amount of funding to deliver this different project.' The department assessed it again in line with the program's guidelines. If that is suitable then it may be approved. If it is a completely separate project and the department does not find that it meets the guidelines or the requirements for the funding then that money would be returned into the pool, probably for the next round.

CHAIR: Does the department in any way look at the process to ensure that the local communities within those shire boundaries actually benefit from the project that the funding has been requested for?

Ms Parton: The department's monitoring is usually at the council level. We do work closely with the councils. In the applications and the guidelines the councils have to demonstrate the benefit to the community. Some of the key guidelines that we have included are that it has to be a project that meets community needs and supports economic growth and local jobs. That will be something that the council really has to demonstrate in their submission on the project. That is assessed by the department. We do have a fairly rigorous assessment process. I have some information here on how they are evaluated.

There are a number of levels. We have our regional advisers, who really liaise with the councils and know the local circumstances. Then we have a moderation panel, which is all of our regional directors, the Queensland Reconstruction Authority—because they have a lot of information and knowledge about infrastructure at the council level—and the department's finance and funding director. We get some peer review from the Department of State Development, which also administers the Building our Regions program. The chief engineer in the department provides advice for the moderation panel about some of the technical aspects of the projects. Other officers from within the division are included as needed—they might have more detailed knowledge of that specific council's circumstances or the community. It is taken into consideration during assessment of the projects.

Ms LEAHY: Which of those grants and subsidies programs result in new assets for councils?

Ms Parton: The three that I have described can result in new assets. Under the Local Government Grants and Subsidies Program, councils can apply for projects that are new assets. Under the Community Resilience Fund, if you can demonstrate that a new levee or something like that would be of benefit to the community in terms of its natural disaster resilience, then a new asset could be approved under that fund. There is also the Natural Disaster Resilience Program, although those ones tend to be smaller community based projects.

Ms LEAHY: When the department is looking at the approvals for those sorts of things—a levee, a community hall or something like that—how does it help the councils with working out the ongoing depreciation costs of those new assets?

Ms Parton: I am not sure if that is considered in the assessment process. I can certainly find out some information about that. The depreciation costs are usually done on an accounting basis. One of the stages of the assessment would be involving the officers who have detailed knowledge of the council's financial situation. If you have a council that is applying for a $15 million grant to build new infrastructure, one of those on the evaluation committee would be someone who has the knowledge of the council's financial situation. If they think that is concerning then the department might seek some more advice in relation to whether we think the council is financially able to sustain that.

The councils also have to contribute to the grants program. Under the new program, it is up to 40 per cent. They have to demonstrate to the department that they can make that contribution. In terms of depreciation, I do not know that we do a detailed analysis of that. It would be a more holistic approach in terms of whether the councils can financially support the projects they are putting forward for funding.

Ms LEAHY: We hear from councils that one of the difficulties they have is in funding that depreciation. Why do the programs that provide funding, particularly for new assets, not take that approach of looking at how the council down the track is going to fund the depreciation of that asset?

Ms Parton: It would be one of the aspects that is considered in terms of a council's financial ability to support that kind of project. It is not detailed specifically in the guidelines or any of the guidance material from the department. It would be something that is more of a holistic part of the department's assessment in terms of the council's capacity.

Mrs LAUGA: I am interested in the procurement processes that local governments use when they are awarded funding for these projects. Are there any requirements that the department imposes on councils when they are procuring for these projects that they are awarded funding for? For example, are there requirements that the department sets down in terms of local procurement? Are there requirements for apprentices and trainees? Does the department track how the money is spent, who is awarded the contract and that the works were completed in accordance with the way in which the funding was granted in the first place?

Ms Parton: We certainly do. We track and monitor the progress of the projects in that they are delivering the project that they said they would deliver under the funding agreement. We track the progress of payments to the department and meeting milestones and things like that.

The council's procurement is probably more of an issue for the council, although our program guidelines encourage councils to undertake local employment. I think the State Purchasing Policy does that as well. At our last hearing we talked about the department providing guidance for councils, that they are required to consider the local benefit when they undertake procurement decisions. The funding programs do not specify how the council needs to procure. We try not to dictate to the councils. We give them a bit of flexibility to meet their local situations. There is guidance in the legislation around what councils should be doing when they are procuring to make sure they do that effectively and provide value for money.

Mrs LAUGA: Assuming there are projects that run into trouble—given the grants programs are quite substantial and you are dealing with lots of different councils with lots of different projects—what happens? Do some councils come back and ask for more money? What happens if a contractor who is undertaking the works goes broke? What happens in these circumstances and what role does the department play?

Ms Parton: The department facilitates assistance to the council in those situations. That is why, over the past 18 months, we have tried to build our capability in terms of having a chief engineer on board to provide some expert technical assistance. I can think of quite a few examples where a project may not be proceeding—possibly not because of contract issues but because of site issues, or it is just costing more. Sometimes they do site works and discover that it is a completely different soil composition than they thought, so they have to do additional works that are going to cost more.

The department is fairly flexible in terms of future funding rounds. If they have savings from a program—and that happens quite often as well, where councils might have a cost of $1.3 million to complete a project but then they deliver it for $1 million—those savings come back to the department. We can use those savings to reprioritise—with approval from the minister, obviously, to make sure it is in line with the guidelines and everything. That can certainly happen.

We try to provide internal assistance to the council first through our finance team, our local officers and the chief engineer. Also, the Queensland Reconstruction Authority has been very useful. I know a while ago there was a project on Mornington Island that came across some difficulties. They happened to have an engineer who was up there looking at the reconstruction works, so he popped in to look at this other water project and gave them some advice to get the project management back on track.

Sometimes it is that key resources leave councils. If they have a water engineering specialist and they are doing a particular project and that person leaves, it can be a matter of the department helping them to find some expertise to help them fill that gap to keep the project going. There are circumstances where we have to look at the council coming back and saying, 'We can't complete this project. It is just not going to happen the way we thought.' There have been circumstances where the department has had to look at those sorts of changes to program funding as well.

Mrs LAUGA: How many of these grant programs require councils to also contribute to the project cost?

Ms Parton: All of the three that I spoke about—the Local Government Grants and Subsidies Program, the Natural Disaster Resilience Program and the Community Resilience Fund—require a council contribution. There are circumstances where the department can recommend to the minister that the council is not able to make their contribution, but if the department and the evaluation panel think that project is still of good community benefit and will meet the program requirements then that recommendation can be made.

That is sometimes made especially in terms of Indigenous councils. They just do not have the capacity to fund that 40 per cent. The Indigenous funding programs do not require a contribution from councils. The recent Works for Queensland program does not require a contribution from councils, either. That is more focused on maintenance and infrastructure upgrades than job-generating programs in those communities that especially have higher unemployment. There is no contribution required from councils for that one.

CHAIR: Are a council's cash reserves a consideration at all?

Ms Parton: They would be a consideration but, again, it is the same as with the depreciation issue: it would be a broader consideration that is taken into account during the evaluation process. The department is aware of the financial situations of councils. You would have an expert on the panel who might say, 'Even though the council says that they have the cash to provide this, they have these other projects on the go,' or, 'They have these issues that they are coming up against so maybe they don't have the capacity to fund this project this year and maybe we could consider it for next year.' It is taken into account as one of the aspects around the financial ability for a council to support a project.

CHAIR: The ability to pay would be highlighted in the application process, would it?

Ms Parton: Yes, that is right.

Mr PERRETT: My question relates to the financial sustainability of councils. I refer to the Auditor-General's report No. 13 of 2016-17 titled *Local government entities: 2015–16 results of financial audits* and in particular under the heading 'Financial performance, position, and sustainability' where it says—

> More than 50 per cent of councils are not generating enough revenue on average over five years to meet their operational expenditure.
>
> …
>
> While councils are working hard to restrain expenditure, there is a continuing trend across the sector of councils spending more than they earn.

How does the department consider that the medium- to long-term financial operational sustainability of rural and remote local government entities can be addressed, particularly where insufficient revenue is being generated to fund operations and asset renewal?

Ms Parton: Obviously, the department is having a focus on financial sustainability of councils at the moment. I think we spoke about this the our last committee hearing in terms of some of the programs the department is putting in place through our capacity-building program, together with Queensland Treasury Corporation, to try to address some of the longer term financial sustainability issues within councils.

One of the recent changes that has been made around grants, subsidies and funding is to introduce those changes to the guidelines to look at existing assets. In the past, the grants and subsidies programs were focused on building new assets. We recognised that that is certainly not ideal for councils in terms of their sustainability, because then they have to maintain new assets and they have to account for their depreciation costs. Really, in the past 18 months the department has changed a lot of the guidelines around the programs to encourage looking at upgrading assets or extending the life of assets and making them more sustainable as one of their elements.

Also, under the State Infrastructure Plan we are encouraging councils to align with those ideas that look at re-using assets first before building new assets. That is one of the things we are looking at in terms of the review of the grants and subsidies programs that is underway at the moment—to see whether we could deliver these in a better way across the whole government to make sure we are aligning our grants programs with what we need councils to be doing in terms of their longer term sustainability and pool that funding to try to get a better impact from the dollars, if that makes sense.

Mr PERRETT: Is the department making active recommendations to the minister? If many of these councils are financially unsustainable in the long term, which obviously the audit has picked up, there is a day when these councils may not be able to operate because their financial position becomes dire. What is the process that the department is undertaking to make certain that that information is actively indicated and transmitted to the minister?

Ms Parton: The department undertakes a monitoring role in terms of the council's financial position. We have a finance and funding team that uses a number of sources. The media reports are one aspect that tend to highlight whether there are issues in the community. Our regional office intelligence is really important. They quite often will contact the central finance unit to say, 'I think we need to provide some assistance to this particular council.' We also work with the QTC on their financial sustainability and look at the Queensland Audit Office's annual audits of the financial statements of councils. All of that intelligence is used to brief the minister.

Where we believe that a serious intervention is needed, there are options under the Local Government Act that we can put in place. The first of those is to give them a financial adviser. That has been done a couple of times, I think, over the past 10 years. There have been two or three occasions where the department has intervened and put a financial adviser into a council, basically to take control of their finances and try to steer them onto a path that creates more sustainability. A lot of the time we have seen those issues come up because of a loss of key personnel. The loss of the CEO or the chief financial officer often precedes that type of thing. If we see that early, we try to put some expertise into the council to try to help them before they get to the point where the department or the minister has to intervene.

Mr PERRETT: My final question is around asset management. We have heard a little bit about the processes within local government. How confident are you that local governments broadly across the state understand what they own and manage in respect of their asset register? Are you confident that enough has been done with the development and assessment of the assets they manage?

Ms Parton: The department certainly recognises that this is an issue. Councils own a huge amount of assets, so it is a difficult task for them to manage. Currently we have a working group with the Queensland Treasury Corporation, the Local Government Association, the Institute of Public Works Engineering and the Queensland Reconstruction Authority to try to identify initiatives we can put in place to help improve council asset management. That is getting to a point where they have spoken to the majority of councils and asked them to identify what asset management systems they are using. We are starting to get a better idea of where councils need some assistance in that area.

It is certainly an issue for councils, especially in terms of natural disaster reconstruction. The way the funding arrangements are progressing, there is a review of the federal funding arrangements at the moment that is going to need councils to have a lot better records around their assets. That is why the Queensland Reconstruction Authority has been involved. Obviously, it has a huge volume of data about regional roads, which ones get impacted by natural disasters, bridges and all that kind of thing. It is trying to combine the data it has with the asset registers that councils have to come up with a better system.

Some of the things it is looking at doing are maybe developing common tools for reporting. I think it has identified that there are nine or 10 different systems that councils around the state are using to manage and record their assets. Some councils do that in an Excel spreadsheet. We could have a better way to combine the data, especially if there is a group of councils that do not have a definite system in place but are using spreadsheets or something that is not as sophisticated. If the state can help them by pooling them together and trying to find a common tool, that would certainly be beneficial. When natural disaster events happen, they are not restricted to a single council area; they generally happen across a number of councils and impact on assets that go from one council to another.

I am comfortable that every council would have a system in place. They would be aware of their assets, but how sophisticated those systems are is something that we are working on. We recognise that there is an ability to improve that, definitely.

CHAIR: With the funds that have been made available through the different programs, do local governments ever attempt to use those funds for the purpose of maintaining assets?

Ms Parton: The programs that have been in place have not really been focused on maintaining assets. The department has recognised that that has been a bit of a gap. Councils have been telling us that they need some assistance in that area. Under the Works for Queensland program, which was introduced this year, maintenance of assets has been eligible. That allowed councils, in a lot of cases, to bring forward their maintenance programs. Where they were scheduling maintenance on particular assets, say, over a four- or five-year time frame, they have been able to bring that forward and really do a better job of it across the 12-month period this year.

Under that program, each of the local governments gets a base allocation of $1 million. Only non-South-East Queensland councils are eligible under that program. There is an additional allocation that was based on unemployment in a region relative to the population. This year we have approved more than 700 projects. A lot of those are maintenance projects or small minor works projects that councils have been able to get off the ground fairly quickly. That does not require a contribution from the council for that program, either.

CHAIR: Is there still confidence in the department with regard to the sustainability of local governments? It is a bit of a worry if they are starting to ask for money to maintain assets, isn't it?

Ms Parton: I think the grants review and the work we have done in changing the guidelines over the past 18 months have shown that we are encouraging councils to not focus on building new infrastructure all the time. Using that funding to make that infrastructure more innovative, to extend its life, to upgrade it or to make it more resilient to natural disasters is certainly being encouraged under the current funding guidelines from all of our programs, rather than just building something new. The department, in its assessment of the projects, certainly encourages that view as well.

CHAIR: From your position, do you see a growing demand on the department from local government to supply funding to provide assets and to maintain assets? Do you think that demand is increasing?

Ms Parton: I do not think the demand for funding is increasing, but I do think the demand for expertise from the department is increasing. I think councils are increasingly looking to the department to provide them with assistance for specialist things where they might not have that assistance. When they are using their funding programs, I know we have provided a fair bit of assistance to councils recently, especially on water and sewerage infrastructure, where they may replace or upgrade that kind of infrastructure every 10 years or so, so they do not necessarily have a pool of expertise within the council. They certainly look to the department to assist with that type of thing.

The requests we have been getting, especially from the LGAQ on behalf of councils, have been around broadening our funding programs so that we make more projects eligible. We are not dictating to councils that they have to build new assets or build new levees, but we make the funding programs more flexible so that if councils do need that funding to upgrade assets or make them more resilient they can use that.

CHAIR: If you are broadening the ability for local government to ask for funds to provide services or infrastructure, isn't that a worrying sign that some of our local governments have problems?

Ms Parton: We have not gone into services. The Works for Queensland program was really targeted at job generation.

CHAIR: Yes, that is right.

Ms Parton: It is quite difficult for councils, on an annual basis, to have newly scoped infrastructure projects ready to put forward for a funding round. That is where making the guidelines more flexible has been beneficial. We are helping them through the maturing infrastructure pipeline process, but they may not have those big projects ready to go every year. Some councils are saying now that they might only apply for funding every two years, but they will apply for a more substantial project because then they can get it fully scoped and have it ready to go when the funding round comes out.

CHAIR: You could provide two years of funding, if they thought that would be better for a particular project?

Ms Parton: Not to pre-empt the review that is happening at the moment, but that is certainly something that the department has identified would be beneficial. Rather than having an annual funding round where councils apply, they are able to do a two-, three- or four-year funding round so you can open it at the beginning and councils can then apply for a larger project. They would be given funding certainty over those two or three years to be able to deliver it. At the moment we are assisting them with smaller projects, but when they have a larger project they have to go outside these programs.

Ms LEAHY: One of the key findings of the audit report was the link between long-term sustainability and asset management plans, because the assets drive the significant outlays of councils and councils should link their asset management plans to long-term forecasts. The audit report found that that is not the case in 51 of the 77 councils and only eight councils had up-to-date asset management plans and a financial plan. While the asset management plans are required over 10 years, none of the councils that the Audit Office visited had developed their management plans to cover the entire expected life of assets. What does the department do to assist councils in doing those asset management plans? What does an asset management plan for a council cost? How long do they take to do? It seems to be a significant issue that is being raised in the audit report.

Ms Parton: I do not have the exact information on how much they cost and the time taken, but I can certainly take that on notice and bring that information back to the committee. The department provides assistance to councils in terms of developing their asset management plans. We have developed a number of template-type resources that councils can refer to. The work we are doing with the Queensland Treasury Corporation will also assist, we think, because getting the asset management systems in place will make it easier to do that longer term asset management planning. The regional office staff are a key resource for councils in this. They can assist councils with developing asset management plans. We also have the experience if they need particular project advice, through the chief engineer and other resources within the department.

Ms LEAHY: Kathy, something is not working here. Something is not right. Councils have had assets before most of us on this panel were born, yet they still do not have an asset management plan. What is going wrong here? What is not working? There does not seem to be a solution.

Ms Parton: Through the work that we have done with that working group, we are confident that councils do have systems in place for tracking and managing their assets. I know the Audit Office report has indicated those numbers, but in the work that we do with councils every day, a lot of them have good people there who know a lot about their local assets and who are committed to managing them. They may only have an Excel spreadsheet, but a lot of the councils are actively working on identifying new community requirements and being quite visionary in terms of what is needed for the future of their communities. When the mayor of Paroo addressed the committee he talked about having put asset management in place specifically to look at these types of issues.

The QAO has certainly identified that it is an issue but, whether it is that specific formatted piece of paper or whether it is a person in the council or a register, the councils are managing their assets. However, we want to help them to do it better. We are looking at the working group and the couple of reviews to try to kick that up a notch and help those councils. We recognise that it is a big issue and it is going to be a big job for councils to manage that huge pool of assets in a more effective way.

Ms LEAHY: The audit report is saying that the asset sustainability ratios indicate that 43 of the 77 councils—about half of them—cannot afford to maintain assets in a satisfactory condition. Something is wrong here. Something is significantly wrong. When the audit report is saying that 51 of the 77 councils do not link their asset management plans to those long-term forecasts, something is wrong. What is the solution?

Ms Parton: The department is doing a lot of work to try to help councils with a solution. It is a complex issue. The QAO raises the point that there are some conversations that councils need to have with their communities about service delivery. That might be an issue in some areas. The grants review, we believe, will go a long way towards making the funding the state is providing more effective in terms of helping councils deliver those longer term aspirations for their communities and helping them deliver infrastructure for their communities. The department conducts training with our capacity-building programs. They are very focused on financial sustainability and asset management at the moment. We believe that can make a big difference for councils into the future. Once we have the results from the couple of programs that we have implemented since the QAO report, I think hopefully we will start to see an increased focus by councils on their asset management and on looking at financial sustainability into the future.

Ms LEAHY: What constitutes a proper asset management plan? Is that something the department can answer or is that something Queensland Treasury might be better to answer? What is the benchmark? What is the standard?

Ms Parton: I could certainly source an example from the department to provide to the committee, if that would be helpful.

Ms LEAHY: Yes, and what the cost would be to reach that standard for a rural and remote council as opposed to a regional council as opposed to a city council.

Ms Parton: That might be more helpful.

Ms LEAHY: Obviously there will be a sliding scale.

Ms Parton: Yes, definitely. I will take that on notice.

Mr PERRETT: My question is in respect of your department actively engaging with others. I will give an example of where one department can create some challenges for local authorities that perhaps go unnoticed. A small rural council has a sewage treatment plant and has been meeting its obligations under environmental laws. All of a sudden those environmental laws are strengthened and they require a better quality water discharge from that particular treatment plant. In some cases for rural and regional councils that then places enormous pressure on their financial sustainability or their cash flow to meet those requirements. Do you engage with other departments that may create or place some imposition on local authorities and how do they then manage the outcomes from those decisions?

Ms Parton: We certainly do. We have a fairly active cross-government policy team that does engage. You will find that when other departments are looking at introducing new legislative requirements or even operational requirements they will consult with the department. We will always represent the view of councils. We quite often consult with individual councils or the LGAQ to get their opinion on the impact to councils. We will always brief up on any issues that we believe will have an impact on councils. Some things, I suppose, are a policy decision for government, whether they want to achieve a particular outcome. All the department can then do is help councils to meet that. In terms of sewage treatment plants, we have recruited a graduate engineer who specialises in that area to help provide advice to councils, because we have been noticing that that is one area where they are increasingly asking for advice from the department around some of the technical aspects of meeting the environmental requirements for sewage and water treatment plants.

Mrs LAUGA: My question refers to procurement again. Some government programs use particular gears to drive policy outcomes—for example, with the school maintenance program a certain number of apprentices or trainees have to be employed on that project. It is a way in which the government can use a lever to grow the number of apprentices and trainees and the state can have a role in ensuring that funding is delivering those policy outcomes. It is not only about apprentices and trainees; it could also be about local contractors or Indigenous employment. This local government funding plays an important role not only in helping local governments deliver infrastructure but also in terms of growing jobs in our local economic development. Are these criteria considered part of the assessment of grant applications and does the department consider that it can play a role not only in delivering local government grants but also in delivering economic outcomes in the community such as promoting local content, Indigenous employment, apprentices and trainees?

Ms Parton: That certainly is one. Other government programs such as Indigenous employment or the youth employment guidelines and local employment are aspects that are considered in the assessment. There is a fairly detailed assessment process. The first round is around the aims and objectives of our specific package. They are revised every year. Generally they do take into account if there are any new government priorities such as job creation. I think we updated the guidelines around that last year. They are revised annually, so we do have the opportunity to include any new government priorities in our specific grant package objectives. When we evaluate the project, we do go through a fairly detailed list around the processes they have used to identify projects as a community need or the historic data for the site including whether any similar projects have been undertaken previously, value for money, local employment content, how detailed their project planning is. The assessment panel does consider a broad range of aspects and that will include the government policies that are in place for things like procurement and local content.

CHAIR: The time for this part of the hearing has expired. Thank you once again for your presence here today. Can we please have the answer to the question you took on notice by 31 May?

Ms Parton: Yes.

PARKER, Ms Pam, Chairperson, Queensland Local Government Grants Commission

CHAIR: Welcome. Do you wish to make an opening statement?

Ms Parker: I do. Thank you for the opportunity to speak to the committee today in relation to the grants commission. I would like to provide you with an overview of the Queensland Local Government Grants Commission, which is an independent statutory body whose role is to make recommendations to the state Minister for Local Government regarding the distribution of the Commonwealth government's financial assistance grants to Queensland's 77 local governments. The commission's statutory powers are derived from both state and Commonwealth legislation. The state legislation provides for the formation of the grants commission and the Commonwealth legislation determines the principles for the distribution of the funds. The financial assistance grant to the state is determined by the Commonwealth and is announced as part of the Commonwealth's annual budget in May. The commission has no role in determining Queensland's total financial assistance grant allocation; nor does it have any role in any other state or Commonwealth government funding program.

The framework for how each state grants commission must make their recommendations on the allocation of funding to councils is provided for under the Commonwealth act. This framework sets out a number of national principles that guide the model used to determine relative need between councils within Queensland. The first of these national principles is particularly relevant to the understanding of the nature and purpose of the financial assistance grant. This is the principle of horizontal fiscal equalisation. This principle seeks to ensure that every council in the state receives funding which allows it to deliver an average standard of service relative to the council's size of population, demographics and location.

For 2016-17, the financial assistance grant to Queensland councils was $450.3 million, comprising two components: the general purpose grant, with a total of $318.5 million; and the identified road grant, with a total of $131.8 million. For 2017-18, with the reintroduction of indexation, valued at an additional $15 million, the financial assistance grant will increase to approximately $465.2 million. There are two components which make up the councils' financial assistance grant: an identified road grant, consisting of $136.3 million; and a general purpose grant, consisting of $328.9 million.

The identified road grant component is a relatively simple calculation using a formula which considers the length of roads and population within our council area. The identified road grant is untied funding and may be used for any council purpose. The baseline for determining the general purpose grant is a requirement that 30 per cent of the general purpose grant funding pool must be distributed to all councils based on their population. This minimum entitlement grant is a Commonwealth legislated provision over which the commission has no discretion.

The remaining 70 per cent of the general purpose grant is distributed using a model which is much more complex because it has to comply with the national principles. Put simply, it is a model which calculates a comparison of each council's ability to raise revenue relative to its expenditure levels and adjusted further to reflect the location, size of population and the demographic make-up of each council. The amounts that result from using this general purpose grant model are capped annually to avoid excessive fluctuations, allowing councils stability for budgeting purposes.

Once the overall general purpose grant model is applied, there are 10 councils—Brisbane, Gold Coast, Sunshine Coast, Ipswich, Logan, Moreton Bay, Redland, Noosa, Cairns and Townsville—that only receive the minimum entitlement population based component. These are referred to as minimum grant councils. These 10 councils represent 73 per cent of the population and they receive 26 per cent of the total FAG funding pool. The remaining 67 councils represent 27 per cent of the population and receive 74 per cent of the total financial assistance grant funding pool.

While the commission acknowledges the challenges faced by Indigenous, rural and regional councils, the commission is required to consider the impacts across the entire local government sector. While the rural and regional councils face increasing challenges in terms of reducing grant and revenue streams and increased costs, large metropolitan councils that receive the minimum grant are also impacted by the reduced funding pool and reliant also on the minimum grant to deal with the challenges of significant growth. Having spoken with representatives of the rural, regional and Indigenous councils about their challenges for funding for the replacement of assets which are nearing the end of their life, I believe that solutions need to be found urgently.

CHAIR: Do you have any idea what those solutions are?

Ms Parker: I am glad you asked. These are my opinions, not those of the grants commission. Just for the record, I have only been in the role for less than 20 hours collectively at the table as Chair, so I am giving you my personal opinion from having spoken with councils.

From talking to outback councils, some do not have the resources to undertake comprehensive financial plans, valuation of their assets, and asset management and depreciation plans. They do not have the staffing or the staff that are there do not have the capacity. Some have CEOs. Some do not have financial officers. There is a hole there. It was interesting to hear Kathy say that the department, in conjunction with Treasury, is working on helping them with asset depreciation plans, because I believe that the LGAQ, the Department of Infrastructure, Local Government and Planning, and the Auditor-General's office need to assist councils in formulating sound financial plans, with assets fully costed and depreciation of assets modelled. I think some councils need help in doing that. Some are able to do with it with a little bit of help, but there are some that really need serious help.

I believe that there needs to be an asset replacement funding pool for rural, regional and Indigenous councils. Those councils and shires that have fully costed their asset depreciation models and replacement models should then be able to apply for funding from a newly created federal-state pool of funds set up solely for the purpose of replacement of ageing infrastructure assets. I believe that, had the state and federal governments not removed 10 years ago the 60-40 formula of assisting councils with their water and sewerage infrastructure, perhaps the dire financial position some councils find themselves in today would not be quite so dire.

With regard to job security, rural and Indigenous councils rely on state and federal grants. One of the issues raised with the commission was providing job security, employment and surety for staff. If they could have indicative monetary figures for the four-year terms of councils with regard to all of the grants they receive, that would assist councils with planning budgets and the rollout and delivery of infrastructure programs, which would provide employment surety for the staff. I also learned that some rural councils are dependent on flood funding for the replacement of their road networks to provide consistent employment for staff. This ad hoc approach is not sound financial planning. I personally believe that a special state-federal government asset replacement fund for rural, regional and Indigenous councils would be a great starting point for future financial stability along with population growth in these regions. I look forward to hearing the learned recommendations that come out of your inquiry, because from reading the report we all recognise that there are dire financial troubles in relation to asset replacement. I think the figure was that in about 10 years there are 55 councils that are going to fall over the asset replacement cliff.

CHAIR: Do you have an understanding of the cash reserves that some of these local governments have?

Ms Parker: Amazingly, some of the outback ones do have some. Some do not, and theirs is a cap-in-hand existence. I have not asked those questions, but I will visit throughout the year and I will ask what their reserves are, if they do have any. I found out that one council had $2 million in reserves, and I was quite impressed to hear that they had $2 million in reserves for an outback council. Not many of them were skiting that.

CHAIR: I think you will be surprised with some of them, but that is a task for you. The committee notes that the commission has the power to hold inquiries and conduct investigations in connection to the financing of local government bodies. This question may be a little unfair given that you have only been there for a little while. Do you feel confident?

Ms Parker: I can take questions on notice.

CHAIR: As a representative of the commission, can you outline the types of inquiries and investigations it undertakes and can you provide examples?

Ms Parker: Being a new chair and a new committee, we have not undertaken any, per se. We are still on a learning curve, going out and talking to these councils and getting an understanding. I think raising the issue with departments and this inquiry will make it very obvious that there is a need for financial assistance to be provided to these councils to do sound financial plans and model their depreciation for their infrastructure which, as I said before, is very ageing.

CHAIR: I think have you touched on a good point: they do not have available resources. I understand that is the case with some of the councils you were talking about in Central Queensland and out west, but what can we do to ensure they do have resources? Would a pool system work, if you had qualified people who could go out and provide assistance and advice to local governments—because they may not have the work there for them for a full year—if it meant spending time with a local government to get it up to scratch?

Ms Parker: As I said before, if the LGAQ, the department and the auditor's office and Queensland Treasury—I heard Kathy say that they are working together in relation to this—could, as you say, offer a pool of officers that can rotate and go out and help these councils establish their financial plans and value their assets and do a depreciation model, I think that is probably what is needed for some of these councils.

CHAIR: Do you think it could work?

Ms Parker: It has to be better than what is happening at the moment, which is nothing. These councils just do not have staff that are qualified. When I go outback I find that some CEOs are jacks of all trades and they do not have a financial manager. I take my hat off to them for the work they are doing. They are working under very dire and challenging circumstances.

CHAIR: Yes, like being secretary of the local football club in some cases.

Ms Parker: They are jack-of-all-trades and master of none. They have to deal with everything from getting rid of the bull in town to financial models and depreciation. It is really eye-opening.

Ms LEAHY: Thank you for coming in to meet with the committee. There is a submission from a gentleman by the name of Chris Blanch, who I believe is the CEO of the Blackall-Tambo Regional Council. I am not sure if you have had a chance to read that submission, but on the second-last page he states—

Over many years ... grants commission methodology tinkered with and changed so that now the largest slice of the pie goes to the Brisbane City Council.

I think what he is saying is that, because of the way the 30 per cent minimum grant is allocated, it continually goes to larger councils that have a greater population base and that also have the ability to raise more funds because they have a greater population, whereas the rural and remote councils do not. His suggestion is that the grants commission be persuaded to place a cap on the maximum amount that any one council is paid from the pool. For instance, if a cap of three per cent in 2015-16 had been applied, it would see Brisbane City Council paid about $9 million FAG and about $3 million in their roads and that would have left nearly $25 million in the pool for the remaining 76 councils. Can I ask for your comments in relation to that?

Ms Parker: It is a technical question but I will give you my novice's experience to date. It is 30 per cent of the pool funding and the population is not capped, but the other 70 per cent has a plus or minus of three per cent capping. It is set by the federal government that that 30 per cent is based solely on population, and we have to work within the federal government guidelines.

Ms LEAHY: We are seeing that smaller councils get less and less.

Ms Parker: I am not sure that that is necessarily so, because we do try to weight it to help the smaller councils. We do encourage them to get their road audits up-to-date so we can help them. We give specific weighting to that 70 per cent of the general purpose grant, and there is a whole criteria of weighting in relation to that for the purpose of trying to help rural and outback councils. Even if they got their way of aggregating or reducing the funding for the minimum grant, there is never going to be enough to address what we need to be addressing in outback Queensland in relation to asset replacement. That is why I am recommending that we need a separate pool of funds to help with asset depreciation and the replacement of these ageing assets. To take from Peter to give to Paul is not what I would recommend. I think it would be politically divisive because you hear about places like Cairns and Townsville, cities that have rapid growth, and the challenges they have had thrust upon them by regional plans and inadequate funds to help with rapid growth.

Everybody is facing challenges—in metropolitan Queensland as well as the rural and Indigenous councils of Queensland. Everybody has challenges and nobody has enough money to go around. The federal government does not have any, the state government has none and councils are all saying, 'It's tough.' Ratepayers do not want to pay more rates, but the ratepayers are the ones that end up carrying the bottom line. I know from my own experience in Logan that when we took on two satellite cities our debt ratio spiralled out to accommodate another 200,000 residents moving out there. There are inadequate funds because you are not getting the subsidy of water and sewerage infrastructure that you used to get to cover the growth in those satellite cities. It is not just Logan; I know that Moreton faces spiralling debt ratios. Every council throughout all of Queensland has spiralling debt, and the issue is that there are fewer funds available at the state and federal level than there were in the past. You wonder where it is all going to end.

Ms LEAHY: I wonder whether we should look at the current methodology more closely and perhaps the cost adjusters as well.

Ms Parker: We are looking at the cost adjusters in this year's budget because the extra indexation funding came on board—an extra $15 million—and we are looking at that to see how we can help those councils that have the greatest challenges in this year's process. The indexation was capped for three years and the previous grants commission just stayed with the status quo. They did change the capping from plus 15 per cent to minus 10 per cent, but with indexation coming on board it went from three per cent to minus three per cent. This year we are looking at how we can use that extra $15 million to help those councils in regional and Indigenous Queensland. It will be weighted in their favour.

Ms LEAHY: What sorts of cost adjusters would help them with their asset management plans or their road grants?

Ms Parker: There will not be any of those factored in there. That is what I keep coming back to with the asset plans and financial funding. They get this money and it is untied. It does not have to be used on roads; they can use it however they like. Some may get it and say, 'We are going to use it for our asset replacement or our financial plans,' but then that is taking away from the potholes and the day-to-day things that their community wants fixed. Prioritisation is a challenge and some of them do not have the capacity to say, 'We are not going to be fixing our roads so that we can do financial management plans and asset depreciation plans.' That is why I am suggesting it would be great for different government bodies to help them in that field, free of cost.

Mrs LAUGA: Congratulations on your recent appointment to the commission. How does the Commonwealth determine the aggregate grant payment paid to each state?

Ms Parker: I am afraid I do not have that knowledge. I can take that on notice and get back to you in relation to that.

Mrs LAUGA: That would be great. I noticed that Queensland received $450 million in the 2016-17 financial year but Victoria received $542 million and New South Wales received $712 million. What is the reason for the significant discrepancy?

Ms Parker: That is a good pick-up. I would like to know the answer, too.

Mrs LAUGA: How much is allocated in the 2017-18 financial year nationwide in the 2017-18 federal budget, and how much has been allocated for Queensland?

Ms Parker: I will take that on notice and provide you with that information. I think this year Queensland has $465 million, but I could not tell you what the overall federal budget was. I will take that question on notice and the department will get back to you.

Mrs LAUGA: That would be great. Does local employment content come into the distribution of funding? I understand that grants are distributed based on different criteria based on the road funding and the general use funding, but in any of that funding is there a requirement for those councils to employ local contractors to undertake the work?

Ms Parker: I find that the funding they receive helps them sustain the current workforce they have. That is why I recommend that they know four years in advance what funding they have, so they do not have to wonder from year to year, 'Are we getting money from different local government bodies to help us keep our workforce employed?' That is why I think it would be nice to know in advance what their revenue would be for the term of the council so they can plan accordingly.

Mrs LAUGA: Are councils allowed to use their own labour for their works?

Ms Parker: Absolutely.

Mrs LAUGA: I assume that with some of the grant money they would not be able to use their own labour due to various reasons—

Ms Parker: It is untied. The money they get from the grants commission is untied. They might use it for administrative purposes or whatever. It is untied and they can determine where their priorities are.

Mrs LAUGA: If they do have to source an external contractor to undertake whatever work it is, do you know if there is any requirement whatsoever for them to hire locally based contractors?

Ms Parker: Not from the grants commission. Having spoken to representatives from outback Queensland and Indigenous councils, they are going to be employing local because they want to keep their local economies flourishing.

Mrs LAUGA: Is it more of a council enforced policy as opposed to one that is specified in the grant requirements?

Ms Parker: Yes, it would be from the council. Earlier you were talking about procurement. I know that in Logan we used to give a 15 per cent weighting to people who employed local people for employment purposes.

CHAIR: Do you audit that process to make sure the money is being correctly spent?

Ms Parker: I would have to take that on notice. I would imagine that departmental officers would, but I would have to have that clarified. We allocate, and I have not got to that stage. I have not been here long enough to find that process out yet.

Mrs LAUGA: Do you mean the Department of Infrastructure and Regional Development?

Ms Parker: The Department of Infrastructure, Local Government and Planning.

Mr PERRETT: Thank you for coming in today. I am picking up from you that the role of the commission is quite prescriptive given some of the ties that are required from the federal government. I know you are new in this role, but, given that it is prescriptive and you are picking up a lot of concern, just broadly—and particularly with the knowledge you have from local government and your role as mayor—do you think you can have a role in influencing the prescriptive nature of the money that you administer, particularly from the federal government?

Ms Parker: We are a statutory body. We are meant to be independent, and to be lobbying for one part of Queensland as opposed to others would probably put us in a compromising position. When you consider that the peak Local Government Association body supports the current minimum stance, I do not think it is the role of the grants commission to be lobbyists or advocating. I would be advising these councils to meet with their federal members. If they want to bring about change to the way the federal assistance grant is allocated, they should engage their federal members to be the lobbyists and the advocates for them in the federal parliament.

Mr PERRETT: By the sound of things your hands are tied in respect of the process?

Ms Parker: Yes.

Mr PERRETT: I refer to the asset replacement pool of funds that you mentioned for replacing key infrastructure projects within local government. You mentioned the removal of that 40 per cent subsidy to larger local authorities for water and sewerage infrastructure. Rural and remote councils used to get the SCAP—the Smaller Communities Assistance Program—funding of 80 per cent. Do you see it as essential that the state government reinstate it, given that it was removed in 2010?

Ms Parker: It is interesting, because the debate goes on about how we make housing affordable. You have the developers saying that the councils are charging too much and councils are saying, ‘We are charging cost recovery.’ The subsidy that the developers were probably previously getting and assisting them with their developments was coming from a federal pool. That is not there anymore. It puts an additional financial burden on councils. In Logan we have a $100 million sewage treatment plant that we have to build for these satellite cities that we inherited as part of amalgamation. That is $100 million that the ratepayers have to fund with interest and redemption over many years. That is just one small example of a council dealing with growth. If I recall, in Logan it was going to cost us something like $1.8 billion over 30 years to fund the road network for these two new satellite cities. That is $1.8 billion for a road network. That is just the local roads. That is not the jointly funded state and federal roads.

There are great challenges with growth and there are great challenges in the outback. As growth comes on board, you say that the ratepayers help pay it off but, initially, it is the existing ratepayers who have to carry the heavy burden of future growth.

Mr PERRETT: Do you think the state has a role in assisting local authorities with those key infrastructure projects that either they cannot fund themselves or for which they are unwilling to pass on the direct cost to their ratepayers?

Ms Parker: I think the state and the federal government do. You have cities that have been developed without any public transport or road networks. I think it is a nightmare in the making. Councils cannot do it on their own; they need help. The state and federal governments want areas to do the heavy lifting in relation to population growth. They have to be there to support them financially.

Mr PERRETT: What about existing infrastructure, though? We are talking about future population growth and perhaps that can be addressed. A lot of these local authorities are challenged now with the current infrastructure—not new infrastructure, just maintaining and replacing. Is that where you were talking about that pool of funds that you believe should be available? This is not for new infrastructure projects but perhaps for the replacement of current infrastructure, particularly in rural and regional and Aboriginal councils.

Ms Parker: Absolutely. That is where I am talking about with that fund. Even if it is just $200 million a year, for those councils that do not have their financial plans and depreciation models in place it would be a catalyst to inspire them to get them in place so that they could then apply for funding from this pool of money to help them replace those assets. As you have all noted, some councils do not have their financial plans and depreciation models in place. Something has to be done or a pool of money provided to give them an incentive, because they say, 'What is the sense in putting it together? We do it and there's no money to do anything with it.' That is how some of them view it. There are others that have done it. If there is a pool of funding that they can tap into, that may give them the incentive to get that assistance from different bodies to put those plans into place.

Ms LEAHY: I understand that you have not been appointed to the grants commission and the grants commissioners have not been appointed for that long; is that correct?

Ms Parker: That is correct.

Ms LEAHY: I am not sure if it is this current grants commission or the previous grants commission that undertook a review of the methodology used to calculate the general purpose component.

Ms Parker: 2011-12 I think that was, yes.

Ms LEAHY: And that was due to the recommendations in local government reform in 2007, I think.

Ms Parker: Yes, a boundary reform.

Ms LEAHY: Are you still confident of the methodology that was put in place? You have just told us that there is some real pain in rural and remote and Aboriginal councils. Are you confident that the methodology that has been used there is addressing some of those issues?

Ms Parker: You would have to see the make-up of the methodology. It is quite complex. I think the issue is not so much the methodology; it is the quantum of funds that we have to distribute. If you are using the federal government's criteria of the minimum grant being 30 per cent of the overall funding, I would still be suggesting a separate pool of funding of $200 million to be established for the purpose of ageing infrastructure and asset replacement. If the local government department and Treasury want that to be funded for the infrastructure plans, maybe that pool of funding could also be utilised for funding the financial management plans and the asset management plans.

I would prefer to leave that there for the purpose of the delivery of the infrastructure to ensure these other government departments provide the support that is necessary for those councils that do not have those plans in place. As I have said before, 24 per cent of the funding goes to 73 per cent of the population. That is the councils on the minimal grant. They are all facing financial challenges. It would be divisive to rob Peter to pay Paul. I think new money needs to be found—and urgently—to help outback and rural councils and Indigenous councils.

Ms LEAHY: I am just wondering whether the methodology is the right methodology or whether it is missing something of what we have seen come through from the audit reports. The reports from the Auditor-General were quite specific in relation to the asset management plans and the long-term sustainability forecast being linked to those asset management plans. We have heard from councils about the issues they have with funding their depreciation. I am wondering if the methodology needs to be looked at, given that information from the audit report.

Ms Parker: We have looked at different methodologies and worked with the criteria that we have of the federal government. You play around with the different formulas and sometimes it disadvantages those that you want to help more. We have been looking at different models—and we are continuing to review modelling—but the bottom line is that 30 per cent of the general purpose grant is allocated to all councils based on population and there are councils in regional and rural Queensland that would like to see that reduced. The commission does not have the capacity to reduce that 30 per cent funding. That has to be determined and legislated at the federal level.

Ms LEAHY: I am aware of a submission from the north-west group of Queensland councils to the grants commission.

Ms Parker: That would have been at the LGAQ conference last year.

Ms LEAHY: Would it be possible for the grants commission to give this committee a copy of that submission?

Ms Parker: We can do that.

Ms LEAHY: From a grants commission perspective, what does the commission intend to do with some of the issues that were raised in that submission?

Ms Parker: We have had the director-general of the department speak to us about our roles and the government departments are working together collaboratively to address these issues. As a commission, we were concerned. I believe that the director-general has certain strategies in place that he would be broaching with the government at some stage, but what he shared with us is confidential at this stage. It makes me feel optimistic, if they get off the ground, that it will be promising for rural and regional and Indigenous councils.

CHAIR: When a council's assessed expenditure exceeds its assessed revenue, how does the commission assess the relative need?

Ms Parker: I was asking the officer that very question this morning. There is a gap. There is the expenditure and then there is the revenue raised. The gap in between is calculated as part of the overall formula. There is a formula involved. I was suggesting to the officer earlier that, if you want, a couple of examples of how that works might be able to be provided to you. I would like it for my purposes, too. It gives you an idea of how the formula overall works because, I can assure you, it is very complex. You would be two hours on the whiteboard and you would still be scratching your head at the end of it.

These officers have 10 or 15 years experience with the formulas. They present formulas to us to consider and we look at them and say, 'This is going to have too much impact on this council here. We can't allow that'; 'This one is benefiting but at the price of this one and they are both in the situation where they have financial challenges.' The formulas are just a cocktail of so many combinations. We look at the different combinations to work out which ones are going to have the most advantageous benefits across-the-board without harming anybody too significantly. It is a fine balancing act. You can keep looking at many different formulas. Like I said, it is like a cocktail. You keep working on the mix and trying to find something that is going to be beneficial without impacting to any great degree on any council at the other end. If you wanted an example of such, I would be happy for the department—

CHAIR: We might do that, if you do not mind. Have you received any feedback from councils or peak bodies like the LGAQ regarding the current federal financial assistance grants?

Ms Parker: They were vociferous in relation to the indexation capping. They believed that it cost Queensland about $150 million over that three-year period. They made their voices very loud and clear in that regard. I have also spoken to them about their views in relation to the minimum grant—'Do they support changes to the minimum grant?'—and they said unequivocally that they do not, because the councils in South-East Queensland and Cairns also face financial challenges as part of rapid growth. When I spoke with the mayor in Cairns he was horrified to think of any change to the minimum. He said, 'I'm so dependent on that. We have 50,000 people staying in our city every night and we do not get any extra subsidy for it.' Wherever you go, everybody has a story to tell. What is the answer? We know that there are ageing assets in outback Queensland that are going to have to be replaced. In my humble opinion, a solution has to be found for that.

Ms LEAHY: My understanding is that the cost adjusters come under the responsibility of the commission. Can they be adjusted to enable further funds to be provided to those stressed councils?

Ms Parker: At the moment we are looking at different formulas. As I said, it is like a cocktail. We are looking at: 'If we put this factor in it, how many councils are to going to benefit? Is it going to benefit the right ones?' We are in the process of looking at different cost adjusters. As I said, the first 12 months was just getting our feet under the table and now we are reviewing different cost adjusters. Sometimes they come back and say, 'That didn't achieve what we wanted it to do.' We are looking at them. As I said, there is a combination. We are just going to have to go through the process and review them.

We are in the process of doing a couple of cost adjusters that will come back to us at a later stage. Hopefully they will have the desired effect. We want to be able to help some of these councils, but we will not know until the formulas come back to us. We are seriously trying to find ways of getting a little bit of edge, but that little bit of edge is not going to make a big deal of difference. I keep coming back to it: the bottom line is that a large pool of fund needs to be set aside for asset replacement.

CHAIR: Thank you very much, Pam. You have a couple of questions on notice.

Ms Parker: I am sure the officers have noted them. Thank you very much for your time today. Good luck with your inquiry.

CHAIR: We thank you for your participation. It is much appreciated. The time for answers to questions on notice to be provided is Wednesday, 31 May.

Ms Parker: Thank you.

GIRARD, Mr Mark, Managing Director, Client Advisory, Queensland Treasury Corporation

McMULLAN, Ms Michelle, Executive Director, Risk and Financial Services, Queensland Treasury Corporation

CHAIR: I now welcome representatives from the Queensland Treasury Corporation. Thank you for being here today. Do you wish to make an opening statement?

Mr Girard: We do. This opening statement will be pretty brief and hopefully I can answer some of the questions that have been raised throughout the morning. Thank you for the invitation to provide some input into the committee's inquiry into the long-term financial sustainability of local government. QTC is the state's central financing authority, so our role is therefore to borrow money through international debt capital markets and on-lend those funds to Treasury or the department, government owned corporations and local governments.

Our role in supporting the local government sector is roughly in three parts: providing a range of low-cost loans, both fixed and variable rate loans, to local governments and also investment products—we have the cash fund; providing financial risk management advisory services to local governments, and I will go into the detail of what each of those includes a little later; and providing education services to support the building of capability in the local government sector, and we have recently entered into a partnership with the University of Queensland in that regard and I will talk about that in a little bit more detail later.

In terms of the local government debt position, as at 30 April 2017, total local government debt was $5.5 billion and investment in the QTC cash fund was $2.6 billion. Our understanding is that there is approximately $2 billion deposited in other financial institutions, so from our perspective we would have the view as the state's banker that there is a zero net debt position roughly in the local government sector. Other observations that we would make about local governments are that approximately 80 per cent or thereabouts of that debt is held by a small number of local governments, mostly in South-East Queensland, and most of the local governments in remote and regional Queensland do not have debt with QTC or do not have debt and, like many people in remote and regional Queensland, local governments in our view manage to do a lot with very little.

We have recognised that local governments face ongoing challenges in the way they manage financial sustainability. In addition to the debt and investment products, we support the sector by providing advisory services that incorporate sector-wide tools and frameworks aligned with core financial principles, and these are aimed at enabling best practice financial management and building sector capability. One of the things that I will refer to is a project decision-making tool that we can provide some information to the committee about that helps inform local governments and the department in the whole-of-life costing of assets that they wish to procure or maintain. We observe that the sector has encountered challenges in capital project decision-making and enabling councils to introduce a best practice and scalable approach.

As the committee is aware, improving project decision-making in the sector is a key recommendation in the QAO report titled *Forecasting long-term sustainability of local government*. We have developed the project decision-making framework which provides a practical guide to making better informed capital investment decisions and the practical tools and templates to support the implementation of infrastructure projects. The department of local government and planning has commenced encouraging the use of this framework as part of councils' preparation of grant submissions and we would support this approach extending to future grant programs and policy initiatives. We also consider this framework to be a powerful policy lever for government to drive better financial planning practices in the local government sector.

We have recognised the importance of improving financial forecasting in the sector, and the local government forecasting model that QTC built a number of years ago is one of the critical tools used by local governments to support the financial forecasting of their businesses and give both the local governments and ourselves a better understanding of financial sustainability. The tool is used for long-term strategic decision-making and planning. There is other work that QTC is doing to help local governments build greater awareness of the opportunity for further regional collaboration which can be a key driver of financial sustainability, and in that regard we are working with a number of local governments to finalise a regional strategic financial review for six councils in regional Queensland. This review informs regional planning in the areas of financial management, business strategy, governance planning and infrastructure management, and we are looking to replicate this in other areas of Queensland. To give you an idea of some of those regional strategic financial reviews and what they look at, they include looking at the way that regions might approach the ongoing management of infrastructure such as airports, roads, water and waste.

We also recognise the importance of supporting capability building in the sector. We have delivered a comprehensive finance and business education program at QTC for the past 10 years. Last week we launched a significant enhancement of this program, making a strategic investment in building capability in the sector. To that extent, we are partnering with the University of Queensland to deliver an expanded and scalable education program to all local governments in all local government and Queensland government entities. The program will provide an opportunity for participants' enrolment in a graduate certificate in business leadership delivered in a dedicated education facility in Brisbane but also in the regions and most importantly on premises of local governments across the state.

We continue to work with the department of local government and planning and we support the department's approval process for local government loans. As part of our risk management, QTC conducts an annual borrowing assessment program for local governments. We are also working with the department to facilitate a working group of relevant Queensland government entities and local government stakeholders to determine a long-term approach to improving asset management practices in the sector. On an annual basis we receive copies of forecasts from councils that borrow from QTC, and this provides QTC an opportunity to analyse the key metrics of local governments at a whole-of-sector level. We are considering how this data might be used or can be managed and analysed to inform strategic decision-making regarding local government financial sustainability on a whole-of-sector basis.

Finally, we acknowledge the challenges faced by local governments in managing financial sustainability and we are committed to supporting the department and councils in responding to these challenges. The required response for these challenges is not as simple as increasing revenue and decreasing expenditure. We consider that there are four key areas of potential focus: developing 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 local government to address regional funding priorities; capacity of local governments to work cooperatively across regions to address regional issues holistically; and the capacity of local governments individually and collectively to facilitate employment-generating regional development.

To progress these areas of focus, there may be, for example, the rationale to establish a number of independent regional development bodies that provide guidance to local governments on strategic issues and seek opportunities to better manage regional development to the benefit of the relevant region as a whole. QTC is currently researching options for further discussion with the department. In relation to earlier questions, we also support and have considered providing resources to be available in the form of a flying squad of financial professionals to assist with the development, preparation and submission of financial plans and asset management plans.

CHAIR: Thank you very much.

Mr PERRETT: With regard to the investments that you have from local government, investments are investments but I understand that a lot of those would be constrained reserves that are obviously invested and then used at a later date for whatever purpose. From your assessment of local authorities, particularly going through borrowing situations, do you get a feeling that there is added pressure now on local authorities to start to borrow to fund some of the projects that perhaps previously they tried to fund out of general revenue?

Ms McMullan: In the past I think a lot of councils have been resistant to borrowing debt, and part of our education offering is to educate councils that if they can afford to finance the debt—so that is about serviceability—then it is actually a prudent use of their balance sheet to have debt to help fund the intergenerational assets that they need to put in place to support their communities. I suppose what we say is that it is a prudent use of debt—it is an educated use of debt—and not to be scared of borrowing to fund those large long-term assets.

Mr Girard: Particularly for economic infrastructure. I guess the other part of that question is around social infrastructure. One of the things we find ourselves getting involved in is informing local governments and the department around social infrastructure, that local governments understand what they are getting themselves into in terms of the whole-of-life costing of social infrastructure. As you know, the ongoing operation and maintenance costs, including depreciation, can well exceed the initial capital cost of a piece of infrastructure.

Mr PERRETT: Does some of the grant funding encourage that sort of behaviour within councils? Do councils think it is great to get a one-off grant to build a certain piece of infrastructure but do not realise the whole-of-life cost? Is that something that you pick up, where councils think it is wonderful to get the front-page headline that they have just received a $5 million grant to do something but that leaves a legacy of challenge for future councils?

Mr Girard: We do get involved in assisting the department and the local governments with understanding what the future financial obligations would be of investing in social or economic infrastructure and what it might mean for future increases in rates. We do provide that advice to local governments. We do not do that in order to tell them what decision to make but to understand the consequences of the decision that they may make.

Ms McMullan: In his opening speech Mark spoke about the project decision framework. That is guidance material and tools that local governments can use to help them make informed decisions. That includes a whole-of-life costing financial modelling tool that they can use.

Mr PERRETT: Do you actively encourage councils to look at intergenerational borrowings to fund projects? Previously, perhaps councils prided themselves on using, as I said before, existing reserves. I had 12 years in local government, so I understand some of the thinking in and around the way councils operated previously. Do you actively look at intergenerational funding—in other words, providing a piece of social infrastructure and making future generations pay it off—rather than having the current generation try to pay for the lot of it?

Ms McMullan: That is right, yes, but it does come back to serviceability. At the end of the day, when they borrow they have to be able to pay the loan back and then they have to cover the depreciation costs of that asset. The depreciation will be there whether they borrow or whether they fund it themselves, so it is really just the additional financing costs.

Mr Girard: And servicing those loans.

Ms McMullan: That is right.

CHAIR: In its submission the Brisbane City Council argued that, for councils that are subject to a credit review process by QTC, it is strongly recommended that the credit review process should replace those measures of financial sustainability utilised by the department of local government. Can you please explain the credit review process and how it is different from the measures used by the department? What does QTC's credit review process highlight that the financial sustainability measures used by the department do not?

Ms McMullan: In the Local Government Act there are three measures of financial sustainability that each council has to report against. When we undertake a credit assessment, we look at those three measures. We have additional ratios or financial indicators that we also look at to assess not only financial sustainability but also their actual borrowing capacity. As a banker to local government, we are interested in whether the local governments can repay their debts. We have a number of additional indicators that we look at to help us ascertain that position.

The indicators in the Local Government Act, which are also the indicators in the financial sustainability guideline used by the department, are also very useful measures, although they are perhaps more focused on that financial sustainability aspect. There are two lenses and they do blend here. When the QTC looks at the creditworthiness of a council, they are looking at the creditworthiness—can they pay back the debt—and also the longer term financial sustainability. They do blend, but they are two quite distinct lenses. You can see that when you think about the councils that do not borrow. They have financial sustainability issues but they do not have borrowing issues. They do not have financial serviceability issues or debt serviceability issues.

There is a whole gamut of ratios that can be used. The three used by the department in the act could be enhanced. There is certainly merit in looking at doing some sort of harmonisation or relooking at the ratios there and coming up with a clearer set of measures that say 'these are the ones we look at for debt serviceability' and 'these are the broader ratios that give us an indication of your longer term financial sustainability'.

CHAIR: Do you look at such things as cash reserves for each council that might make an application for financial support?

Ms McMullan: We certainly look at the cash that each council holds. As Mark has alluded to, on a collective basis that number is quite substantial for some councils. Individually, a lot of that money is cyclical: some councils still only rate once a year; others rate every quarter. Those cash balances change, depending on when they are measured.

A lot of the measures are taken at 30 June, at the end of the financial year, so it would be interesting to track what they are like throughout a year and how they change. They do have a lot of cash, but that cash is generally used to fund operations throughout the year. With some of them, there are probably some surplus amounts of cash that are sitting there. Councils like to have the safety net of a buffer. As we were discussing before, some councils do not like to borrow, so they do like to have that money in the bank. That is not to say that they are rating their community in an outlandish way, because, as we all know, depreciation is a non-cash item. If they are covering their depreciation, that portion of money that is depreciation is non-cash. That portion of money effectively goes into the bank or into other investments for the future. That is how the business maintains its sustainability going forward, so that when it is time to replace those assets they either have money in the bank or have other income-producing assets or investments that can help them fund those assets down the track. A lot of councils have cash because they are covering that depreciation.

CHAIR: Is that a wise way of doing business?

Ms McMullan: They are not really putting it in a bank or in a jar on the shelf and saying, 'That is depreciation.' What we try to do is encourage them to use that money productively, to invest in other assets that the community needs. In so doing, the value of that business grows and the value of that community grows.

CHAIR: Would cash reserves include depreciation considerations? I am an old country bumpkin and if my car is depreciating I put some dollars aside so that I can buy a new one. Do you think those cash reserves would hold money for depreciation?

Ms McMullan: Some of it would be, if they are not reinvesting that money. From a personal level, if you have money that you are saving up for your new car, you might instead go and buy some shares with that money until you are ready to buy the new car and then you may cash it in. As a prudent manager of a council business, you will probably not put it in the bank and earn bank rates. At the moment the cash rate is 1.5 per cent. You are not going to earn that sort of money. It would be more prudent to make some worthwhile investments for your community, not necessarily punting in the financial markets but investing in other infrastructure.

CHAIR: I understand. With regard to assisting local governments, do you provide councils with capacity building, financial management and education training and that sort of thing?

Mr Girard: Correct.

CHAIR: How do local governments access that?

Mr Girard: They access the training directly through the QTC. There will be a formal arrangement that will be established between ourselves and the University of Queensland where they will be able to access dates and the details of courses around understanding financial statements, how to prepare a business case, understanding asset management planning and how to prepare asset management plans. The training is targeted at different levels within local government. Following local government elections, we get involved with the LGAQ in, I think they are called, the EMU program or whatever the program is that follows local government elections. We go and educate the elected members or inform them about the role of the QTC and provide information about the education tools that we have available for those who do not have an understanding or financial background, to help them out with how they might better understand a set of financial statements, so that they can ask questions of the CEO or the CFO about the accounts of council. Last year, and year to year, between local governments and departments we trained somewhere around 1,000 participants in the education and training program that we provide.

CHAIR: Do you have a pretty good working relationship with the local government?

Mr Girard: I think we do.

CHAIR: Are they nicer to you when they want a loan?

Ms McMullan: No, I would not say that.

Mr Girard: Not necessarily.

CHAIR: I was trying to be funny, but I am not.

Mr Girard: We need to do more, though. On that point of education, an observation is that the further west you go—and I think most local governments would acknowledge this—the more difficult it is. That is not to say that the people working in local governments are not doing a good job, but it is difficult to source, attract and retain people with the skills and capability that you need to complete the financial forecasting that we need to make a better assessment of the financial sustainability of local governments and also to do the asset management planning. We acknowledge that that is difficult. We overinvest relative to the other parts of our business in local government because we recognise that. Would we like to do more? The answer is yes. I think with the committee's support we would provide more people to be available to help complete those financial forecasts with local governments.

CHAIR: Good. Thanks for that.

Ms LEAHY: I want to come back to Ms McMullan's comment about the cash reserves. I want to explore it and make sure that I have a proper understanding of that. Would the cash reserves sometimes be that depreciation cash that is put aside?

Ms McMullan: Yes.

Ms LEAHY: If a council reinvests some of that cash back into another asset, they are increasing their depreciation liability. How would, for example, a small outback council make enough revenue from that to fund the depreciation of the new asset plus the existing asset?

Ms McMullan: That is the challenge, I guess. It is very much geared around an accounting concept. Depreciation is all about expensing; it is not actually provisioning. It is the cost of using that asset and that is what you are providing for. You are not actually providing for the future asset; it is the cost of using that asset.

Ms LEAHY: I thought it was the cost of replacing that asset.

Ms McMullan: A lot of people think of it like that. In some ways it is. It is an expense. In our financial statements we have expenses for wages and other business expenses. Depreciation is a business expense of using the assets that you have. If your revenues are covering that business expense then you are not making a loss. You are profitable, hopefully, if you are covering that and you are covering your other expenses or you are at least not making a loss—you could be breaking even. Therefore, you should have enough money—you are not eroding your equity because you are not making a loss—going forward to keep building and growing your business and providing for the future and the future requirements to purchase those assets.

Ms LEAHY: How do you do that when you are a little council with 300 residents?

Ms McMullan: Exactly. It is really difficult.

Ms LEAHY: It is almost impossible, is it not?

Ms McMullan: It is, but if you do not make that revenue to cover all your expenses including depreciation then effectively you are making a loss. You are eroding your equity in your business, if you call it a business. Over time you do not have enough money to replace those assets so you are effectively going to run down your assets and you are going to have very aged infrastructure.

Mr Girard: You are going to accept a lower standard of service, essentially, if you are not funding the depreciation, in simple terms.

Ms McMullan: By funding it, you are effectively saying, 'I am making enough profit to cover the expense of me using those assets. By virtue of that, I am covering my costs and I am hopefully making a bit extra so I can keep replacing and maintaining those assets going forward.'

The problem is that it is sometimes very difficult to understand the difference between cash accounting and accrual accounting. In the old days, local governments used to do cash accounting. They did not think about depreciation. They just covered their cash expenses. What was happening then was that they were not making enough profit; they were not rating enough from their ratepayers to cover for the use of the sewage treatment works or the water treatment plant. They were not covering those costs. Therefore, when it comes time to replace it they do not have enough cash in the bank or do not have enough other assets to fund that. They do not have enough people in the community to pay rates, because they have not offered valuable infrastructure, to cover the future replacement of those assets—upgrade those or get new ones.

Ms LEAHY: What is the Queensland Treasury Corporation's suggestion as to how those councils can be financially sustainable long term?

Ms McMullan: The big councils have a bigger ratepayer base. A small increase in rates can have a big effect. I am not saying that the big councils do not have their challenges because, as Pam Parker highlighted, they do. The smaller councils do not have that ratepayer base. They do not have a lot of own-source revenue. They are reliant on grants. They are reliant on contract works—public works contracts that they get from the Department of Transport and Main Roads—for income and to maintain their staff employment.

The only thing they can do is increase rates or be reliant on more external funding. In Mark's area, QTC provides an extensive advisory service. My area really focuses on whether the council is able to repay the debt it has and to flag some issues that we see around sustainability. Mark's area really then focuses on the fact that, if they cannot increase rates because they do not have the ratepayer base and that ratepayer base is ageing or not broad enough, other avenues have to be looked at. They have to look at education and training or regional initiatives—work together with their neighbours—and various other things to get costs down. That is really the only option.

Ms LEAHY: There are not a great deal of solutions? The Queensland Treasury Corporation has been looking at this quite actively since probably 2007. There were a lot of changes in 2008. Have we not progressed any further forward with solutions?

Mr Girard: I do not think there is a single solution to the problem. It is probably a combination of things that will help contribute to improving the long-term sustainability of local governments. The example I gave was of looking at a group of regional, remote and rural councils rather than all investing in the same yellow plant and equipment for maintaining roads. Would a regional group of councils consider entering into a regional arrangement where they can utilise scale and scope to get efficiency in the way that they manage their assets and use the savings from those regional arrangements for other things? If that was something they wanted to agree to and do themselves, they could use the savings from that to invest in improving the sustainability of each individual local government or invest in regional development opportunities.

Ms LEAHY: You cannot really do that with things like roads, though, can you? You might be able to do that with plant, but you cannot really do that with a road.

Mr Girard: I think it is thinking about road maintenance contracts and the way the department might get involved in supporting road maintenance contracts over longer terms to give local governments more certainty around future funding that they are going to get for road maintenance. The general rule is that councils west of the divide are large road businesses. On the eastern side of the divide they are mostly water and waste businesses or generate a lot of their revenue—whether that be through grants or own-source revenue—to support roads, water or waste. Apart from getting money from other forms of state or federal government to support the difference between the current levels of sustainability and what would be the ideal state, we have been working with local governments to look at the alternative arrangements that might help them achieve that.

Ms LEAHY: The Auditor-General made some interesting comments in relation to the asset management plans. Does QTC have any sort of benchmark of what those asset management plans should be?

Mr Girard: I did note your comment earlier. The Institute of Public Works Engineering Australasia Queensland is the benchmark. Most local government engineers use a national asset management standard that is a set of tools and templates provided by the IPWEAQ. That aligns with the international standard for asset management, ISO 55000—the global asset management standard. We would support that as the benchmark for asset management. That is something that has been used for a long time. The issue with asset management is linking it to the financial statements and financial forecasts. The gap is between the engineers who prepare the asset management plans and the finance team that puts the financial statements or financial forecasts together—the disconnect between those two.

Ms LEAHY: How do you fix that disconnect? How does that get resolved?

Ms McMullan: I think I read in one of the papers from one of the previous witnesses that you have to elevate the importance of asset management planning so that those involved have a voice and work closely and collectively with the people preparing the long-term financial forecasts. The value of the infrastructure, the ageing of the infrastructure and the replacement of those assets—all of that information—has to be fed into the financial forecasts so that the people making the decisions around how much we need to rate to cover our costs, including depreciation, are fully aware of those plans and they are linked to the financial forecasts. Basically it is about back-solving what the revenue should be to cover all of the costs.

Ms LEAHY: I will use Boulia as an example. I do not think I have found too many financial planners, accountants and engineers out there. How are those councils going to do that? You physically cannot get those sorts of people to go out there.

Ms McMullan: That is right. That is one of the biggest problems. That is where Mark was saying before—

Mr Girard: That was my reference earlier about our consideration of a pool of 10-plus accountants, finance people, to form a flying squad, for want of a better term, to—

Ms LEAHY: I might have to talk to you about this, Mr Chairman.

Mr Girard:—visit those local governments that do not have access to the resources they need to assist them in doing that work. Like you say, if they do not have the resources available—

Ms LEAHY: It does not matter. You could offer a million dollars and you still will not get those resources in some of those communities. People who have those qualifications will not go there.

Ms McMullan: I think that is what we were saying. There needs to be a travelling group of people who go out to all of these councils that have trouble attracting and retaining the appropriate staff and work with them for a period of time to get their asset management plans up to scratch and then feed them into the financial forecasts. If we have better financial forecasting data we can do our job in terms of assessing their creditworthiness in a more educated fashion than we do at the moment.

We did not get financial information—forecast information—on about 31 councils last year. That is because either they do not have any borrowings, so there is no reason for them to give us that data, or they do not have the people there to produce the forecasts that we need. We do not get appropriate information. There is no point in even trying to make an assessment of that information and spending the time doing that.

We do a good job and we spend a lot of time assessing the ones that we get valuable information from. We spend a lot of time trying to ascertain the appropriateness of that information. We look through all their assumptions and go back and forth and challenge them on some of those assumptions. Sometimes we do not get anywhere with that with some councils.

Ms LEAHY: Who would pay for that? Would that be a council cost, a QTC cost or a department cost?

Mr Girard: It could be a combination of all of them. As I said earlier, we overinvest in the local government sector relative to others because we recognise the need. We would consider providing that additional support to local governments, as we do with our education and training programs. We provide that at little or no cost to local governments. That is our partnership with the University of Queensland. We do subside the cost of attending those courses. We would consider potentially providing a team of people to go and work with those local governments.

Ms McMullan: Local government represents seven per cent of QTC's total on-lendings. We have a huge team of professionals in Mark's team and in my team looking at local government. For that seven per cent we have, as Mark said, a disproportionate number of people spending a lot of time trying to assist.

Ms LEAHY: Please take this on notice. What was the total debt of local governments in 2008? What is the total debt of local governments now?

Mr Girard: We will have to take that on notice.

Ms McMullan: We will take that on notice. I do not have that information on me.

Ms LEAHY: I am just trying to get that nine- or 10-year comparison.

CHAIR: How do you see the outlook for the Queensland local government sector, from the QTC's perspective?

Mr Girard: I can answer that from a couple of different perspectives. One is compared to local governments in other states.

CHAIR: That was my next question.

Mr Girard: When we talk to the central financing authorities from the other states—New South Wales, Victoria, Western Australia—they are generally envious of Queensland in terms of the position of local government and the level of maturity. By way of example, local governments in Queensland did not get involved in investing in CDOs and lose millions and millions of dollars as local governments did in other states. That is because of the role that QTC has played in advising local governments and providing investment advice—or advice on investments to avoid, in the case of CDOs.

Then there are also the tools that the local governments have available to them to use, such as the 10-year forecasting models and the project decision framework tools. There are a range of other things that we find ourselves providing to other states for them to deploy to their local government sector. That is the view from other states. They think our local governments are good relative to their own.

In terms of our view of local government, as a general observation, as I said earlier, the regional and remote councils are very prudent with managing their finances in the context of them not having access to the skills and expertise that they cannot attract or retain. We think they do an incredibly good job. They manage their finances very well. Are there sustainability issues down the track? Certainly, there are.

It is like painting the Sydney Harbour Bridge: you have to keep working on it. It has been 10 years since the amalgamations. My personal view, having worked in and around local government for a long time, is that the world has continued to change—and it has changed a lot in the last decade. As a consequence of those changes in economics, both global and domestic, we do not have a choice other than to respond to those changes. That means that we need to continually think about innovative and different ways of addressing the sustainability issue that local governments have.

CHAIR: How would you characterise councils' overall debt levels and their financial positions in Queensland?

Mr Girard: As I alluded to earlier, the net debt position is zero. Maybe Ms McMullan would like to answer that.

Ms McMullan: We have a book value. The market value of debt to local governments at the moment is $6.3 billion. That is taking into account current interest rates. It is offset by approximately $2.8 billion within QTC's cash fund. As Mark alluded to, there is probably another $2 billion deposited with other banks. From a net debt perspective it is probably around $2 billion, give or take. It may be just under that. Queensland has $89.9 billion of debt, so from a whole-of-state perspective net debt for local government is only a small amount.

CHAIR: It does not sound small.

Ms McMullan: Exactly.

CHAIR: I understand where you are coming from.

Ms McMullan: When you take into account that each individual government has to manage within their means to service their portion of the debt, that is where you have big problems. Collectively there may be a lot of cash washing around the system, but individually that is not necessarily the case.

CHAIR: Thank you very much for your input. There are a couple of questions on notice. Could you look at those and get the answers back by 31 May?

Mr Girard: Certainly.

CHAIR: Thank you for your attendance at today's hearing. We have had a good morning. We have obtained some valuable information that will assist us in our inquiry into the long-term financial sustainability of local government. I thank the Hansard reporters for again doing a great job. A transcript of these proceedings will be available on the committee's parliamentary web page in due course. I declare the hearing closed.

Committee adjourned at 12.20 pm