



Queensland Audit Office
better public services

Forecasting long-term sustainability of local government

Report 2: 2016–17



Queensland Audit Office

Location Level 14, 53 Albert Street, Brisbane Qld 4000

PO Box 15396, City East Qld 4002

Telephone (07) 3149 6000

Email qao@qao.qld.gov.au

Online www.qao.qld.gov.au



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11 October 2016

The Honourable P Wellington MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Forecasting long-term sustainability of local government (Report 2: 2016–17).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Anthony Close', is written over a faint, light blue circular watermark or stamp.

Anthony Close
Auditor-General (acting)

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Summary

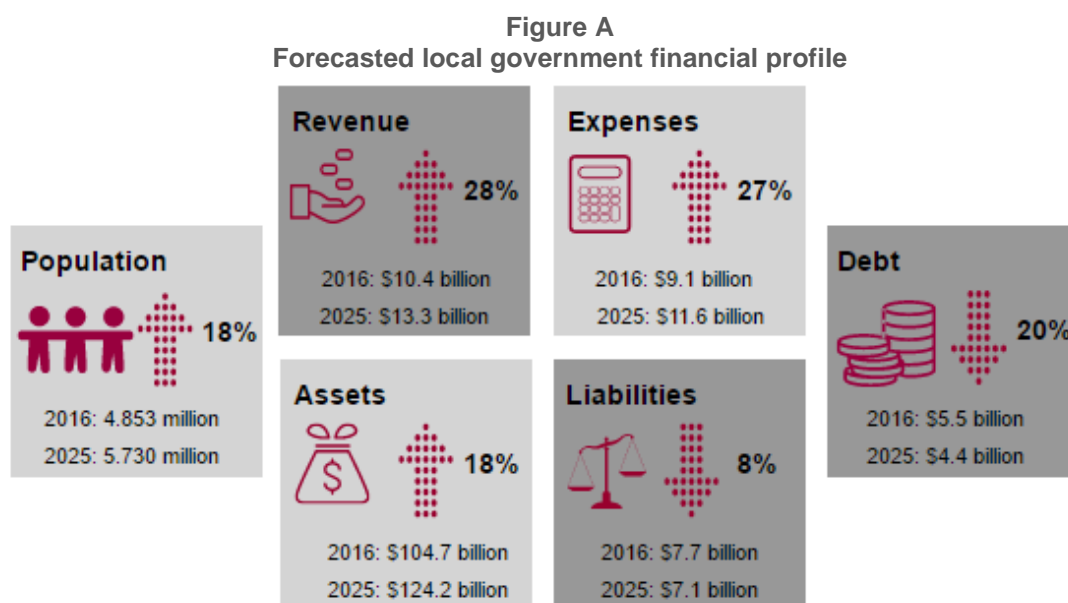
Queensland's 77 councils provide vital infrastructure services that facilitate and grow local economies. They deliver roads, water, and sewerage services to an estimated 4.8 million people. Many also provide their communities with public open space, cleaning services, and cultural facilities such as museums and libraries. A small number operate childcare centres and other businesses.

These services necessitate councils to manage large numbers of complex, long-lived assets, almost all of which they own and control. By 2025 councils estimate they will be collectively responsible for assets valued at \$124 billion. For councils to retain existing service levels these assets need to be maintained and then replaced at the end of their lives, while new assets need to be acquired to match population growth and increasing demand for services.

Australia-wide, there are concerns about the ability of local governments to generate sufficient revenues to recover capital, maintenance, and operating costs over the lifetime of their assets. The expectation from Commonwealth and State governments is that councils become more financially independent.

We have continually observed in our reports to parliament that around 50 per cent of councils spend more each year than they earn. This trend continued in 2014–15, with 35 councils (47 per cent of audits finalised) reporting operating deficits. Thirty-nine councils forecast deficits in 2015–16, with 24 of these forecasting deficits for the next 10 years.

Figure A represents the current local government sector's combined 10-year financial forecasts.



Note: Excludes Wujal Wujal and Napranum Aboriginal Shire Councils as they did not respond to our survey.

Source: Queensland Audit Office using council long-term financial forecasts and Queensland Government Statistician's Office data

What it means to be financially sustainable

The *Local Government Act 2009* and the *City of Brisbane Act 2010* define financial sustainability as being able to maintain financial capital and infrastructure capital over the long-term. Councils need to generate sufficient finances to continue to operate without eroding their physical asset base.

The major recurrent sources of finance available to councils are rates, fees and charges, and grants. Spending more each year than they earn from these sources results in deficits.

Councils are able to sell their assets as another source of finance, but most of their public infrastructure assets typically have little or no end-of-life market value. They can also borrow, but ultimately they need to generate extra future recurrent revenue to meet annual interest charges and pay down that debt.

The close coupling of operating revenues, asset spend, and debt requires long-term financial planning to focus on councils' ability to regularly achieve at least a break-even position (where revenue and expense are equal). If councils are to fund new infrastructure and manage long-term debt, they must plan to make regular operating surpluses.

Local government legislation mandates that councils measure their financial sustainability by calculating key financial ratios (measures) and that they communicate to ratepayers their long-term financial forecasts and measures.

The state's role in financially sustainable councils

The state government has a key role in supporting and advising councils on being accountable, effective, efficient, and sustainable. This role is assigned to the Department of Infrastructure, Local Government and Planning (the department).

The Australian Government developed a nationally consistent local government financial sustainability framework between 2007 and 2009. The objective of the framework was to introduce financial sustainability measures, improve asset management, and embed better practice financial planning.

The department's predecessor implemented the principles of the national frameworks by changing the local government legislation in 2009. Councils were required to report on six financial sustainability ratios and to prepare 10-year:

- financial forecasts
- community plans
- long-term financial plans
- long-term asset management plans.

In 2012 the legislation was amended, under a red-tape reduction program, to remove the requirement for councils to prepare the 10-year community and long-term financial plans, and the number of financial sustainability ratios was reduced from six to three.

Audit objective

In 2012 the department requested that we audit councils' long-term financial forecasts and long-term sustainability statements (forecasted ratio results). At the time, we assessed the sector's ability to produce reliable and relevant financial forecasts as poor, and committed to doing a performance audit on this topic after the legislation had been in place for several years.

This audit delivers on that commitment and examines how well local governments plan to be financially sustainable over the long-term, and assesses whether their plans indicate they are financially sustainable. We surveyed all 77 councils and selected five for deeper examination. We analysed councils by segments, as outlined by the Local Government Association of Queensland. Appendix C lists which councils are in each segment.

Audit conclusions

Most councils plan poorly for the long term. Their long-term financial forecasts and asset management plans lack substance and rigour. Quality forecasts require investment of time and appropriately skilled resources, which some councils either cannot afford or view as unnecessary overhead. This means they are not well placed to understand the important relationship between future net operating revenues, asset spend and debt, and how these affect their sustainability.

The problem is exasperated by many councils not prudently managing long-life assets which provide value for many generations. Long-life assets require long-life thinking, but many councils do not use debt strategically to manage their infrastructure funding requirements. This raises a question of whether those charged with governance are giving due consideration to issues of inter-generational equity. Such financial practices mean that ratepayers are not paying for the portion of service that long-life assets provided to them.

As a result, most councils cannot judge if their present and proposed revenue and expenditure policies are financially sustainable. Rather, most councils simply plan to spend over the short-term what they believe they can afford today, without understanding how much they need to spend now and in the future to maintain their roads, water and sewerage networks, and other infrastructure at a level acceptable to their communities.

Finally, when councils' sustainability ratios indicate financial stress, or that assets are not being renewed at optimal times, councils are not responding appropriately to these signals by developing fiscal strategies and reprioritising service and asset expenditures to resolve their fiscal difficulties. Some councils continue to rely heavily on government grant contributions, which are reducing as governments drive greater council independence, rather than develop alternative revenue strategies.

The clear risk is that some councils are approaching a tipping point where their infrastructure assets deteriorate or fail faster than they can afford to replace them, with the potential to jeopardise the growth of their local economies and the health and well-being of their communities.

It is concerning that many councils cannot reliably conclude whether they are financially sustainable. It is clear that the majority of those charged with governance are not dealing with this issue as well as they should. Different strategies are required to better understand and minimise the impacts of poor financial sustainability management.

Audit findings

Degree of confidence in long-term financial forecasts

Many councils acknowledge they are poor at planning for the long term and consequently have low confidence in their own forecasts. This is not because they lack the tools to forecast their performance. The Queensland Treasury Corporation provides councils with a fit-for-purpose financial forecasting tool for internal and external reporting.

But many councils systemically lack good quality data and a clear financial strategy to set the parameters needed to produce accurate forecasts with the tool. They report having limited resources to dedicate to understanding their financial trajectories.

Instead, many councils simplistically 'roll forward' expenditure and revenue, and escalate this using general price and cost indices. This approach effectively 'locks in' existing policy settings without testing whether they remain realistic, or viable.

Some use the frequency and impact of natural disasters and other unforeseen events as their reasons for not investing significant time or resources in trying to forecast better.

Four of the five councils we selected for deeper analysis were unable to explain large swings in their sustainability ratios between years because they did not retain their supporting calculations and other work papers.

Selecting appropriate inputs

Many councils do not undertake analysis to understand how sensitive their long-term financial plans are to the variables they use in their models, such as growth in wages or changes in the number of rateable properties. This means forecast calculations may not reflect expected movements in costs and revenue over time.

Three councils we selected for deeper analysis did not factor into their forecasts expected increases in asset values and the corresponding effect on depreciation expense. At one council, a five per cent increase in projected 2016 asset values of \$2.9 billion increases depreciation expense by approximately \$3.6 million, based on an average 40-year asset life. This could turn projected surpluses into deficits.

Eighteen councils use changes in the Brisbane Consumer Price Index to forecast growth in revenues, such as rateable properties and rate changes, rather than calculating an index that closely correlates to actual expected cost increases. Forty-seven councils index revenue growth using rates that aren't referenced or explained to determine their appropriateness. Five councils use a council cost index — a specialised index developed for Queensland councils — which is a closer correlation to the cost of providing council services.

Linkages to asset management plans

Because their assets drive significant outlays, councils should link their asset management plans (AMPs) to long-term forecasts, but this is not the case in 51 of 77 councils. Only eight councils have up-to-date AMPs and a financial plan. While AMPs are only required to cover 10 years, none of the councils we visited had developed AMPs to cover the entire expected life of its assets.

Their asset sustainability ratios indicate that 43 councils cannot afford to maintain assets in a satisfactory condition, but many of these councils have out-of-date AMPs that would guide how they intend to deliver services to the community.

The asset sustainability ratio indicates that four of the five councils audited will not keep pace with expected asset renewal costs. We compared the predicted renewals with the level of expenditure expected over the life of these assets. It confirmed that three councils will not be able to renew the assets prior to them reaching the end of the useful lives. We were unable to conclude on one council due to a lack of data.

Local governments are not required to use a project assurance framework. This means that councils are not legally required to develop business cases before investing in new assets. As a result, some councils do not fully understand whole-of-life asset costs and the timing and extent of maintenance. In one instance we found that a council had built an asset but the on-going operating costs were five times what it expected. Local governments do have access to a project decision framework, which has been tailored for them.

The reason AMPs are not linked to long-term forecasts is because many councils don't trust their own asset condition data. An asset's condition indicates when, and to what extent, council needs to maintain and renew it. However, few councils devote enough resources to obtain trustworthy asset condition data. None of the five councils we selected for deeper analysis had complete or accurate asset condition data.

Applying sustainability ratios to decision-making

Originally the legislation specified six financial ratios, with associated benchmarks, that councils could use to manage their financial sustainability. About half the councils now use only the three currently legislated ratios. This minimalist approach, whilst taking less effort, deprives councillors and senior managers of useful information to support decision-making.

The asset renewal funding ratio is not one of the current three legislated financial sustainability ratios. The department acknowledges it is a better indicator of effective long-term asset management than the asset sustainability ratio. Despite recognising the value of the asset renewal ratio, the department has not been effective in supporting councils to improve the underlying data so that they can calculate it accurately.

Communicating long-term plans and positions

Most councils only make public the results of the three mandated ratios. Sixty-seven councils do not prepare a long-term financial plan to explain their forecast and ratio results. This increases the risk of contradictory approaches to financial management and reduces the ability of the community to engage, understand, and shape the direction of their council.

Where councils provide explanatory narratives, they are often 'boilerplate' and do not allow a clear understanding of those councils' long-term financial sustainability. Fifty-eight of 77 councils use pro-forma words from the department's guidance document in their long-term financial sustainability statements, rather than tailoring them to make them more relevant and useful as accountability documents.

Our analysis, using council data, indicates a number of councils are forecasting financial stress. Twenty-four councils are forecasting operating deficits over the 10-year horizon, and 34 rely primarily on grant funding to cover their costs. But the department does not analyse financial forecasts to understand which councils are either in, or facing financial stress, and it has provided limited direct support to stressed councils to develop strategies to improve their financial position.

Recommendations

We recommend councils improve the quality of their long-term forecasts and financial planning by:

1. maintaining complete and accurate asset condition data and asset management plans (Chapters 2, 3, and 4)
2. implementing a scalable project decision making framework for all infrastructure asset investments (Chapter 2)
3. engaging directly with their communities on future service levels (Chapters 2 and 4)
4. developing financial plans to explain their financial forecasts and how they intend to financially manage the council and its long-life assets (Chapter 2).

We recommend the Department of Infrastructure, Local Government and Planning:

5. allow councils to set their own financial sustainability targets where they can justify that a different target is more appropriate for their long-term sustainability (Chapter 2)
6. strengthen their governance role, including analysing long-term planning documents, to allow the Minister to identify councils in, or becoming, financially stressed (Chapter 3)
7. support councils to strengthen their strategic planning by building their capability and capacity to produce 10-year financial forecasts and asset management plans that can be relied on, and are integrated with their annual budgetary processes. They should be renewed and updated at least every four years (Chapters 2 and 3)
8. require councils to include in their annual budget or annual report statements:
 - the long-term financial forecasts for at least three subsequent years after the budget year
 - reporting analysis of actual to budget figures (Chapter 2).
9. broaden the number of ratios required to be calculated over 10 years to include the asset renewal funding ratio, once councils have improved their asset condition data (Chapter 4).

Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to the Department of Infrastructure, Local Government and Planning (the department) and all councils for comment.

We received formal responses from the department, Brisbane City Council, the City of Gold Coast and Whitsunday Regional Council. Their responses are in Appendix A.

Report structure and cost

Chapter	
Chapter 1	Provides the background to the audit and the context needed to understand the audit findings and conclusions
Chapter 2	Evaluates how councils undertake financial planning
Chapter 3	Considers the monitoring and support provided to councils
Chapter 4	Analyses the financial sustainability of councils by segment.

This audit cost \$387 000.

1. Context

Profile of Queensland local governments

At 30 June 2016 there were 77 councils in Queensland providing services to a projected 4.853 million people — ranging from 290 residents to 1.1 million residents per council.

The 77 councils cover 1.734 million square kilometres — ranging from 11 square kilometres to 106 188 square kilometres per council.

The local government sector is diverse. As well as managing large infrastructure networks such as roads and water and sewerage pipes, councils provide community services ranging from water and sewerage operations to recreational activities such as theatres, golf parks and museums.

Queensland councils forecast that by 2025 they will be collectively responsible for \$124.2 billion in assets and have combined debt of \$7.1 billion. Their revenue base is forecast to grow from about \$10.4 billion to \$13.3 billion by 2025.

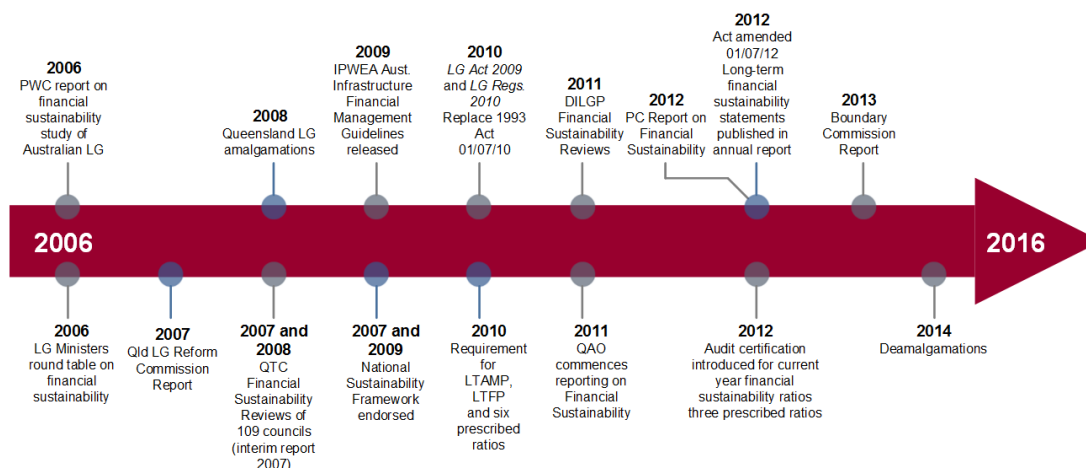
We have grouped councils into six categories used by the Local Government Association of Queensland (LGAQ) in their 2013 report *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach*. Appendix C shows how LGAQ categorises each council based on its key features, such as coastal, rural, or resources. A council can be in more than one segment if it reflects multiple key features.

Each segment has unique challenges in maintaining financial stability. Appendix D identifies factors affecting sustainability for each segment.

History of reform in local government financial planning

Figure 1A shows the timeline of events over the last 10 years that influenced the current local government sustainability and planning requirements. Key events effecting Queensland councils are highlighted in blue. Queensland government introduced the long-term financial planning requirements in 2009 through changes to the local government legislation; they took effect via regulation from 1 July 2010.

Figure 1A
Timeline of key financial sustainability events



Notes: LG = local government; LTAMP = Long-term asset management plan; LTFP = Long-term financial plan; PC = Parliamentary Committee; DILGP = Department of Infrastructure, Local Government and Planning IPWEA = Institute of Public Works Engineering Australasia.

Source: Queensland Audit Office

All jurisdictions endorsed a nationally consistent local government financial sustainability framework in 2007 and 2009. The framework provides:

- criteria for assessing financial sustainability of local councils
- a toolkit to develop asset planning and management
- better practice financial planning and reporting guides.

Reporting and measuring financial sustainability

The 2009 legislation strengthened the focus on integrated planning and financial sustainability to ensure appropriate financial resources were being directed towards renewing and maintaining assets. The legislation also required 10-year:

- financial forecasts
- community plans
- long-term financial plans
- long-term asset management plans.

The legislation specified six financial ratios with associated benchmarks that councils were to review regularly to drive financial sustainability. The department sought input from Queensland Treasury Corporation (QTC) and the local government sector to determine the ratios and target ranges.

In 2012, the Queensland Government amended the legislation with the aim of streamlining reporting for councils by:

- removing the requirement for councils to prepare 10-year community and financial plans — Figure 1B shows this
- reducing the number of financial sustainability ratios from six to three — Figure 1C outlines these changes.

Figure 1B
Changes to financial planning documents

Plans cover at least 10 years	Description	2010–2012	Post 2012
Financial plan	outlines the local government's goals, strategies, and policies for managing its finances.	✓	x
Community plan	outlines the goals, strategies, and policies required for achieving the local government's future vision.	✓	x
Long-term financial forecast	forecasts revenue, expenses, assets, liabilities, and equity. It integrates the long-term asset management plans and financial forecasts.	✓	✓
Long-term asset management plan	outlines strategies to ensure the sustainable management of assets, and forecasts capital expenditure for renewing, upgrading, and expanding assets.	✓	✓

Source: Queensland Audit Office

Figure 1C
Changes to financial sustainability measures

Measures	Description	2010–2012	Post 2012
Operating surplus ratio	indicates the extent to which operating revenues raised cover operating expenses.	✓	✓
Net financial liabilities ratio	indicates the extent to which operating revenues can service net liabilities (usually loans and leases) while maintaining assets and community service levels.	✓	✓
Asset sustainability ratio	indicates the extent of spending on existing assets through renewal compared with depreciation expense.	✓	✓
Interest coverage ratio	indicates the extent to which operating revenues are committed to funding interest costs on current loans and leases.	✓	x
Working capital ratio	indicates the extent to which liquid assets meet short-term financial obligations.	✓	x
Asset consumption ratio	indicates the aged condition of infrastructure assets.	✓	x

Source: Queensland Audit Office

The department released the Financial Management (Sustainability) Guidelines in 2009 to assist councils in calculating and interpreting sustainability ratios. The guideline provides an explanation of the ratios, why the department selected target ranges, and how they are to be calculated. The department removed the non-mandated ratios from the 2013 edition.

Financial planning requirements

Key financial sustainability requirements for councils are contained in the:

- *Local Government Act 2009* (LGA)
- *City of Brisbane Act 2010* (COBA)
- Local Government Regulation 2012 (LGR)
- City of Brisbane Regulation 2012 (COBR).

Appendix E outlines the sections of the various Acts relevant to this audit.

Definition of financially sustainable

The LGA and COBA define a local government as financially sustainable if it is able to maintain its financial capital (equity) and infrastructure over the long-term. Three specific ratios must be calculated to measure the council's sustainability and are included in the council's budget and annual report.

The mandated ratios are:

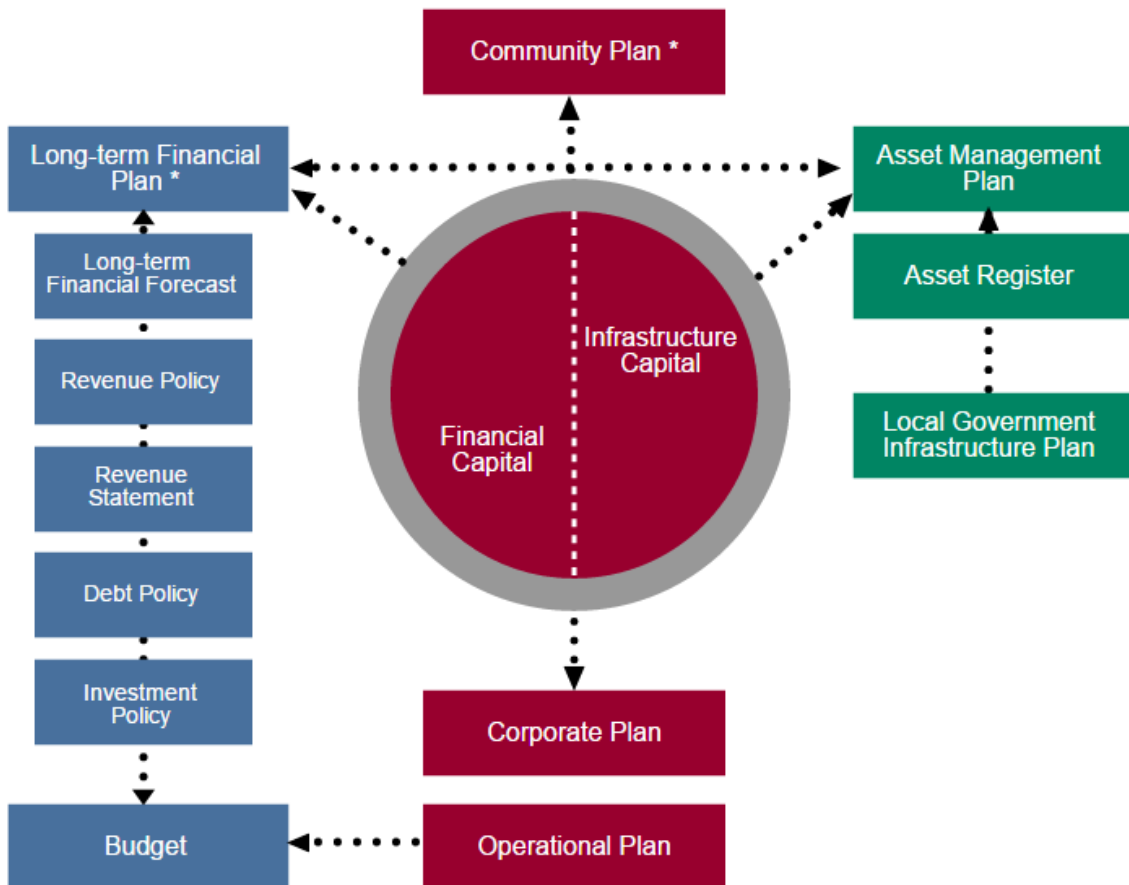
The **operating surplus ratio** and **net financial liabilities** ratio; they measure a council's financial capacity (ability to fund operations).

The **asset sustainability ratio**; it measures the capacity for a council to fund investment in infrastructure.

Councils can include other ratios that will help demonstrate and explain their financial strategy.

Figure 1D explains how key strategic and operational planning documents can underpin a council's long-term financial sustainability. It also shows that the financial plans need to align with council's corporate, community, and asset management plans to demonstrate how the council intends to remain financially stable over the long term.

Figure 1D
Better practice: planning documents to demonstrate financial sustainability



Note: * indicates plan is not required under legislation or regulation.

Source: Queensland Audit Office amended from the former Department of Infrastructure and Planning

Developing the yearly budget and annual report

The LGR requires councils to adopt their budgets after 31 May in the preceding year but before 1 August of the budget year. The LGR and COBA require council to adopt the annual report within one month after the Auditor-General gives his audit report to the council.

In practice, this should result in councils adopting annual reports by the end of November.

Councils publish a budget and an annual report on their websites each year as shown in Figure 1E — highlighted in maroon. The budget documents must contain:

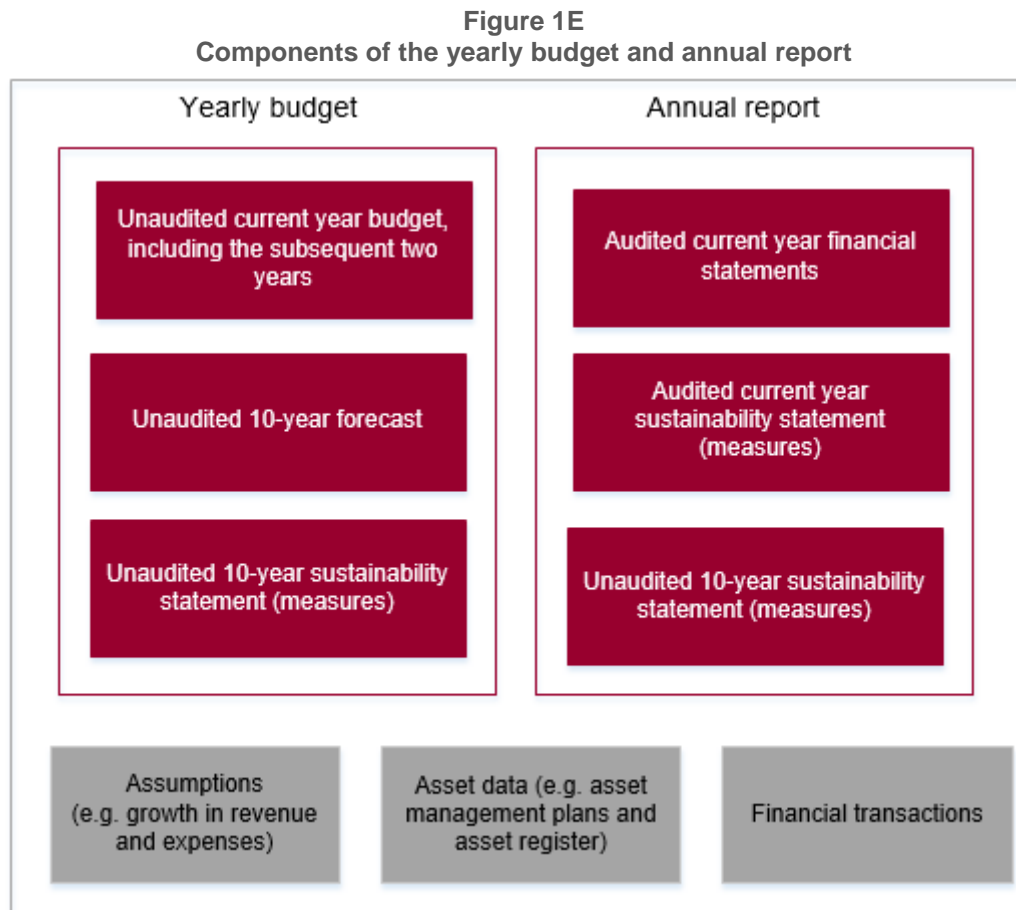
- the current year budget
- a budget for the following two years
- the three financial sustainability ratios
- the 10-year forecast.

The annual report must include the audited current year financial statements; the audited current year financial sustainability statement; and updated unaudited 10-year sustainability ratios.

Councils develop these documents based on:

- historical transactions
- a set of assumptions — such as growth rates
- asset management plans
- asset registers.

These are highlighted in grey on Figure 1E.



Source: Queensland Audit Office

Long-term financial plans

Since the amendments to the legislation in 2012, councils are no longer required to prepare long-term financial plans (LTFP) that cover the next 10 years. Developing a reliable long-term financial plan is still considered good practice.

A long-term financial plan describes a council's financial strategy, includes the long-term financial forecast, and is consistent with the long-term asset management plan. The:

- long-term asset management plan includes forecasted expenditure for renewing and upgrading assets and should align with asset registers. It should explain how councils will deliver infrastructure services over the long-term.
- long-term financial forecast summarises the 10-year revenue, expenditure, asset, and liability projections. It allows councils to calculate measures (ratios) of sustainability. Legislation requires councils to include it in their annual budgets.

Instead, councils are required to prepare a five-year corporate plan outlining their strategic direction. The budget and annual operational plan must be consistent with the five-year corporate plan. However, the corporate plan doesn't focus on long-term sustainability and long-term asset management.

Other jurisdictions' approach to local government financial planning

The New Zealand Auditor-General explains the objective of a council's LTFP as:

The primary objective of a long-term plan is to describe the [council's] proposed 10-year activities and community outcomes in an integrated and co-ordinated way, and provide a basis for accountability to the community. In doing so, the document should outline the financial and service delivery circumstances that the [council] faces and the [council's] proposed response to those circumstances.

Appendix G compares financial planning requirements across Australian and New Zealand jurisdictions. It illustrates that the other seven jurisdictions with local governments require medium or long-term financial planning. Case study 1 explains what New Zealand councils are required to prepare and the role of the New Zealand Auditor-General.

Case study 1

What happens in New Zealand?

New Zealand has 78 councils. Their legislation requires councils to develop and publish a long-term plan every three years. They must consult with the community to develop key policies and plans and put in place financial strategies and a framework to measure performance.

Councils debate with the community the main options and proposals to be included in the long-term plan. Part of the discussion includes developing infrastructure strategies for the next 30 years. They set out the strategic intentions for maintaining, renewing, and replacing infrastructure assets.

Councils' 10-year long-term plans are required to set out the financial and operational plans, including:

- the community outcomes and performance measures
- councils' activities (including controlled entities), rationale for delivering these and intended levels of service provision
- capital expenditure and funding impacts
- assumptions and effects of uncertainties
- financial forecasts and financial strategies.

Since 2006 the New Zealand Auditor-General has been required to report on whether long-term plans and consultation documents are based on good quality underlying information and assumptions.

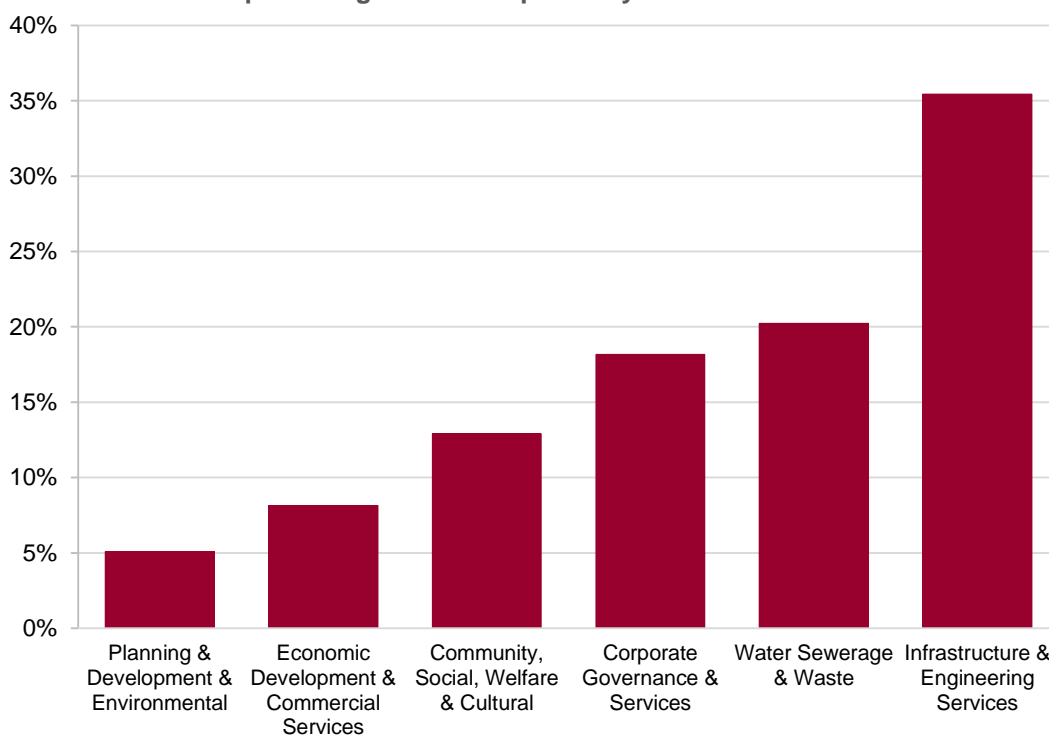
Financial challenges

Long-term financial sustainability is a major risk for local governments due to their relatively large asset bases and limited ability to raise revenue. The common conclusion from state and national based studies into local government financial sustainability over the last 10 years is that the sector is financially stressed.

Under the *Local Government Act 2009*, councils are responsible for directly providing residents in a local government area with a wide range of public services, and access to essential utilities and community facilities. This requires councils to hold and maintain a significant base of infrastructure assets. These assets require not only substantial initial investments, but also continued expenditure to maintain and renew assets over the course of their respective lives.

Figure 1F graphs what proportion of Queensland councils' operating expenditure was spent across six functions and services in 2014–15. It shows that the average council spent 35 per cent of its operational expenditure on infrastructure and engineering services; this has grown from 26 per cent in 2005–06.

Figure 1F
2014–15 percentage of total expense by function: all councils



Note: Excludes Kowanyama Aboriginal Shire Council, Mornington Shire Council and NPARC because their 2014–15 financial statements were not complete at the time of writing.

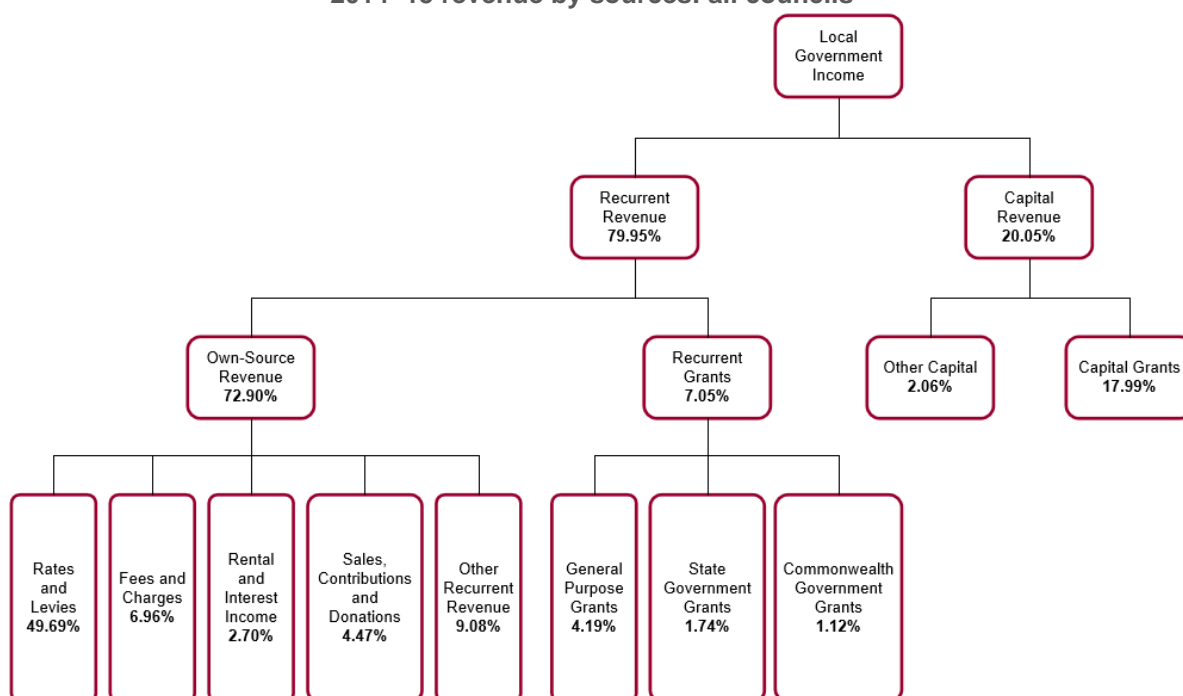
Source: Queensland Audit Office using council financial statements

Figure 1G explains where councils obtain revenue. Most revenue is raised by councils themselves (called own-source revenue) and some is received by councils in the form of grants from the state and federal governments. Many councils are financially reliant on these grants.

Councils raise own-source revenue through levies and charges on ratepayers and consumers. Councils spend recurrent revenue streams on general operations or as a council sees fit. Councils use capital revenues for the specific purpose of investing in capital infrastructure.

Council sources of income by segment are in Appendix K.

Figure 1G
2014–15 revenue by sources: all councils



Note: Excludes Kowanyama Aboriginal Shire Council, Mornington Shire Council and NPARC because the 2014–15 financial statements were not complete at the time of writing. General Purpose grants are from the state or Commonwealth, but haven't been identified as such in council financial statements.

Source: Queensland Audit Office from council 2014–15 financial statements

Long-term financial and asset management planning allows councils to implement strategies and adjust priorities to provide the desired levels of services in the future, within the confines of their respective financial capacities.

Roles and responsibilities

Queensland councils exist through acts of Queensland's parliament.

The department

Accordingly, the state retains a key role in providing support and advice to councils. This role is assigned to the Department of Infrastructure, Local Government and Planning (the department).

The department administers the legislation to provide for the good governance of all Queensland councils and to ensure councils are accountable, effective, efficient, and sustainable. Part of this role includes:

- implementing Queensland's response to the nationally agreed-upon frameworks, such as the nationally consistent local government financial sustainability frameworks
- designing, developing, and delivering capacity building programs (training, support, tools, and resources) sometimes in collaboration with other stakeholder partners, QTC, LGAQ, the Local Government Managers Australia (LGMA) — Queensland
- developing and implementing legislation and associated policy to support state and local government interests
- ongoing relationship management to assist with governance
- coordinating select local government complaint investigations
- leading governance and accountability of local governments in collaboration with partners
- designing, monitoring, and delivering grant programs
- providing financial guidance and monitoring of local governance.

Approval of local government borrowings

The *Statutory Bodies Financial Arrangements Act 1982* (SBFAA) requires councils to obtain the Treasurer's approval to undertake borrowings; for example, a loan to build a dam. The Treasurer has delegated the authority to approve loans with QTC to the Director-General of the department. This authority operates within the State Borrowing Program.

Councils submit long-term financial forecasts with borrowing applications.

The department engages QTC to undertake a rolling, annual credit review program for councils that have borrowings.

Local governments

Under the LGA, councils are responsible for the good rule and government of their local areas.

This has translated into directly providing residents in a local government area a wide range of public services such as:

- planning developments
- access to essential utilities such as sewerage
- building and maintaining community facilities such as parks.

Councillors

Communities elect councillors every four years to focus on policy development and strategic delivery of services in the public interest. This includes the development and implementation of corporate and strategic plans. Councillors also provide a conduit for ratepayers to engage with councils. They approve rates and the budget.

Council staff

Council staff are the administrative arm of a local government. They:

- operationalise councillors' plans and support them in making informed, strategic decisions
- advise councillors of the effects and consequences of their decisions
- interact with other tiers of government and deliver services to ratepayers
- ensure council complies with relevant legislation.

Audit and risk committees

Section 105 of the LGA requires an audit committee to monitor and review the integrity of financial documents, which includes the long-term financial forecast and long-term asset management plans. A better practice audit committee will also review financial sustainability risks.

Audit committees provide added confidence to council that the:

- organisation's financial reporting and risk management is robust
- organisation's internal controls and audit functions are operating effectively
- organisation is complying with all relevant legislation.

The LGR sets out which councils must have an audit and risk committee (audit committee). During 2014–16 audit committees were mandatory for all Queensland councils. From 1 July 2016 small councils were exempted from having an audit committee.

In our *Report 17: 2015–16 Results of audit: Local Government entities 2014–15* we recommended that the department mandate audit committees for all councils. We also included a better practice guide for a 12-month audit committee work plan.

Queensland Treasury Corporation

Queensland Treasury Corporation (QTC) is the Queensland Government's central financing authority. QTC's services include:

- credit reviews and assessments
- strategic financial reviews
- financial modelling
- providing education and training to council employees and councillors on a free and cost recovery basis. QTC's programs cover asset management and financial management topics.

The department engages QTC in the annual borrowing assessment process to undertake credit reviews. Credit reviews focus on the ability of a council to service existing and new debt. Either the department or a council can also engage QTC to undertake a financial sustainability review.

Local Government Association of Queensland

The LGAQ is the principal local government advocacy body in Queensland and all councils are members. It provides education and training on a free and fee-for-service basis, hosts networking forums and roundtable meetings, lobbies state and commonwealth governments on Queensland local government issues, and coordinates sector-wide legal advice and submissions to parliamentary committees.

Queensland Audit Office

The QAO undertakes yearly audits of councils' financial statements and the calculation of ratios in the current year financial sustainability statement. QAO does not audit the long-term financial sustainability statement, the long-term asset management plan, or the upcoming yearly budget. In reports to parliament on the results of audits of local government entities, QAO makes an overall financial sustainability risk assessment of each council using ratio calculations based on actual results for the past three to five years.

2. Financial planning

Chapter in brief

Seventy-seven councils in Queensland raise a combined \$10.4 billion in revenue. Planning is important as councils manage \$104.7 billion of assets — mostly critical infrastructure such as roads and pipes — for their ratepayers.

Long-term financial planning in the local government sector has undergone significant reform over the last 10 years. The legislation no longer requires councils to develop and communicate 10-year community and financial plans. However, councils must still develop a 10-year financial forecast to disclose council's forecast income, expenditure, assets, and liabilities and long-term asset management plans.

Main findings

- Most councils have very low levels of confidence in their forecasts but publish them to meet legislative requirements.
- Despite it no longer being a regulatory requirement, 10 of 77 councils prepared a 2015–24 long-term financial plan. The 67 councils that don't prepare a long-term plan are depriving their community of understanding their financial strategy and priorities.
- Councils' budgeting accuracy can be poor, due to unforeseen impacts such as natural disasters, and because of poor planning and short-term thinking.
- Many councils do not undertake, or can demonstrate, sensitivity analysis that would allow them to understand how variables, such as growth in wages or changes in the number of rateable properties, affect their long-term financial forecasts.
- Fifty-one of 77 councils have not linked their asset management plans to their long-term forecasts or the asset plans are not up to date. This means that councils are not planning how they will deliver, maintain, and renew infrastructure services over the long-term.
- Most councils do not have accurate asset condition data and therefore do not know the remaining useful life of their infrastructure assets. This means that maintenance and renewals are frequently reactive or undertaken at sub-optimal times.

Audit conclusions

In many councils, those charged with governance are making decisions based on inaccurate forecasting. These councils treat financial planning as a compliance exercise, because of either a lack of resources, lack of skills, or leadership.

Those charged with governance in many councils forecast that they will spend what they believe they can afford to, based on existing revenues, not what they actually need to maintain their infrastructure in a reasonable condition. This means some councils may be approaching a point where they are unable to maintain assets at a reasonable condition because the assets are deteriorating faster than council can replace or renew them.

Councils cannot demonstrate they are meeting ratepayers' expectations on service level and asset condition. This limits their ability to forecast accurately their expenditure and increases the risk of reactive and unplanned maintenance.

These limitations perpetuate the incorrect view that the long-term financial forecasts are not worth a council's time and resources.

Introduction

In March 2007, the Australian Local Government and Planning Ministers' council endorsed three national frameworks for assessing:

- financial sustainability
- asset management and planning
- financial planning and reporting.

In 2009 the Department of Infrastructure, Local Government and Planning (the department) was given the task of implementing these reforms. This included requiring councils to improve their planning and forecasting.

Long-term financial plan

A long-term financial plan is the way a council explains to its ratepayers its strategy to remain financially sustainable. It draws upon the long-term financial forecast, explaining the principles and assumptions it was built upon, and long-term asset management plans. It reflects a council's approach to revenue and debt management, and outlines the condition in which it intends to maintain assets, and the cost of doing so.

Better-practice financial plans will also include financial indicators and sensitivity analysis. They allow a council to adjust its service delivery to meet community expectations over time and in an orderly manner.

A financial plan is not mandatory for Queensland councils but it is a critical element of ensuring long-term financial sustainability. A financial plan is particularly relevant for councils who are responsible for managing and providing services from a large base of long-lived assets relative to its income they can raise.

Appendix F outlines a financial plan's key aspects and better practice components.

Long-term financial forecast

The reforms require councils to forecast their financial position over a 10-year period and to calculate ratios to assess financial sustainability. The 10-year financial forecast must disclose a council's forecast income, expenditure, assets, and liabilities, and be included with the annual budget.

The long-term financial forecast focuses on the ability of a council to:

- regularly achieve at least a break-even position (revenue and expense are equal)
- fund infrastructure renewal and maintenance
- manage long-term debt.

The forecast outlines what funds council expects to be generating, spending and saving. It includes raising and repaying borrowings as necessary.

Long-term asset management plan

A long-term asset management plan is a key input into a council's long-term financial plan and long-term forecast. The 10-year long-term asset management plan must:

- provide strategies to ensure the sustainable management of major assets, such as roads, bridges, buildings and drainage, sewerage and water networks
- state the estimated capital expenditure for renewing, upgrading, and extending assets
- be part of, and consistent with, the long-term financial forecast.

In this report, we examine how well councils prepare long-term financial sustainability information. We assess the reasonableness of inputs, assumptions, and the quality of the content of long-term financial forecasts and planning documents.

Audit conclusions

In hindsight, the winding back of the regulatory requirements for financial planning was premature, as many councils do not robustly plan for their financial futures. Those charged with governance in many councils are preparing long-term financial forecasts without essential information about planned activities, simply to meet legislative requirements.

In part, this is because those governing councils have not invested in completing their infrastructure asset data and, thus, many do not trust the condition assessment and remaining useful lives. This information is required to develop asset management plans (AMPs). AMPs provide the framework for a council to manage its assets to ensure maintenance and renewals are undertaken at the most appropriate time to minimise costs and maximise useful life.

Because the data is poor, councils are forecasting they will spend what they can afford, not raise what they need to spend. This is leading many councils to an asset-funding cliff, where asset conditions are expected to deteriorate at a pace faster than they can be renewed.

The compliance-based approach and short-term view many councils take to financial planning has resulted in inappropriate variables used to develop their forecasts. Using incorrect or inappropriate variables means that decisions are being made on inaccurate forecasts, which perpetuates the view that forecasting is inaccurate and a waste of a council's resources.

Preparing financial plans

Financial plans provide a roadmap of how a council intends to manage its affairs and illustrate the financial effects of policy decisions. It provides valuable information to decision-makers, for example when setting rates and considering asset acquisitions and renewals. It assists ratepayers when deciding who they choose to elect and what projects they wish their council to pursue.

Despite it no longer being a regulatory requirement, 10 of 77 councils prepared a 2015–24 long-term financial plan because they saw the benefit and devoted resources to it.

The remaining 67 councils did not because they were not required to. They focused on the short- to medium-term and/or did not always have the building blocks — like asset management plans or human resources — to create long-term financial plans. This makes it hard for communities to engage with their councils to shape their environment and plan for their future. The absence of long-term financial plans limits the ability of councils and the community to understand the:

- effects of rate increases
- consequences on asset condition of council's asset management policies
- way debt is being used to build infrastructure to support the local community in the years to come.

Components of financial sustainability

Forty-nine of the 67 councils do not have the building blocks required to achieve long-term financially sustainable communities. These are people with the skills to develop:

- mature asset management plans linked to their asset registers and long-term financial forecasts
- accurate, trusted long-term financial forecasts
- a financial plan that explains the council's financial strategies and integrates forecasts.

Failing to develop these components also indicates that many councils treat long-term financial planning simply as a compliance exercise.

Long-term verses short-term thinking

Councils need to focus on delivering services for the communities in the present, and ensure they can match their community's expectations in the future. The financial planning process helps ensure the leadership team understands the consequences of its decisions and gives the community an opportunity to critique and assess its council's performance.

Councils must consider who pays for what and when; this is known as inter-generational equity. The use of debt to fund infrastructure is a common way of spreading the costs of long-life assets across generations. Many councils are approaching the point where their expenditure on asset renewals is outstripped by the rate at which the assets are depreciating. This will leave a proportionally larger burden on future generations to fund renewals.

Case study 2 demonstrates how short-term views can impede the ability of councils to prepare and plan for long-term sustainability.

Case study 2

Short-term views from council leadership

Council elections occur every four years on the last Saturday in March. Since 30 January 2012 the role of the mayor has changed from 'proposing' the budget for adoption by council to 'preparing' the council budget.

Some mayors lead the development of their council's budget and long-term forecasts, while others rely on advice from their council officers and develop the budget in a collaborative manner.

Council officers at several councils reported to us that councillors and mayors are taking a short-term view to developing their budgets and long-term forecasts. These councils reported that leadership paid limited attention to long-term asset management and financial sustainability, and that understanding ratio and forecast results was not a high priority.

Officers at these councils found it hard to plan for long-term sustainability because of reactive and short-term viewpoints from leadership who overrode their advice on:

- asset acquisitions and renewals
- required increases in rates.

Some councils do not see the development of up-to-date and robust asset management plans as a priority and do not employ designated asset managers.

This has many effects on a council's long-term sustainability including increasing the risk of:

- long-term budget deficits
- poor or ineffective asset management, with assets being renewed at sub-optimal times and to varying conditions
- infrastructure and major equipment asset acquisitions being poorly planned, with limited understanding of the assets' whole-of-life costs and effects on the budget and forecast position.

Forecasting financial performance

Many councils are building long-term financial forecasts and ratios on inaccurate budgets. This is in part due to councils generally not doing sensitivity analysis of underlying budget assumptions and poor forecasting capability.

At the councils we selected for deeper analysis there were large variations between yearly budgets and actual results, and forecast ratio results and actual results. This reduces confidence that long-term forecasts are accurate and can be relied upon by ratepayers and other stakeholders.

Forecasting accurately

Councils forecast ratio results each year and should assess them against actual ratio results to determine the level of accuracy and learn from any mistakes. Councils should assess ratios over the long-term to make conclusions about an entity's ability to continue as a going concern.

We found large variances for the five councils selected, when we compared the 10-year forecasts of the legislated ratios — operating surplus ratio, net financial liabilities ratio and asset sustainability ratio — for the last three years and the actual results.

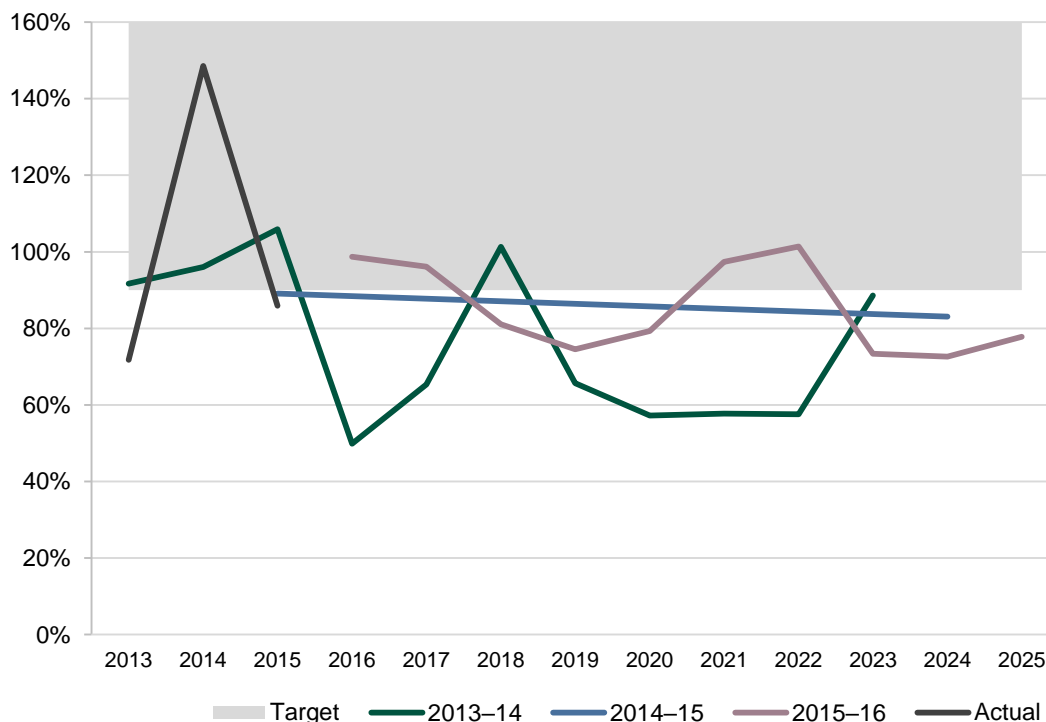
Each council, for each of the ratios, forecast large variances between years (except for the asset sustainability ratio at one council). There could be legitimate reasons for the variances, such as changes in strategic direction, unforeseen emergent expenditure, changes to funding programs, or significant movement in asset values. Alternatively, the variances could indicate poor forecasting due to poor underlying data or being overly optimistic or overly conservative in the assumptions used. Four of the five councils could not explain the differences over the years because they didn't publish explanatory information. Nor could they provide working papers to support the historical forecasts.

Asset sustainability ratio

Figure 2A demonstrates the variability in the asset sustainability at one council. The asset sustainability ratio compares the level of depreciation (which is an allocation of the cost of the asset over time) to the asset renewal budget. The council in:

- 2012–13 was forecasting peaks and troughs of asset investment
- 2013–14 removed the variability
- 2014–15 moved the years the peaks and troughs are expected to occur.

Figure 2A
Comparison of a Council E's forecast asset sustainability ratio results



Note: 2013–14 forecast includes the 2012-13 budgeted result for comparative purposes. Councils are referred to in this report as A through E. The order presented in the report does not align with the councils listed in Appendix B.

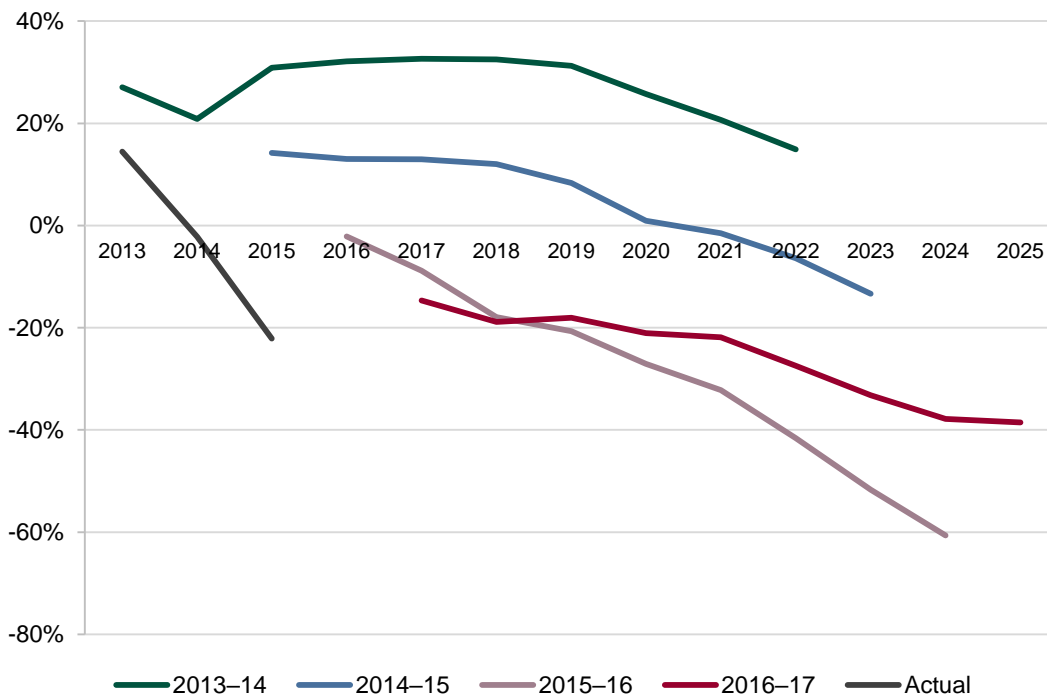
Source: Queensland Audit Office using Council E's long-term financial forecasts

Financial liability ratio

Figure 2B outlines another council's experience at forecasting its net financial liabilities ratio. This ratio indicates the extent to which a council's operating revenues can service its net liabilities (for example loans and leases) while maintaining assets and community service levels.

This council's policy is to fund infrastructure from its own source revenue and access the debt markets as a last resort. In 2013–14 it forecast it would maintain debt across the forecast period. The 2015–16 forecast, published less than a year before the actual result was determined, was 36 percentage points higher than its actual result. The council's subsequent forecasts are respectively 29 per cent and 10 per cent different to the forecast from the prior year. The council's ability to forecast the debt management has so far not been accurate and each year has significant variations.

Figure 2B
Comparison of Council A's net financial liabilities ratio results



Note: 2013–14 forecast includes the 2012-13 budgeted result for comparative purposes. 2013–14, 2014–15 and 2015–16 forecasts are sourced from annual reports of the prior year. 2016–17 forecast sourced from the 2016–17 budget papers.

Source: Queensland Audit Office using Council A's long-term financial forecasts

Variables affecting long-term forecasts

Sensitivity analysis

None of the five councils we selected for analysis undertook — or could demonstrate they undertook — sensitivity analysis over their 10-year financial forecasts; since the audit began, one council has undertaken significant sensitivity analysis in developing their 2016–17 budget and forecasts. Sensitivity analysis is testing how a change in a variable affects forecast results. Councils could not show that their financial planning work papers considered changes in variables.

This has resulted in long-term financial forecasts lacking important information to help councillors and council staff understand the impact of changes in key variables on the budget and long-term financial forecasts.

Councils should undertake sensitivity analysis on the budget variables that have the biggest impact on the budget and long-term financial forecast. These include:

- growth in rateable properties and wages
- changes in construction unit rates
- expected movements in fair values (current replacement costs) over time.

Appropriate indices

Not all councils apply appropriate indices to reflect the predicted increases in their operating costs over time. Councils develop forecasts using indices, with limited evidence to support why they selected those indices and how they are right for them.

Across the sector 18 councils, including two that we selected for deeper analysis, only use the Brisbane consumer price index (CPI) to forecast growth in revenue. The CPI is a weighted price of a basket of goods and services incurred by households in Brisbane; it looks at historical data. It is not the best indicator to reflect price pressures on a council's operating costs.

The Local Government Association of Queensland (LGAQ) developed the council cost index (CCI) to forecast the increase in councils' costs year on year. Five councils use the CCI and a further six, including an additional two that we selected for deeper analysis, used a mix of the CPI and CCI to forecast growth in revenues. The CCI weights the wage price index, road and bridge construction index, and the Brisbane CPI. The LGAQ publishes the methodology so that councils can amend the CCI to better reflect their circumstances.

Forty-seven councils used an index that was not referenced to a source or explained in their long-term financial forecast how they determined it. One council used another recognised index.

When councils forecast revenue to increase by the current CPI, but actual costs increase by more, a council will face increased financial pressure to provide services. It also increases the risk that the forecast is unreliable. Figure 2C compares percentage change in the CPI with the CCI and Case study 3 demonstrates how different indices can affect a forecast.

Figure 2C
Consumer price index vs. council cost index

Year	CPI	CCI	Difference
2011–12	0.9	3.6	-2.7
2012–13	2.0	3.3	-1.3
2013–14	3.2	2.6	0.6
2014–15	1.5	2.2	-0.7

Source: Queensland Audit Office using Australian Bureau of Statistics and LGAQ data

Case study 3

Selecting appropriate variables

Revenue growth

One council is forecasting increases in rateable properties that contradicts their expectations, outlined in their annual report. In addition, the forecast increase does not align with their historic trends which are twice that for the preceding four years. Both of these council's population forecasts are different to that forecast by the Australian Bureau of Statistics. Population is a key input in determining the Commonwealth's Financial Assistance Grants (FAGs) and is an indicator of growth in rateable properties. Over-estimating population will mean forecast operating surpluses are larger than expected.

Expenditure projections

Another council is estimating natural disaster recoverable works revenue and expenditure projections for each year of the 10-year horizon, despite not having weather forecasts to support this. Based on historical precedent this assumption is unrealistic. The forecast recoverable works expenditure is the minimum amount required to maintain the council's current workforce.

Many councils use CPI to forecast cost increase, including two councils we selected for deeper analysis. Another two that we selected for deeper analysis used CPI for certain items. The CPI is not designed to reflect the change in costs incurred by councils. One council developed its own council cost index by weighting four cost categories to best reflect its costs.

Asset valuations

Three councils do not forecast expected future revaluation of assets, and one council could not support the methodology it used. Non-income generating infrastructure assets must be valued at the expected cost of replacement. Over time, the cost to replace roads, bridges, and pipes will vary to reflect the cost of wages, materials, and improving technologies. The changing replacement cost effects the forecast depreciation expense and operating surplus or deficit.

A minimal five per cent increase in one council's projected 2016 asset values of \$2.9 billion results in an increase in depreciation expense of approximately \$3.6 million based on an average 40-year asset life. This could turn projected surpluses into deficits.

Maintaining infrastructure

Some councils are not planning asset acquisitions well, do not understand the whole-of-life costs, or do not effectively communicate with their communities about the condition and cost to maintain assets.

This is because asset management plans are not covering the whole of an assets life and, in many councils, are not linked to the financial forecast or current year budget.

This approach to asset management is leading to an inability to afford to maintain assets to a reasonable condition. It is also means that forecast asset expenditure may not reflect accurate costs and indicates that maintenance and renewal projects are undertaken at sub-optimal times.

One of the councils we visited had recognised this shortcoming and developed a plan to address it. Case study 4 explains how Redland City Council expects to improve the accuracy of its forecasting and improve asset management over time.

Case study 4

Establishment of a capital works advisory committee

In 2015 Redland City Council (RCC) established the Capital and Operating Advisory Panel to provide advice on strategic, economic, commercial, and financial matters relating to RCC's delivery of community services.

The panel comprises the Mayor, a councillor and three external members. Current external members hold engineering qualifications.

RCC benefits from access to independent expertise from members with public and private sector experience in matters such as asset management, return on investment; and strategic procurement.

It meets quarterly and its roles are to:

- consider the potential impacts on, and benefits to, the community of any proposed capital and operating investments, as well as risks associated with not proceeding with such investments
- review RCC's long-term strategic asset management planning, investment profiles and asset condition trends
- consider proposed annual and five-year capital works and operating programs
- ensure proposed capital works and operating programs are based on a robust business case, in part by challenging council officers about the underlying assumptions
- monitor delivery of programs against budget and project progress against project plan
- conduct a post implementation review of major projects.

An audit and risk committee, comprising independent members with the appropriate skills, could fulfil a similar function in smaller councils.

Understanding whole of life infrastructure costs

Infrastructure assets — such as roads, pipes, or major recreation facilities — have ongoing maintenance requirements to ensure councils maintain their condition and can use them for as long as possible. The ongoing maintenance and renewal costs are frequently significant for a council's financial performance, but council may not incur the costs on a yearly basis.

Accordingly, decision-makers need to accurately determine the optimal time and expected forecast costs before determining whether they should build or purchase an asset. They should also include whole-of-life costs into the long-term forecast once they make a decision to purchase.

None of the five councils we selected for deeper analysis has historically applied project management principles, such as calculating or accurately including whole-of-life costs in its forecasts. Nor have the five councils developed business cases to support the acquisition of new or replacement assets.

These councils roll over expenditure estimates from year to year and cannot demonstrate that they are accurate or that they undertake it at the appropriate time. Consequently, work is reactive in nature, frequently more expensive, and more time consuming. A lack of preventative maintenance increases the risk that council cannot renew but will need to replace assets. Within the last year, two of the five councils we selected for deeper analysis have developed policies that require whole-of-life costs be calculated for new infrastructure assets.

State departments and statutory bodies are required to have regard to Queensland Treasury's Project Assurance Framework (PAF) and the Value for Money Framework in preparing evaluations concerning the acquisition, maintenance or improvement of significant assets. This requirement results in the appropriate due diligence over costs and assessment of alternatives.

Local governments do not have a similar framework to follow. However, QTC has developed a scalable project decision-making framework to assist councils with:

- building discipline into the project selection process
- understanding and mitigating risks and unknowns from the outset
- prioritising project proposals across a common set of criteria
- development of business cases for appropriate projects
- justifying decisions to stop projects that don't support organisational strategy
- providing a portfolio view of all proposed projects against available budget, including understanding whole-of-life costs.

The department and a selection of councils were consulted and involved in its development.

Case study 5 demonstrates how a lack of an evaluation framework has contributed to a council making an uninformed decision over a major acquisition.

Case study 5

Building assets without all the information

Background

Council D owned an old swimming pool that required an expensive renewal. At a council meeting it was resolved that a bigger swimming pool with better facilities would be built and the old pool closed.

Assessment process

Council D did not prepare a business case before making a decision and did not consider:

- how the construction was to be funded
- the operational cost of running a bigger pool and improved facilities. Council assumed the costs would be comparable with the old pool.

Current and long-term financial impact

After council made the decision to build, it applied for grants but was unable to obtain enough to fund the construction. Council did not assess its ability to fund the project through rates but decided to borrow to fund the remaining 50 per cent of the cost.

The operating costs of the new pool are approximately five times those of the old pool but council does not recover the cost to provide the pool through entry fees or lease costs to the swimming club.

The council allows the pool management company to keep all profits they make and pays them to maintain and operate the pool.

This council is exposed to all the risks but receives no direct financial benefits.

Renewing assets

At the current forecast rate of expenditure, three of the five councils we selected for deeper analysis will not be able to renew their infrastructure assets before the end of their useful lives. Either these councils did not have AMPs or they were out of date.

We took a conservative approach and assumed today's current replacement cost and that each asset will only need to be renewed once in this period. Over this time it is expected that the condition of assets will continue to deteriorate.

Most council infrastructure assets are long-life assets, such as pipes, roads, and buildings, and councils expect to renew or upgrade them to deal with growing capacity demands. When councils first installed or commissioned many assets their useful lives were unknown, and few could accurately determine an asset's condition.

Over time, technology has improved councils' ability to assess accurately the condition of an asset and its expected remaining useful life. This allows councils to better plan their capital program. Asset management plans help councils and their asset managers to plan how to maintain an asset's condition and maximise its life, rather than just fixing it when it fails.

We analysed planned expenditure on asset renewals across the five councils audited. Our analysis assumed the council asset registers are accurate in terms of the assets' lives and therefore reflect when they will require renewal.

Figure 2D shows the number of years assets will be past their average estimated useful lives at the current rate of expenditure at three councils. It also shows the required annual increase in expenditure to ensure councils renew assets before the end of their lives. At the current forecasted rate of expenditure, one council will still be renewing assets 50 years after the end of their useful life. The alternative is to increase rates by 4.89 per cent above existing forecasted increases to raise enough funds to undertake renewals.

Figure 2D
Impact of timing of forecasted asset renewal expenditure

Council	Estimated years past asset life	Increase required to forecast annual funding to renew before estimated end of life (%)
A	23	1.32%
B	10	0.75%
C	50	4.89%

Note: Council D did not know the estimated remaining useful lives and was not calculated. Council E is projected to maintain assets over the remaining useful life but will be behind over the current 10-year horizon.

Source: Queensland Audit Office from council asset registers

Over the 10-year forecast, one council is investing significantly less in water assets than required. Case study 6 explains the financial consequences.

Case study 6

The importance of maintaining infrastructure

Background

Many councils are the sole suppliers of water infrastructure in their communities. These councils maintain water infrastructure such as treatment plants and pipes to deliver water and remove waste.

Importance of aligning asset management and forecasts

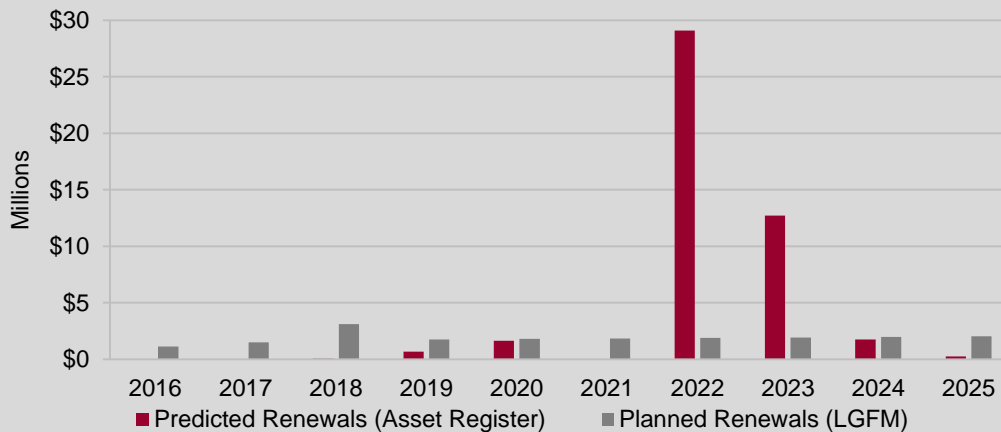
Figure 2E compares Council E's predicted water asset renewals per its asset register to planned renewals per its long-term financial forecast. This asset class had the most current AMP (prepared 2014) and the most up-to-date asset register data.

The asset register predicts \$46.2 million to replace water assets over the next 10 years. The planned renewals forecast over this period is \$18.9 million, reflecting what Council E believes it can afford to spend. In 2022 and 2023 the asset register indicates 42 per cent of water pipes will have reached the end of their useful lives, but Council E is not forecasting corresponding renewals because it does not know the pipe's condition.

Financial consequence

This council will need to raise water rates by 19 per cent (\$146) per rateable property per year for 10 years to fund the \$27.3 million shortfall, or risk not supplying drinking water to its community.

Figure 2E
Council E planned vs. predicted water assets renewals



Note: The accumulated depreciation and written down values were used to approximate actual replacement cost

Source: Queensland Audit Office from Council E financial planning documents and asset management systems

Asset management plans

Only 26 of 77 councils have up-to-date asset management plans that link to the financial forecasts and 10 have a financial plan. The *Local Government Act 2009* requires AMPs to cover 10 years or more.

Infrastructure assets comprise the majority of a council's balance sheet and maintaining assets consumes the greatest amount of a council's cash flow. AMPs outline strategies to ensure the sustainable management of assets and forecast capital expenditure for renewing, upgrading and expanding assets.

Councils feed data into asset management plans from asset registers. They capture data such as when the asset was commissioned, its expected useful life, remaining useful life and the condition of the asset.

Fifty-one of 77 councils had either not linked their AMPs to their long-term forecast or had linked them, but the asset management plans were out of date. In our last report to parliament on the results of local government audits we reported that this was a significant decline from the prior year, where 32 councils had out-of-date asset management plans.

These councils cannot demonstrate how they estimate capital and maintenance expenses. Forecasts are rolled over from previous year's estimates (for renewals, upgrades, and additions) and maintenance and operating costs, rather than forecasting requirements based on asset condition or what is actually required. This can result in councils not appropriately maintaining assets and services being interrupted.

Asset condition data

All five councils we selected for deeper analysis have incomplete and inaccurate asset condition data for asset managers to make reliable assessments of when to undertake renewal work. Too many councils — including four of the five we visited — give a low priority to ensuring asset management data, such as condition assessment, is updated in asset registers. Therefore, the assets' remaining useful life is uncertain. Councils use customer complaints and the asset's age profile in asset registers — that is not an indicator of condition — in lieu of accurate condition data to formulate their asset renewal program.

Asset condition is one factor used to derive an asset's remaining useful life. Because of not recording accurate asset condition, councils do not have a high degree of confidence in the remaining useful lives of assets reported in the asset register.

Councils should use asset condition ratings to determine renewal and maintenance programs and to calculate depreciation expense. Depreciation is an accounting concept to recognise the decline in value and cost of using an asset over its useful life. The asset sustainability ratio, one of the legislated ratios, compares depreciation expense against money spent on renewing assets to identify if ageing assets are being replaced at the optimal time. Depreciation is reported in the financial statements and is used in the calculation of the operating surplus ratio.

In *Report 16: 2014–15 Results of audit: Local Government entities 2013–14* and *Report 17 2015–16 Results of audit: Local Government entities 2014–15* we reported that problems with asset management has resulted in the majority of reported audit issues:

- four of 10 qualified audit opinions in 2014–15 related to asset valuations
- \$1.5 billion of \$3.5 billion in financial statement adjustments related to asset balances. Adjustments arose from revaluations and assets not previously recognised
- the majority of \$780 million in 2013–14 prior period errors reported by 25 councils related to recognition or de-recognition of assets arising from revaluations or cleansing asset management data.

Our findings led us to recommend in:

- 2013–14 that the department assist councils in improving asset management practices
- 2014–15 that councils give greater priority to the preparation and update of long-term asset management plans that link to their long-term forecasts.

Efforts to address these recommendations have not resulted in improved asset data and management practices.

Case study 7 illustrates the effect poor asset condition data and inaccurate expenditure forecasting has on setting rates.

Case study 7

The importance of accurate condition data

Why asset condition data is important

An asset's condition determines when maintenance and renewals should occur. Councils forecast their expected renewals over 10 years and these should reflect the asset management plans and asset register. These costs are significant and can affect the level at which councils set property rates.

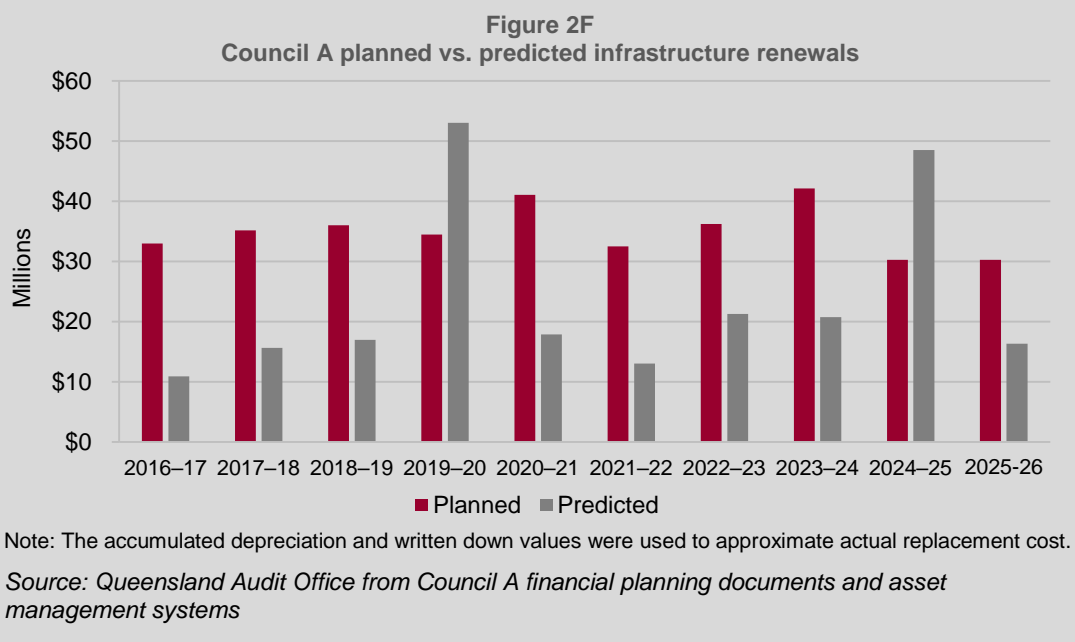
How asset condition data drives renewals

Councils are undertaking asset renewals in an unstructured and reactive manner.

Figure 2F shows the predicted cost and timing of Council A's infrastructure assets which are estimated to reach the end of their useful lives in the next 10 years (from the asset register). We compared it to the planned renewals in the 10-year capital program (in the 10-year forecast). The comparison illustrates \$116.7 million in additional capital expenditure is planned compared to what the asset register — assuming it is materially correct — indicates is required over the 10-year horizon.

Financial consequences

This council is not spending enough on assets over the entire life but has brought forward spending in this 10-year window. Council A has effectively built in an annual charge of approximately \$174 per rateable property per year for 10 years to fund this additional work.



Explaining councils' financial position

Four councils we selected for deeper analysis did not adequately explain in their financial sustainability statement the financial forecast and the assumptions it was built on. These same four councils did not have a financial plan.

Fifty-eight of 77 councils included a boiler-plate explanation copied from the department's guideline to explain the long-term financial sustainability statement. Councils do not explain their forecast financial position because they see the preparation of the long-term financial sustainability statement as a compliance issue.

Five of the councils we selected for deeper analysis did not always meet the target ranges for financial indicators each year of the forecast. The annual budget and annual report did not include commentary on why the target range was not met, what the movement in the ratios indicated, and what the results meant to the long-term sustainability of the council. Many councils are not informing councillors and the community on how well they are travelling and the long-term impacts of the decisions made.

Each year councils are required to develop a budget but, unlike state departments, do not have to publically report their actual performance against it. Many councils discuss actual results compared to budgeted results during council meetings and make the minutes publicly available.

A council's annual budget includes the forecast measures of financial sustainability for 10 years. A council's annual report includes the current year financial sustainability statement and long-term financial sustainability statement.

Councils are not obligated to publicly release the credit review report they receive under the State Borrowing Program, but may choose to do so. The community is often not made aware of councils that are financially stressed, therefore depriving them of information to assess the performance of their elected representatives.

The five councils selected provide their councillors and the executive management group with monthly financial performance reports, including the legislated ratios, which compare actual results against forecasted results. While this provides valuable short-term information it provides limited insights to assess long-term sustainability.

Delivering services efficiently to communities needs

The department and ratepayers do not know if councils deliver services efficiently because the department has not legislated, or built in, a mechanism to determine if:

- services are being delivered efficiently
- councils are meeting ratepayer's expectations of service condition and standard.

Maintaining infrastructure

Councils can maintain assets to a high, average, or poor condition and each level has different cost profiles and flow-on effects to the productivity of the local economy. For example, high quality roads decrease travel time for vehicles compared to poor quality roads.

None of the five councils we selected for deeper analysis could demonstrate it engaged with the community on what condition level they should maintain assets to, and what that would mean for its financial sustainability.

This is explained using Figure 2G. It shows a sealed road deteriorating from crocodile cracking (or fatigue cracking) and the road after council has restored it. Crocodile cracking is caused by the road taking too large a load over time. It can also indicate sub-base failure or poor drainage. The deteriorating road is able to be driven on with limited discomfort to road users and council needs to decide to repair it now or in the future.

In this example the council received a grant to rectify this defect and improve the condition of the road at this specific location.

Figure 2G
Restoring sealed road condition



Source: Queensland Audit Office taken at Scenic Rim Regional Council February 2016

The *Local Government Act 2009* is underpinned by local government principles: one is the sustainable development and management of assets and infrastructure and delivery of effective services. It does not prescribe how to measure the appropriateness of service standards and levels. This would be achieved primarily through community engagement. The robustness of this process is at the discretion of councils.

Councils need to balance maintaining assets to a high condition (which brings forward costs) with allowing the condition to deteriorate. Allowing assets to deteriorate pushes costs out, but frequently results in a higher cost to restore asset condition.

3. Monitoring and supporting councils

Chapter in brief

The Department of Infrastructure, Local Government and Planning (the department) administers the local government sector. The department plays a vital role in regulating local governments and providing support, education and equity in local government affairs.

Queensland Treasury Corporation (QTC), in consultation with the department, developed a local government forecasting tool. Councils must use the forecasting tool to support their borrowing applications and all councils can use it to prepare their long-term financial forecast.

Councils' long-term financial forecasts and long-term measures of financial sustainability are not independently audited, subject to routine reviews, or required to be monitored by the department.

Main findings

- Many councils don't support their forecast calculations with relevant and reliable data and assumptions. As a result, they cannot be independently audited to provide assurance as to the accuracy of their forecasts.
- Many councils have improved the sophistication of their forecasts by using the QTC financial forecasting tool — 56 out of 77 councils now use the QTC forecasting model.
- The department does not know whether councils have robust asset management and financial plans, because they don't evaluate and monitor council financial forecasts and plans.
- The department recognised the value in councils calculating the asset renewal funding ratio before amending the legislation in 2012, but was not effective in helping councils improve the underlying data required for it to be calculated. Most councils cannot accurately calculate the asset renewal funding ratio due to poor asset management plans and incomplete or inaccurate asset condition data.

Audit conclusions

The department's asset management support and education is not resulting in the improved underlying asset data required to forecast reliably. The department is not assessing the effectiveness of the programs because it incorrectly assumes councils know when they need help and can access guidance from other sources.

The department has reduced its oversight of councils' financial planning but at a cost — without adequate plans councils are not necessarily managing assets well. This limits councils' ability to forecast accurate asset investment. Insufficient investment increases the risk that their assets will deteriorate at a rate faster than council can renew — putting pressure on regional economies.

Introduction

Evaluating financial sustainability

In 2009 the former Department of Local Government and Planning (former department) responded to the nationally consistent framework for financial sustainability by:

- legislating that local government must produce 10-year financial forecasts, 10-year community and financial plans, 10-year asset management plans (AMPs) and calculate specific ratios to assess financial sustainability
- implementing a performance evaluation and reporting framework. On a voluntary basis, councils submit annual returns, forecasts and plans to the former department to evaluate their financial sustainability, governance, and financial accountability.

In 2011, as part of the implementation of an election policy, the former department discontinued the evaluations and in 2012 they reduced the number of ratios required to be calculated and removed the requirement for the 10-year community and financial plans.

They did this to provide a more efficient reporting process for council.

Long-term financial forecasting tools

In 2006 the Queensland Treasury Corporation (QTC) developed a financial forecasting tool — the Local Government Forecasting Model (LGM) — to support its initial financial sustainability reviews of councils. During 2013 and 2014 the LGM underwent an upgrade. The department requires all councils to use the LGM to support borrowing applications and QTC uses it as part of its council credit review process.

Independent audit of council financial sustainability

Councils are not required to have their long-term measures and forecasts audited before they publicly report them.

The department approached the Auditor-General in 2012 to discuss whether the financial sustainability measures and long-term financial forecasts were auditable. We responded that the majority of councils would be unable to prepare forecasts and provide suitable evidence of their assumptions; therefore the relevance of an audit would be reduced.

We agreed to audit the calculation of the current year financial sustainability metrics, but not the appropriateness or relevance of the ratios, nor the councils' future sustainability. We proposed to undertake this performance audit several years after the legislation had been in place to determine if it would be beneficial to audit long-term financial forecasts and sustainability measures.

We examined how well the department supports and monitors councils' financial viability and whether councils are benefiting from using the financial forecasting tools available to them.

Audit conclusions

Councils have been provided with a fit-for-purpose forecasting tool that allows for detailed and robust financial forecasts, but have been let down by a lack of targeted support from the department to ensure the appropriate amount of rigour is invested in their development.

The department provides less support and oversight now than it did two years ago because it steers councils towards external expertise rather than having it internally. This has the potential to create access issues for resource-constrained councils. Shared expertise across councils may be an alternative. In addition, by not formally conducting reviews of council forecasts, the department has reduced its ability to provide targeted support where needed.

Many forecasts lack accuracy due to poor AMPs and asset condition data. This limits their understanding of what level rates need to be set at, and when assets need to be renewed to optimise the lives of the assets.

The level of documentary evidence councils retain to support their forecasts is generally poor and we would be unable to conclude on their accuracy and robustness.

Providing assurance over long-term financial forecasts

Councils must support long-term financial forecasts with adequate, relevant and reliable evidence. Having the financial forecast audited gives report users independent assurance it is based on sound assumptions.

Four of the five councils we selected for deeper analysis did not have enough supporting evidence for us to conclude on the reasonableness of the long-term financial forecast. We would be able to give a conclusion on one council. This council had in place:

- a documented financial plan and evidence to support key assumptions, parameters and indices
- AMPs linked to its financial forecast
- documented finance policies
- a robust financial planning framework with forecasts reviewed and adopted to inform the subsequent budget
- reporting processes that continually challenged assumptions.

We are not currently required to audit council long-term financial forecasts. If we were to provide a conclusion on a forecast we would apply the requirements of Australian Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraising and/or Prospective Financial Information*.

ASAE 3450 requires our procedures to consider assumptions used in preparing forecasts. Our audit would include looking at:

- the source, degree of reliability, uncertainty, verifiability, and validity of assumptions
- the likelihood of assumptions occurring
- the methodology used in their development
- the sensitivity of financial information to material changes in assumptions
- whether all material assumptions have been identified.

The department's oversight over long-term council sustainability

In 2010–11, the department identified which councils needed the most help to manage their infrastructure assets, but did not provide structured support and guidance to help those councils improve asset management planning.

The department has publicly stated that once councils can calculate the asset renewal funding ratio reliably, it would mandate it and remove the requirement to calculate the asset sustainability ratio. The asset renewal funding ratio provides a better indication of a council's ability to maintain its assets because it focuses on capacity over the future, and does not use non-cash depreciation as a proxy guide.

However, the department does not analyse or benchmark council's financial data, forecasts or plans. This means it cannot determine if asset management has reached a level of maturity that would allow for a reliable asset renewal funding ratio result.

This is because there is no legislative requirement for the department to monitor council financial sustainability. The department also does not have enough, or effectively make use of, information to identify financial problems in councils. This is due in part to the former government's decision in 2012 to roll back the requirements for councils to publicly report their:

- performance against three of the six legislated ratios
- ten year financial plan
- ten year community plan.

The department did not undertake a review to determine if the reduction in legislative financial planning requirements affected:

- the number of councils who effectively plan
- council's financial performance.

The *Local Government Act 2009* allows the minister to gather information to monitor and evaluate whether a local government or councillor is performing its responsibilities properly or is complying with local government legislation. The minister can take remedial action if necessary.

Such action can be the appointment of an advisor to help the council perform its responsibilities. In serious cases, the minister may appoint a financial controller to implement financial controls, approving all payments and ensuring all financial decisions are sound. Since amalgamation, this power has been used eleven times in nine councils; either at the request of the concerned council, or after the department or we identified serious financial and governance issues.

Support from the department

Prior to 2012 the former department performed two annual assessments of councils' financial sustainability. The former department performed this as part of the performance evaluation and reporting process. The last annual assessment was conducted in 2010–11, where 56 of 73 councils voluntarily provided data and information to the department. The department made the following key observations:

- Three councils did not have a long-term financial model underpinned by clearly identified assumptions.
- Four councils had models without a clear and coherent financial strategy.
- Councils did not have up-to-date AMPs that they could integrate with the financial forecasts.

The former department provided each council with a formal response following the completion of the evaluations and stated they would work with councils that require support to develop long-term financial forecasts and financial sustainability strategies.

Figure 3A outlines three key programs, the number of participating councils, and whether their AMPs are up to date and linked to the financial forecasts. The success rate of councils having up-to-date asset management plans that are linked to the financial forecasts is low, ranging between 17 to 33 per cent of participating councils.

Figure 3A
Department sponsored asset management improvement programs 2010 to present

Program	In-scope councils	Councils with up to date and linked asset management plans
Advancing asset management in local government	61	18 30 per cent
COAG water and wastewater capacity building	6	1 17 per cent
Asset management improvement	9	3 33 per cent

Note: COAG = Council of Australian Government.

Source: Queensland Audit Office from the Department of Infrastructure, Local Government and Planning

The department did not follow up on whether councils had developed AMPs and linked these to their long-term financial forecasts. The department has taken this approach because it believes that there is enough material from specialised bodies, such as the Institute of Public Works Engineering Australasia (IPWEA), and education and support from QTC, and from industry bodies such as the Local Government Association of Queensland. Accordingly, the department does not have in-house asset management expertise to offer council support.

The department has several regional offices that provide outreach services, informal advice, and can connect councils with industry experts. The department offered new councillors asset management training as part of the March 2016 councillor induction process.

Non-departmental bodies tailor and provide education and support on a cost recovery, fee-for-service and free basis. This requires councils to recognise they need help and devote resources to obtaining it. This raises equity of access issues and is one reason why the councils who do not have up-to-date AMPs do not seek the help they need.

Departmental oversight

Even if the department had in-house expertise it could not provide proactive targeted support to councils because it needs to improve its understanding of:

- how advanced councils are in developing accurate AMPs to inform long-term financial forecasts
- the level of consistency in methodologies to determine variables
- financial forecast reliability and level of information accuracy
- how many councils treat the forecast and ratio analysis as a compliance exercise.

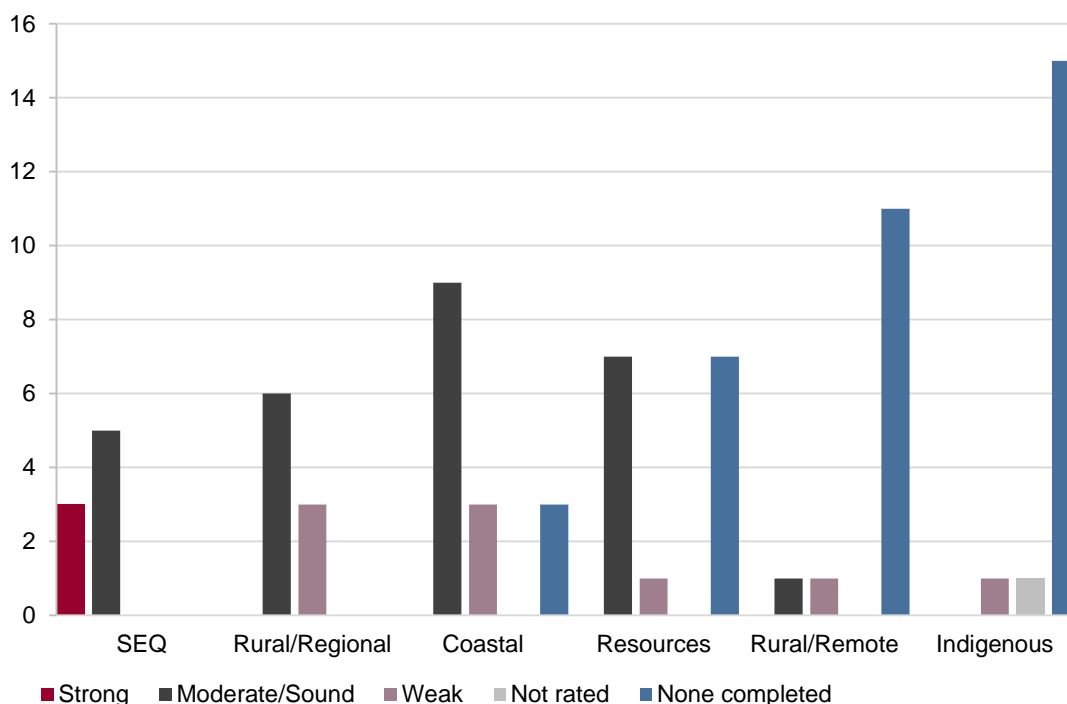
The department does not have a comprehensive approach to monitoring the financial sustainability of councils and, as a result, cannot identify councils at financial risk and provide early support or intervention.

Since 2011, the department does not survey councils, collate their financial plans or test a sample to understand how appropriate the variables that influence forecasts are. The department primarily relies on credit reviews performed by QTC (as part of the State Borrowing Program) and the results of QAO financial audits to identify financial sustainability issues. This will not identify all councils at financial risk because:

- almost 50 per cent have not been subject to a credit review
- credit reviews assess the ability of a council to service their requested loan borrowings, not their financial sustainability
- financial audits are on historical data and make an assessment of a council's ability to continue as a going concern for the following year only. QAO does not audit or assess long-term financial sustainability. Our yearly assessment of financial sustainability risk factors in our report on the results of audit of local governments does not take into account councils' long-term forecasts or credit assessments undertaken by the QTC.

Figure 3B shows the most recent results (weak, moderate, or strong) and number of councils who have had a credit reviews since amalgamation by council segment. QTC has not reviewed 36 councils; 17 of the ones it has not reviewed are forecasting deficits for each of the next 10 years.

Figure 3B
Number and most recent results of QTC reviews by segment since amalgamation in 2008



Note: One indigenous council has been reviewed by QTC but not rated.

Source: Queensland Audit Office from Queensland Treasury Corporation

Modelling financial forecasts and ratios

Fifty-six councils use the LGFM as their primary forecasting tool. The other councils use in-house developed tools, spreadsheets or other forecasting models available in the market. These councils are depriving themselves of useful forecasting information tailored specifically to Queensland councils.

Half of the councils who use the LGFM only analyse and consider the three mandated ratios when internally assessing long-term financial sustainability, despite the LGFM providing many metrics and eight key ratios.

The use of one model across the sector would provide a level of consistency when stakeholders assess a council's published forecast over time or against other councils. There is significant movement of finance and executive staff movement between councils; and one model would help staff to understand the detail of their new council's forecasts and financial strategies.

QTC updated the LGFM to evolve with the sector and to make it a fit-for-purpose model for Queensland councils. The LGFM allows councils to:

- forecast revenues and expenses at a granular level
- split revenues and expenditure into operating and capital in nature
- import asset data at either a rolled up or individual level
- use different indexations for different line items, such as enterprise agreement rates for wages
- use built-in ratio calculators to better understand their financial decisions
- build different scenarios
- undertake analysis and basic customisation to obtain an accurate fit-for-purpose forecast.

One council we visited used an in-house model to develop and publish its long-term forecast as well as the LGFM to provide updates to councillors. The risk of using two models is explained in Case study 8.

Case study 8

Risk of multiple approaches to forecasting

Using two models creates a risk that council will base forecasts on inconsistent assumptions and make decisions based on an unreliable financial position.

This occurred at one council where it incorrectly classified the funding and spending of \$22 million of disaster recovery works as operating revenue and expenditure in the LGFM. In the 2015–16 published forecast it correctly classified it as being capital in nature.

The operating surplus ratio excludes capital revenue from the calculation. Accordingly, recording disaster recovery funding as operating revenue favourably affected the operating surplus ratio result. In 2015–16 the update to councillors reported an improved operating surplus ratio of -12.5 per cent, while the published annual budget provided a correct ratio of -32.1 per cent.

4. Measuring financial sustainability

Chapter in brief

Legislation requires councils to use three ratios to measure whether they are financially sustainable. Councils are to report these ratios to the community through annual budgets and annual reports.

The usefulness of these ratios depends on the accuracy of the inputs and the users' understanding of how to interpret the results.

Main findings

Chapter 2 outlined our concerns over the inputs into councils' forecasts. The analysis in Chapter 4 is based on reported results and no adjustments to forecasts were made.

- Half of the councils only use the three mandated ratios to measure their financial sustainability. This is depriving councils of additional useful information to assess their financial viability.
- Twenty-four councils are forecasting operating deficits every year over the long term and 23 of them don't have a long-term financial plan. Sixteen of the 24 are highly reliant on grants to operate.
- Thirty-four councils rely on grant funding to cover their costs but 18 do not have up-to-date asset management plans (AMPs) to demonstrate good financial stewardship.
- All councils are reporting they have sufficient cash to service their debt.
- Total council debt is forecast to decrease by 20 per cent over the next 10 years with many councils preferring to use their own funds for capital works.
- Forty-three councils cannot afford to maintain assets in a satisfactory condition and 32 do not have up-to-date AMPs to guide how they intend to manage them.

Audit conclusions

The reported financial outlook of many councils is poor, but we cannot determine exactly how many are financially stressed or unsustainable, due to poor asset condition data and unsupported assumptions.

Those charged with governance in many councils are running deficits and have not developed strategies to return to surplus within the next 10 years, or have not developed plans to sustainably manage assets. This is contributing to assets being run down and will result in unaffordable capital costs when these assets fail.

Introduction

The nationally consistent framework

The national framework developed consistent criteria — called indicators — for assessing the financial sustainability of councils. The indicators were designed to show directions being taken by councils to remain financially sustainable and to assess whether or not desired outcomes are being achieved. Appendix J outlines the eight national framework indicators.

The framework groups the indicators into the following four themes:

- income generating efforts
- efficiently delivered services that are appropriate to needs
- short- and long-term financial sustainability
- ability to maintain, renew, and upgrade assets.

Decision-makers and stakeholders need the right information to understand how financially sustainable a council is. A council understands its financial sustainability through forecasting expected revenues and expenses and interpreting measures, or ratios. Ratio analysis helps to interpret the long-term consequences of financial decisions and indicate where and when adjustments should be made to achieve desired results.

The legislative response

In response to the national framework, Queensland government initially legislated six ratios to be calculated. Amendments to legislation in 2012 reduced the number to three to cover:

- operating performance
- fiscal flexibility
- asset sustainability.

Councils must include these three measures of financial sustainability for the next 10 years in their annual budgets.

Our assessment

Figure 4A shows these ratios and other ratios used by Queensland Treasury Corporation (QTC) and other Australian local government jurisdictions; the better practice target ranges used across Australia; and what the ratio indicates. Appendix H explains how to calculate these ratios.

Figure 4A
Commonly used ratios in the local government sector

Financial sustainability measure	Better practice target range	What this indicates
Operating surplus ratio # **	Between 0 and 10 per cent*	Capacity to meet operating expenditure from operating revenue
Council controlled revenue **	Higher the per cent = greater independence	Degree of reliance on external funding
Net financial liabilities ratio # **	Not greater than 60 per cent	Councils' capacity to repay long-term liabilities, especially borrowings
Debt service cover **	Greater than 2 times	Availability of operating cash to service debt
Current ratio	Between 1:1 and 4:1	Ability to meet short-term debt obligations
Asset sustainability ratio #	Greater than 90 per cent	Extent to which assets are being replaced as they reach the end of their useful lives
Asset consumption ratio	Between 40 and 80 per cent	Average proportion of new condition left in an asset
Asset renewal funding ratio	Greater than 90 per cent	Renewal gap is not being addressed
Average useful life of depreciating assets**	Between 30 and 40 years	Asset lives are unrealistic or capital investment is not adequate

Legislated ratios.

* QTC acknowledge that 0 to -2 per cent is reasonable for short periods.

** Key metric used by QTC; additional key metrics used by QTC are the cash expense coverage ratio (short-term) and the capital expenditure ratio. The capital expenditure ratio indicates how much cash from operations is spend on capital expenditure. It is a complimentary indicator of financial sustainability.

Source: Queensland Audit Office

We reviewed the types of ratios used by councils. We analysed ratio results using the ratios shown in Figure 4A to assess councils' long-term sustainability.

We cannot calculate the asset renewal funding ratio. This ratio requires information that is unavailable, but should be included in asset management plans. We also cannot calculate the asset consumption ratio, as this requires the gross values of assets. A council's long-term financial forecast only reports the written down value of assets.

Our assessment is based on unaudited forecasts for the 10-year period 2016 to 2025 (as published in the original budget). We compared the ratio results to the department's targets contained in the Financial Management (Sustainability) Guideline 2013. For the other ratios we used common targets that QTC and other states use to measure local council financial sustainability.

Audit conclusions

Those charged with governance in many councils do not understand the importance of ratios to tell them how well they are tracking against benchmarks. As each ratio gives a different story, decision making will be better informed if more relevant ones are relied on.

The reliability of the data underlying the ratio calculations is poor so confidence in any assessment is low.

On average, over the 10-year forecast period, the local government sector is reporting that it is financially stressed. Many councils are forecasting deficits and an inability to maintain assets at the condition they desire.

They rely on grant funding to provide services to the community. Historical trends show government grant funding declining putting further stress on the councils, particularly the smaller remote councils. This means that many councils spend what they can afford rather than what they need. Funding asset renewals for many councils depends on natural disasters and Commonwealth grant funding.

This is encouraging the accumulation of cash and investment reserves, in preference to debt, to replace or expand assets. This may indicate an overly conservative approach to debt, especially in relation to funding asset renewals. It raises questions of inter-generational equity and who should pay for assets and when.

Using the most appropriate ratios

The legislated asset sustainability ratio is inferior to the asset renewal funding ratio because:

- it uses depreciation expenses — which are often unrelated to optimal replacement and renewal expenditure — in the calculation
- it only looks at planned expenditure, not required expenditure.

The department and the Institute of Public Works Engineering Australasia (IPWEA) place greater value on the asset renewal funding ratio. However, councils can't calculate this ratio because they have poor asset condition data, and a poor idea of when they are projected (required) to undertake renewals. The IPWEA notes that in circumstances where councils do not have a reliable AMP — for example supported by accurate condition data and estimates of useful lives — the asset sustainability ratio could be used as a substitute.

The department initially planned to include the asset renewal funding ratio into the regulations from 2014–15 but has not set a timeline for when this will occur. While the department recognises challenges in implementing this measure, they have not provided support or monitored councils' progress on being able to calculate and use this ratio.

Comparing ratios used in other jurisdictions

Other asset ratios used by Australian local governments are the asset consumption ratio, asset renewal funding ratio and asset maintenance ratio:

- **asset consumption ratio** — this ratio compares the written down asset values to their gross cost to indicate the percentage of the asset consumed
- **asset renewal funding ratio** — this ratio considers the net present value of planned capital renewals per long-term financial forecasts and the net present value of the required capital renewals per AMPs
- **asset maintenance ratio** — this ratio compares planned maintenance with required maintenance — what should be spent to maintain assets in a satisfactory standard — to indicate the extent a council is investing to stop the infrastructure backlog growing.

The asset renewal funding ratio and asset maintenance ratio were not able to be calculated by the five councils we selected for deeper analysis in detail due to poor asset condition data.

Interpreting ratio results

Appendix I details our assessment of councils' individual average financial sustainability ratios and how they are trending over the next 10 years.

Understanding circumstances

It is important that a council considers its own specific circumstances when interpreting ratio results, despite the Financial Management (Sustainability) Guideline 2013 not allowing a council to set target ranges. An example of this is the asset sustainability ratio. Where a significant portion of assets are repaired (or new) due to disasters, less will need to be spent on renewals in the short-term. However, the asset sustainability ratio will indicate that not enough is being spent to renew assets.

It is also important that ratios must be viewed over the long term. For example, a small council with relatively high asset values compared to its revenue generation may see some extreme fluctuations in ratio results when restoring a significant volume of assets from natural disaster events.

What ratios councils use to analyse forecasts

Across the sector approximately half of the councils use only the mandated measures. Two of the five councils we visited did not use any additional ratios. These councils are depriving themselves of valuable information which would help explain the financial performance of the council and inform decision making.

Using additional ratios allows a council to assess its performance based on the combined results of a number of broad indicators, rather than on a small number which may only tell part of the story.

Five councils are forecasting an average net financial liabilities ratio in the 10 years above the preferred target range. However, other debt ratios — debt service cover and current ratio — are within benchmarks in the long term, indicating these councils have sufficient cash to service their debts.

Eight councils are forecasting an average asset sustainability ratio above the benchmark of 90 per cent. However the average useful life of their assets is either less than 20 years or more than 50 years. This indicates the estimated useful lives of assets may be inaccurate, making the asset sustainability ratio unreliable.

Understanding a council's short-term cash flows is also an important indicator of financial conditions. A common measure used is the cash cover ratio. This ratio indicates the number of months cash held at the end of a period would cover operating cash outflows. The target is to hold three to four months of cash payments to suppliers and employees where rates are levied on a quarterly basis, and more if rates are levied biannually.

Income generating efforts

Two primary ratios assess a council's income generating ability. Across the six council segments:

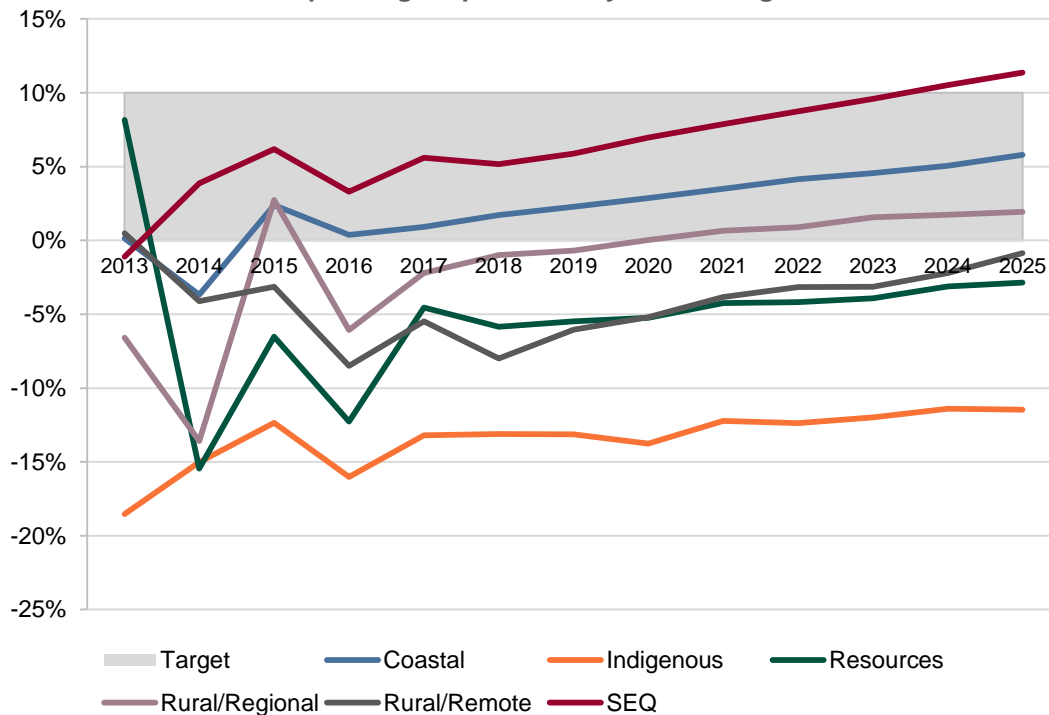
- Thirty-eight per cent of councils cannot fund expenditure commitments, yet only one has a financial plan. These councils, on average over 10 years, are forecasting a deficit.
- More than 50 per cent of Indigenous, resources and rural/remote councils are forecast to deliver operating deficits over the 10-year forecast period.
- Most councils forecasting continual deficits do not have up-to-date asset management plans linked to long-term financial plans, meaning forecasted results are indicative at best.
- Councils outside of the SEQ and coastal segments are forecasting an inability to invest in capital infrastructure and do not have the ability to raise the revenue themselves.
- Forty-five percent of councils have an over-reliance on grants to cover their costs.

Operating surplus ratio

Like all tiers of government, councils need to make sure they have enough money to meet costs. If the operating surplus ratio is negative, it means a council is spending more than it can raise. If it exceeds the benchmark target of 10 per cent, it indicates that council is raising more revenue than it needs. Councils aim to at least break even over the long term to generate sufficient funds to maintain service levels expected by the community and renew essential infrastructure.

Figure 4B shows that only South East Queensland and coastal councils are able to deliver operating surpluses or be close to breaking even over the 10-year forecast period. The shaded area highlights the target ratio. Exceeding the upper band of the target range consistently indicates the council may be charging too much in rates for its level of expenditure.

Figure 4B
Operating surplus ratio by council segment



Source: Queensland Audit Office using combined council long-term financial forecasts

Council controlled revenue ratio

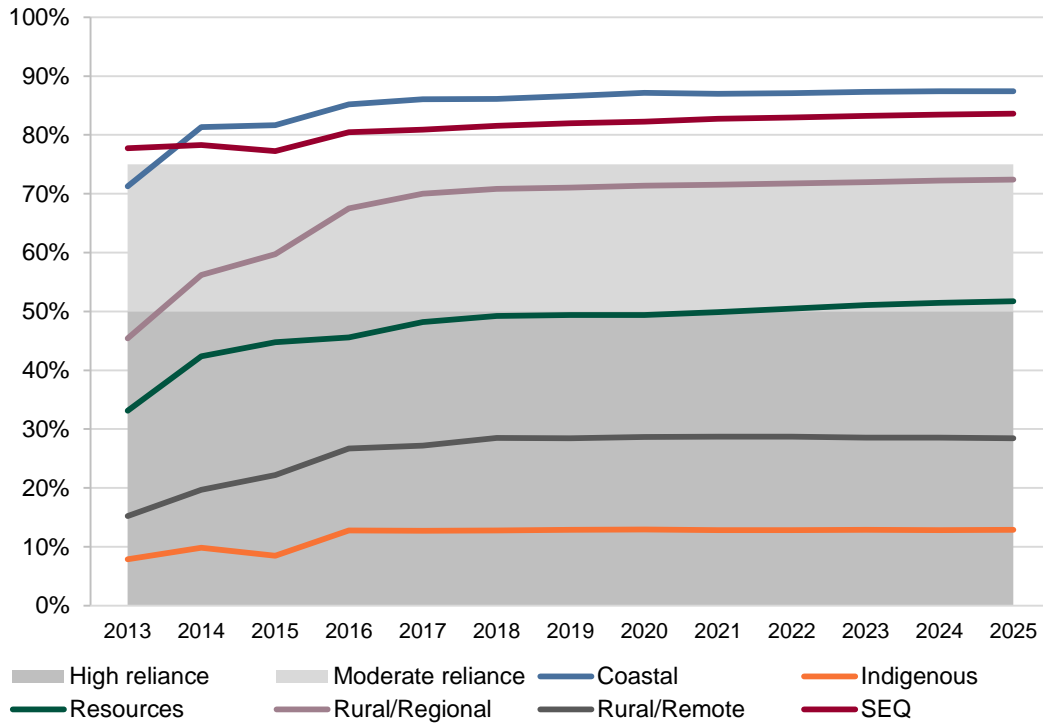
The council controlled revenue ratio indicates the level of reliance on grant funding, for example Commonwealth financial assistance grants, compared to controlled sources of funding, such as rates, fees and charges. It is a proxy for the level of flexibility a council has in influencing future financial performance. The higher the percentage, the greater control the council has over varying its revenues.

A high reliance on external funding restricts a council's ability to renew its asset base when needed and affects its service delivery. These councils have limited ability to raise additional revenue from the community, reducing their ability to generate surpluses.

Historical trends show government grant funding declining, putting further stress on these councils.

Figure 4C shows coastal, South East Queensland and rural/regional councils generating sufficient revenues to maintain this ratio. However, 16 of the 24 councils forecasting operating deficits are also highly reliant on grants to continue their operations; these councils are in the dark grey section. The light grey section shows the rural/regional councils are moderately reliant and grants.

Figure 4C
Council controlled revenue ratio by council segment



Source: Queensland Audit Office using combined council long-term financial forecasts

Short- and long-term financial sustainability

Financial sustainability is also assessed on the ability to repay debt and meet financial obligations. We assessed councils on whether they can meet short-term, long-term and total liabilities:

- All councils can presently service their short- and long-term financial liabilities.
- Many councils are accumulating cash and investment reserves in preference to debt, to use to replace or expand their assets.
- Projected debt for the sector as a whole is forecast to decrease by 20 per cent in the next 10 years.
- Sixty-seven per cent of debt is concentrated in the South East Queensland councils.

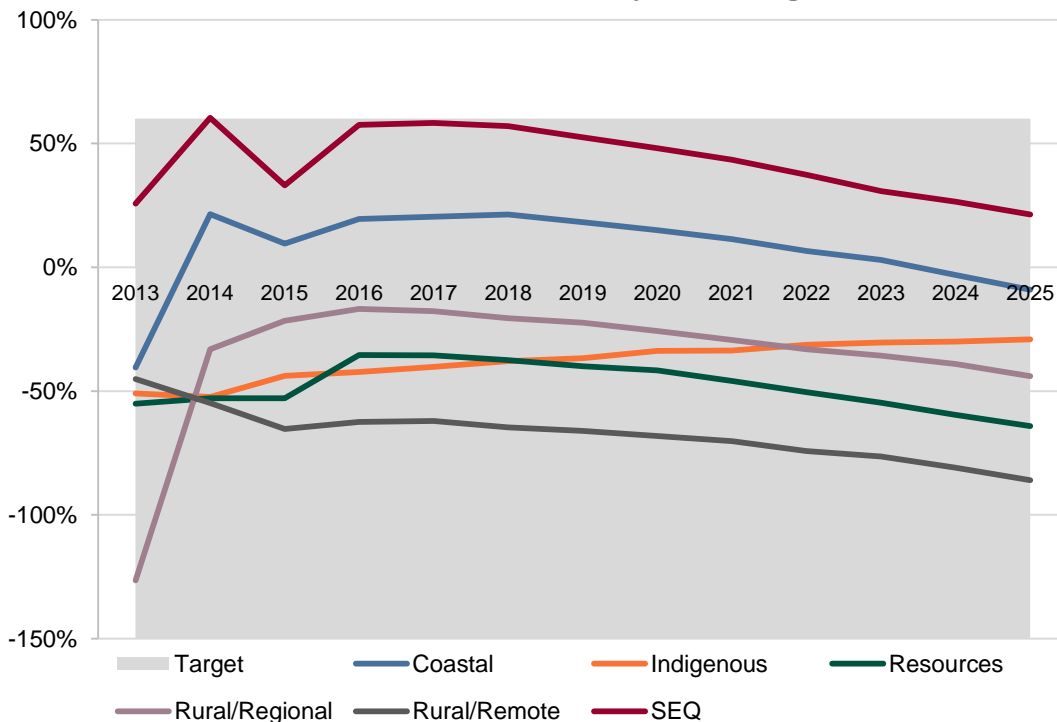
Net financial liabilities ratio

Councils will have limited capacity to increase loan borrowings and will experience stress in servicing (paying off) debt if net financial liabilities are greater than 60 per cent of operating revenues.

If councils have more cash and investments than they have debt, they will have a negative net financial liabilities ratio. This demonstrates that they prioritise the accumulation of financial assets and avoid debt as a mechanism for managing their business. It also increases their ability to access the debt markets in times of financial need.

Figure 4D shows on average rural/regional, Indigenous, resources and rural/remote councils have negative ratios. While this means they have sufficient funds to meet their liabilities, it also may indicate an overly conservative approach to debt, especially in relation to funding asset renewals.

Figure 4D
Net financial liabilities ratio by council segment



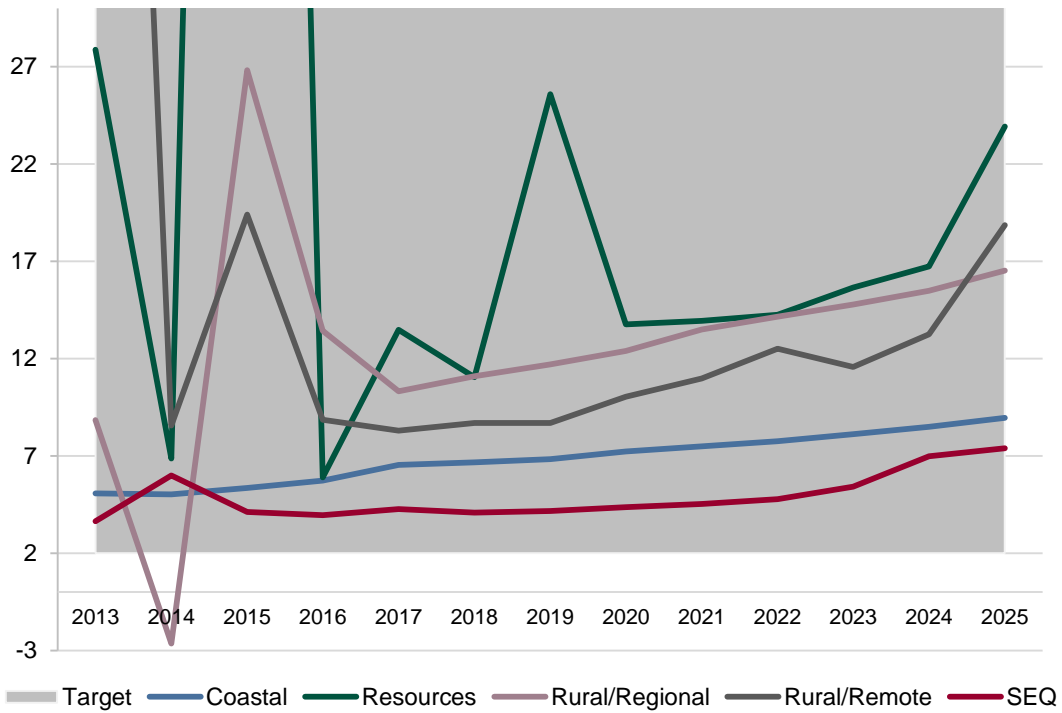
Source: Queensland Audit Office using combined council long-term financial forecasts

Debt service cover ratio

This ratio is only applicable for a council forecasting borrowings. We have excluded the Indigenous councils from this analysis as most do not have borrowings. We have also excluded seven other councils forecasting no borrowings over the next 10 years.

A ratio below two indicates a council will need to use its savings to pay its debts. Figure 4E shows no councils fall below this target on average over the long-term. The spikes in 2013 and 2015 are due to very low interest expenses compared to adjusted operating surpluses.

Figure 4E
Debt service cover ratio by council segment



Note: Rural/Remote 2013 ratio is 99:1 and Resources 2015 ratio is 155:1.

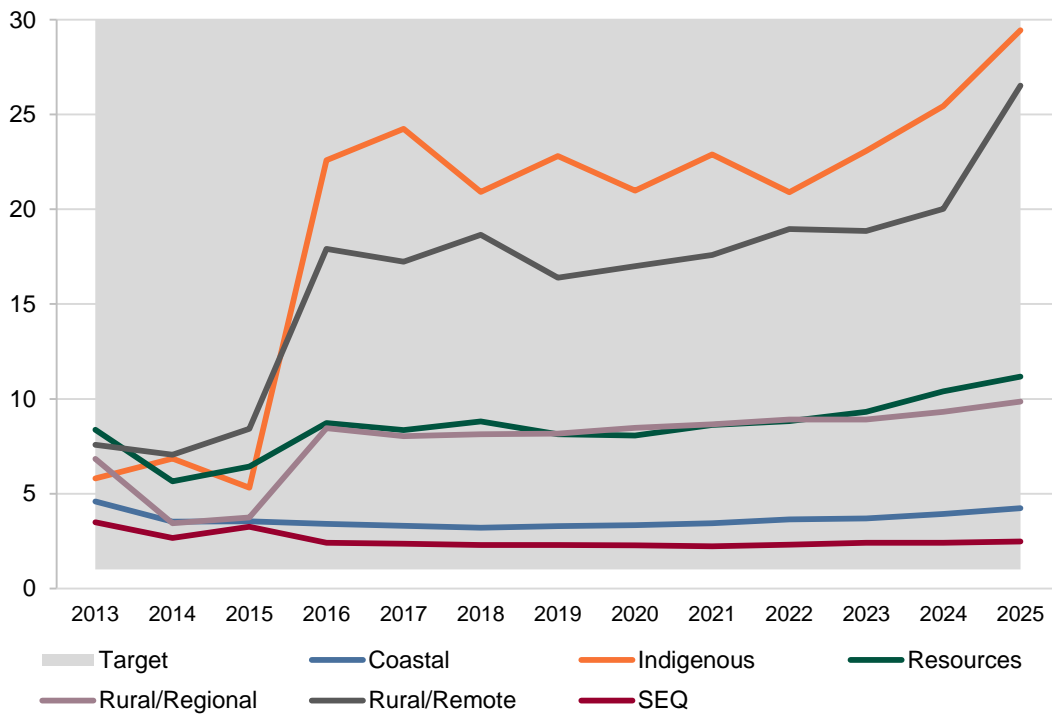
Source: Queensland Audit Office using combined council long-term financial forecasts

Current ratio

A ratio under one indicates a council may have difficulties meeting its obligations without accessing finance. A high ratio may indicate council is not using its current assets — such as cash and cash equivalents — efficiently.

Figure 4F shows all segments stay above the benchmark floor for the forecasted period, indicating they have the ability to service their immediate financial obligations. The council segments outside of SEQ and coastal segments are all forecasting significant immediate improvements before plateauing and further improving in the final few years. This reflects the forecast decrease in financial liabilities and corresponding increase in cash assets.

Figure 4F
Current ratio by council segment



Source: Queensland Audit Office using combined council long-term financial forecasts

Ability to maintain, renew and upgrade assets

Chapter 2 explained that asset condition data was unreliable at the councils we visited and that 51 of 77 councils did not have up-to-date asset management plans. This makes the results of asset ratios misleading and is the primary reason the asset renewal funding ratio cannot be calculated by councils. The mandated asset sustainability ratio has limitations as it compares the level of depreciation to the asset renewal budget but does not consider actual funding requirements. Based on reported forecasts, and with this caveat:

- Forty-three councils have 10-year average asset sustainability ratios below the benchmark, indicating assets may not be renewed at optimal times. Thirty-two of these councils do not have up-to-date asset management plans.
- The worst performing councils were those in the South East Queensland, coastal and resources segments.
- The average useful lives of assets of councils in the resource segment range from 28 years to 95 years which questions the reliability of the estimated useful lives assigned to infrastructure assets.

Asset sustainability ratio

This ratio approximates the extent to which a council is replacing its assets as they reach the end of their useful lives. It does this by indicating the extent of spending on existing assets through renewal compared with depreciation expense.

Results higher than 100 per cent indicate that spending is higher than the depreciation rate. A value less than 90 per cent will indicate a declining asset base and/or inadequate asset management plan. However, a low percentage may also indicate the asset base is relatively new (as a result of rectifying extensive natural disaster damage) and does not yet require replacement or renewal.

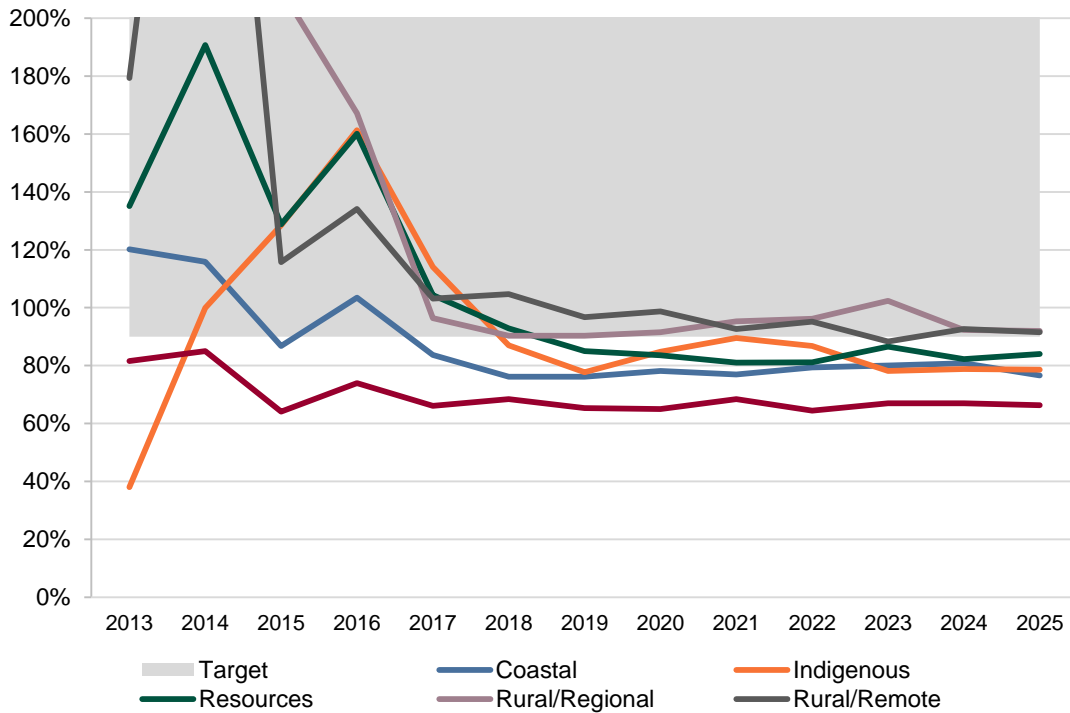
The varying scenarios this ratio gives demonstrate the need for other asset ratios, such as the asset renewal funding ratio, to give additional context for users to make informed decisions.

When interpreting this ratio a council must consider the relative age and renewal profile of its assets. When assets are new, a result under 90 per cent may be acceptable as assets do not currently require replacement or renewal. This highlights the important of a robust asset management plan which forecasts the optimal timing of asset expenditure.

Depreciation expense is the main factor for this ratio. Ratios that use depreciation expense in the calculation are relying on the accuracy of assessments of useful lives, condition and asset values. As condition data at councils is unreliable, the results of this ratio may be misleading.

Figure 4G illustrates that all council segments drop below the asset sustainability ratio benchmark target of 90 per cent at various times of the 10-year forecast. The rural/remote, rural/regional and resources segments all experienced significant spikes in the ratio result in 2012–13 and 2013–14 due to flood recovery works, where spending significantly outstripped the depreciation expense.

Figure 4G
Asset sustainability ratio by council segment



Note: Rural/Regional 2013 is 203 per cent, 2014 is 220 per cent and 2015 is 210 per cent; Rural/Remote 2014 is 385 per cent.

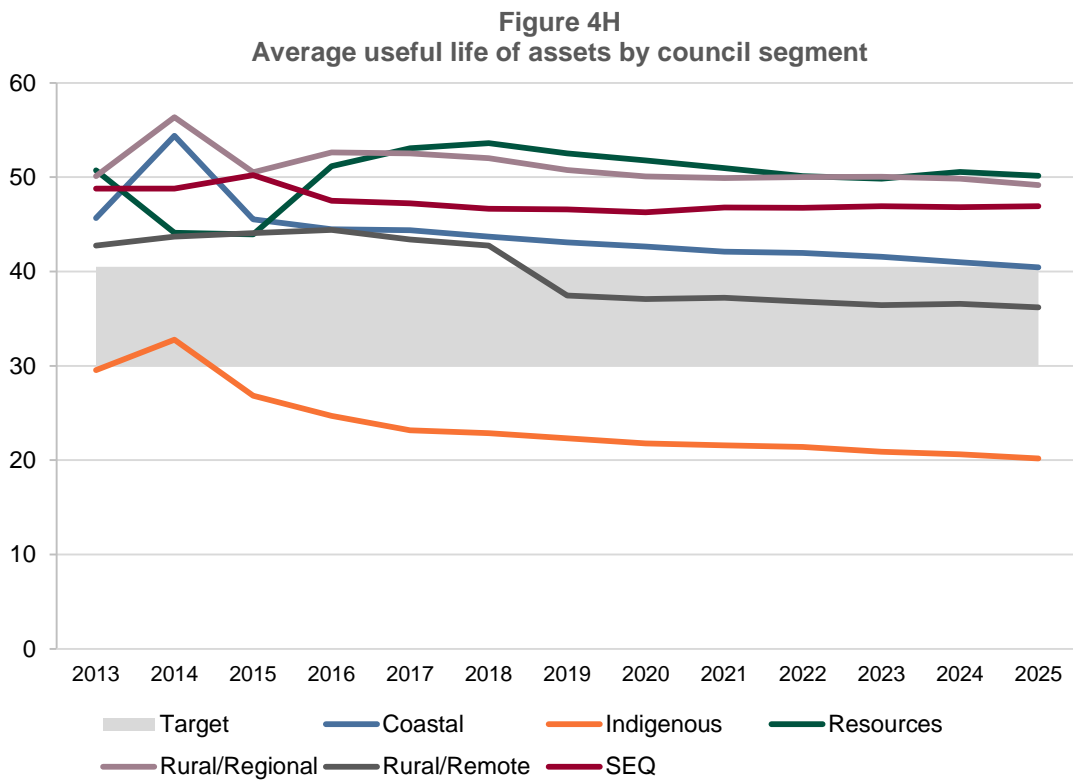
Source: Queensland Audit Office using combined council long-term financial forecasts

Average useful life of assets

QTC's expectation, as a rule of thumb, when undertaking credit reviews for local governments is that the average useful lives for long-life infrastructure assets would fall between 30 to 40 years with little movement during the forecast period. This is because as short life (for example, less than 15 years) and long life (for example, longer than 15 years) assets are maintained and cyclically renewed or replaced, the average life is maintained at a higher level.

As indicated in Figure 4H, except for Indigenous councils, all council segments are above or within the target range. Large variations in the average useful lives of assets between councils is the reason for segments being above the target range.

Consideration needs to be given to the impact of natural disasters. Councils prone to regular disasters may not reflect the same useful lives for assets as a council not prone to disasters. The reduced useful lives should be based on evidence, such as in the case of road assets weather patterns, topography and regular renewals. If a council considers these factors and reduces the useful lives for a large proportion of its asset base, a revised target range should be developed and tested with knowledgeable third parties for its appropriateness.



Source: Queensland Audit Office using combined council long-term financial forecasts

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Appendix A — Full responses from agencies

As mandated in section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the Department of Infrastructure, Local Government and Planning, and all local governments.

The heads of these agencies are responsible for the accuracy, fairness, and balance of their comments.

This appendix contains their detailed responses to our audit recommendations.

Comments received from Director-General, Department of Infrastructure, Local Government and Planning



Our ref: MC16/3893

Your ref: 2016-9142P

Department of Infrastructure,
Local Government and Planning

06 OCT 2016

Mr Anthony Close
Acting Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear ~~Mr Close~~ Anthony,

I write with reference to your letter of 15 September 2016 regarding the Queensland Audit Office (QAO) performance audit on forecasting long-term sustainability in local government.

Thank you for the opportunity to review the proposed report to Parliament and also for the opportunity for officers within the Department of Infrastructure, Local Government and Planning (the department) to meet with representative from QAO on 21 September 2016. The department's completed recommendations table and additional comments on the report are enclosed.

The report's finding that "*Most councils plan poorly for the long-term. Their long-term financial forecasts and asset management plans lack substance and rigor*" is concerning as it suggests that local government, local communities and the Queensland Government have little clarity around council sustainability.

It is noted however, that while all councils were surveyed as part of the audit scope, only a small number of councils (five of 77) were selected for in-depth analysis.

The department currently has a strong governance role in working with councils and monitoring their long-term planning documents through a variety of methods. The department's ongoing local government capacity building program and initiatives is also addressing a number of the issues raised in the report.

While the department agrees in principle with the report's recommendations, there is no formal, one-size-fits-all solution. Councils have limited resources and are increasingly required to do more with less. Any future action will need to balance the recommendations with other considerations that deliver practical outcomes for local governments with minimal regulatory burden. Changes to current practices should be facilitated through a collaborative approach with relevant stakeholders.

Level 12, Executive Building
100 George Street Brisbane
PO Box 15009 City East
Queensland 4002 Australia
Telephone +61 7 3452 7009
Website www.dilgp.qld.gov.au
ABN 251 66 523 889

Comments received from Director-General, Department of Infrastructure, Local Government and Planning

If you require further information, I encourage you to contact Mr Stephen Johnston, Deputy Director-General on 3452 6789 or by email at stephen.johnston@dilgp.qld.gov.au.


Yours sincerely



Frankie Carroll
Director-General

Enc (2)

Responses to recommendations



Queensland Audit Office
better public services

Department of Infrastructure, Local Government and Planning

Forecasting sustainability in local government (Report No.2: 2016–17)

Response to recommendations provided by the Director-General, Department of Infrastructure Local Government and Planning

Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional Comments
We recommend councils improve the quality of their long-term forecasts and financial planning by:			
1. maintaining complete and accurate asset condition data and asset management plans (Chapters 2, 3 & 4)	Agree		The desired outcome of this recommendation should be to ensure that complete and accurate asset condition documents align with local government long-term asset management plans and that these long-term considerations are recognised in financial forecasts and budgets.
2. implementing a scalable project decision making framework for all infrastructure asset investments (Chapter 2)	Agree – in principle		The desired outcome of this recommendation should be that decisions are made within a cost benefit analysis framework. However, the term 'major' should be included before the word 'infrastructure' to represent best practice for major projects rather than imposing a regulated or prescribed imposition on councils.
3. engaging directly with their communities on future service levels (Chapters 2 & 4)	Agree		Defining desired levels of service, involving community engagement, is a statutory requirement of the Sustainable Planning Act 2009 for new infrastructure demand identified in a council's planning scheme. This is a good intention for other service planning, however, it should be recognised that council's do collect information about their communities through many different means.
4. developing financial plans to explain their financial forecasts and how it intends to financially manage the council and its long-life asset (chapter 2).	Agree		The department agrees with the general intention of this recommendation (as per recommendation 1).
We recommend the Department of Infrastructure, Local Government and Planning:			
5. allow councils to set their own financial sustainability targets where they can justify that a different target is more appropriate for their long-term sustainability (Chapter 2).	Agree		The department acknowledges that council's financial sustainability measures will not always fall within the target range specified in the financial management (sustainability) guideline 2013. However, councils can choose to explain differences and specify their

Responses to recommendations



Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional Comments
6. strengthen their governance role, including analysing long-term planning documents, to allow the Minister to identify councils in, or becoming, financially stressed (Chapter 3)	Agree		<p>preferred targets. This matter will be considered when the department next reviews the guideline.</p> <p>The department currently has a strong governance role and monitors councils through a variety of methods including those outlined in the report. It should be noted that if a council has developed a forecast that indicates it is not financially sustainable in the long term, it does not necessarily mean that the council is 'financially stressed'. The department uses a number of other indicators which it considers more reliable to make this assessment.</p> <p>The department's efforts may be better directed in building council's capacity in this area.</p>
7. support councils to strengthen their strategic planning by building their capability and capacity to produce 10-year financial forecasts and asset management plans that can be relied on, and are integrated with their annual budgetary processes. They should be renewed and updated at least every four years (chapter 2 & 3).	Agree		<p>The department's ongoing capacity building initiatives with councils address many of these issues. These activities are regularly reviewed and tailored to suit the requirements of individual councils.</p>
8. require councils to include in their annual budget or annual report statements: <ul style="list-style-type: none"> • the long-term financial forecasts for at least the subsequent three years after the budget year, • reporting analysis of actual to budget figures (chapter 2) 	Agree – in principle		<p>The department believes that the first point is already addressed by the Local Government Regulation 2012, which requires council's long term financial forecasts to be included in their budget.</p> <p>The second point will require a legislative change and the department will consult with local governments and other stakeholders prior to further action.</p>
9. broaden the number of ratios required to be calculated over 10 years to include the asset renewal funding ratio, once councils have improved their asset condition data (Chapter 4)	Agree – in principle		<p>There is nothing to prevent local governments having multiple ratios. This recommendation will however require a legislative change and result in a greater administrative impost on local governments, particularly without the review of other prescribed ratios. The department will consult with local governments and other stakeholders and consider any potential impacts prior to further action.</p>

Comments received from Chief Executive Officer, Brisbane City Council



Dedicated to a better Brisbane

Your Ref: 2016-9142P

6 October 2016

Mr Anthony Close
Acting Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Close 

~IN CONFIDENCE~

Thank you for your letter of 15 September 2016 regarding the performance audit on forecasting long-term sustainability in local government.

Noting the Queensland Audit Office's (QAO) deadline of 6 October 2016, Brisbane City (Council) has reviewed the report and can provide the following comments.

Council agrees with all nine recommendations made by the QAO.

Council strongly supports the inclusion of the asset renewal funding ratio to replace the asset sustainability ratio.

Brisbane City Council is one of eight South East Queensland (SEQ) local governments and also a capital city. Therefore our capacity and capability to forecast long-term financial sustainability is much higher than regional councils, with more potential to generate revenue to ensure ongoing financial sustainability, which we have consistently demonstrated over the years.

Due to the size and nature of Council, we have negotiated specific financial sustainability metrics with the Queensland Treasury Corporation (QTC), which are currently different from the requirements of the Department of Infrastructure, Local Government and Planning (DILGP), in terms of the sustainability targets and definitions.

Currently, Council produces two sets of metrics to comply with both the DILGP and the QTC. As such, Council would also like the ability for councils to set their own financial sustainability targets and definitions as agreed with the QTC.

.../2

Comments received from Chief Executive Officer, Brisbane City Council

- 2 -

Council's preference is to adopt the following four metrics (1 to 3 of which are QTC metrics) to measure sustainability using QTC agreed definitions and benchmarks, rather than DILGP guidelines:

1. Operating Surplus ratio
2. Net financial liabilities ratio
3. Debt Service Coverage
4. Asset renewal funding ratio (reported once over 10 year period, not every year) to replace asset sustainability ratio

Sustainability ratio definitions are set out in Attachment A. Should you wish to discuss this in further detail, please contact Mr Paul Oberle, Chief Financial Officer on 3403 7884 or via email at Paul.Oberle@brisbane.qld.gov.au.

Yours sincerely



Colin Jensen
CHIEF EXECUTIVE OFFICER

Responses to recommendations

ATTACHMENT A**SUSTAINABILITY RATIO DEFINITIONS**

Ratio	QTC ratio	DILGP ratio	Description
i. Operating surplus ratio	Operating Revenue plus cash infrastructure charges payment (excluding donated assets) (ICP) less Operating Expenditure (defined as the 'Operating Result') / Operating Revenue plus cash ICP	Net operating result (excluding capital items) / total operating revenue (excluding capital items)	Capacity to meet operation expenditure from operating revenue
ii. Net financial liabilities ratio	Total gross interest bearing liabilities plus finance lease liabilities less cash and cash equivalents / Operating Revenue plus cash ICP	Total liabilities less current assets/total operation revenue (excluding capital items)	Council's capacity to repay long-term liabilities, especially borrowings
Asset sustainability ratio	n/a	Capital expenditure on asset renewals/annual depreciation expense	Extent to which assets are being replaced as they reach the end of their useful lives
Proposed inclusion: Asset renewal funding ratio	n/a	Planned capital renewals and replacement outlay (as per LTFP)/required capital renewals and replacement outlays (as per AMP)	Identifies a renewal gap that is not being addressed
Debt Service Coverage	Operating Result adjusted for significant non-cash flow items (e.g. plus depreciation & amortisation expense) plus gross interest expense (less capitalised interest) / Prior year current interest bearing liabilities plus gross interest expense (less capitalised interest)	n/a	

Comments received from Chief Executive Officer, Council of the City of Gold Coast



Comments received from Chief Executive Officer, Whitsunday Regional Council



Appendix B — Audit objectives and methods

Audit objective

The objective of the audit was to assess whether councils can demonstrate that they are financially sustainable in the long-term. The audit addressed the objective through the sub-objectives and lines of inquiry set out in Figure B1.

Figure B1
Audit scope

Sub-objectives		Lines of inquiry	
1	Is there effective financial sustainability guidance and monitoring in place for the local government sector?	1.1	The National Framework for assessing financial sustainability has been effectively implemented in Queensland
		1.2	The Department of Infrastructure, Local Government and Planning monitor councils' compliance with the legislated long term financial forecasting requirements
2	Do councils have realistic and relevant long term financial forecasts to deliver services in a financially sustainable way?	2.1	Long-term financial forecasts are supported by quality inputs including relevant and reliable assumptions and links to relevant strategies and plans
		2.2	Councils use outcomes from long-term financial forecasts as a key input to determining future financial strategies
3	Do councils ensure they report consistent information on long term financial forecasting to councillors and the community?	3.1	Councils report consistent messages to all stakeholders about their long-term financial position and plans

Source: Queensland Audit Office

Entities subject to this audit

The Department of Infrastructure, Local Government and Planning (the department), and all local governments (councils) were included within the scope. The following councils were selected for deeper analysis:

- Cook Shire Council, Resources segment
- Lockyer Valley Regional Council, Rural/regional segment
- Paroo Shire Council, Rural/Remote segment
- Redland City Council, South East Queensland segment
- Southern Downs Regional Council, Rural/regional segment.

Councils are referred to in this report as A through E. The order presented in the report does not align with the councils listed above. This is to focus on the learnings for all councils and provide anonymity to those we visited.

Audit methods

The audit involved:

- surveying all Queensland councils
- interviews with seven councils, the department, and Queensland Treasury Corporation
- analysing five councils' financial planning and forecasting documents, and asset registers
- analysing all councils' 2014–15 financial statements, budgets, and 10-year forecasts.

Appendix C — Local government segments

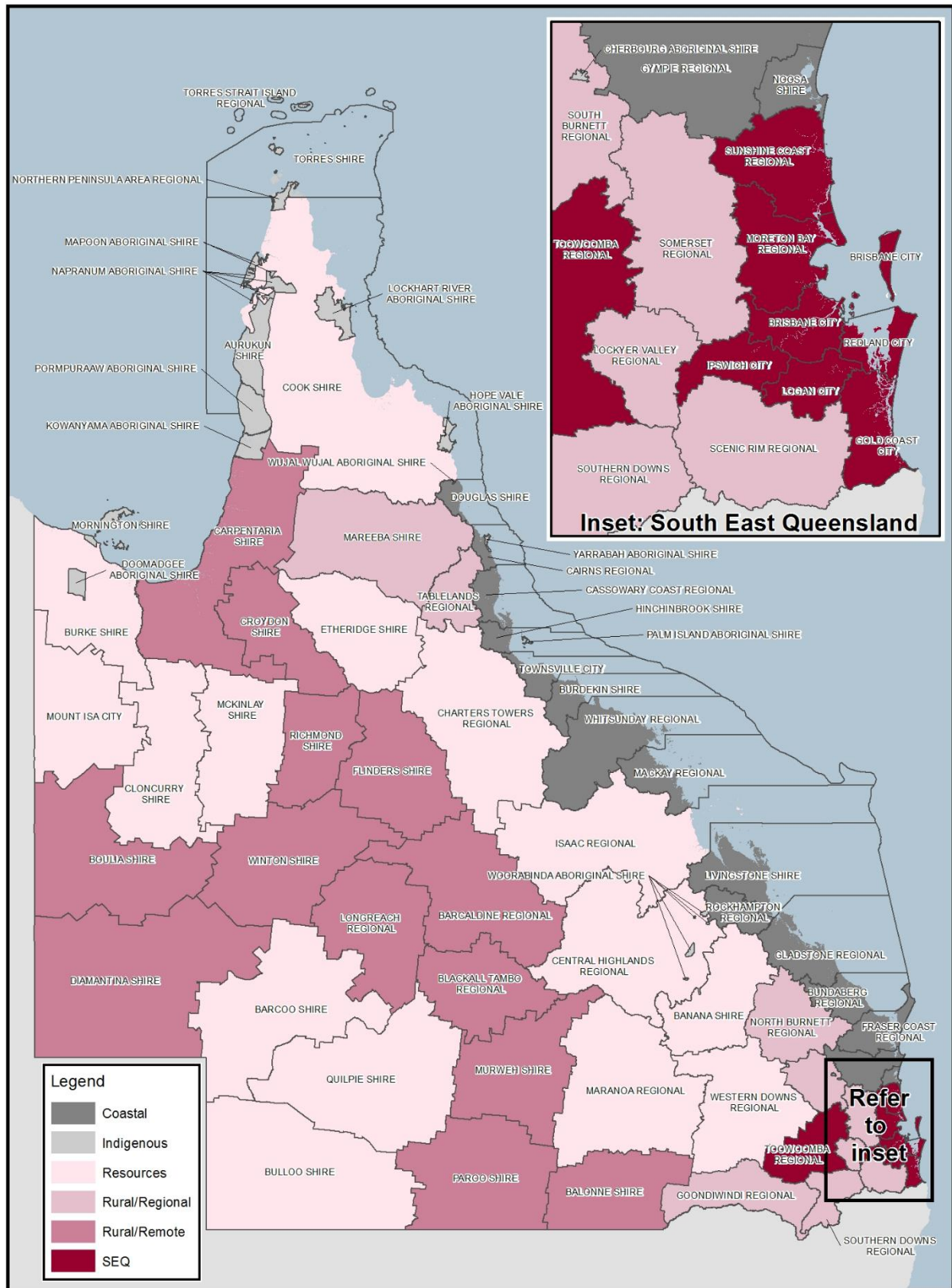
Figure C1
Adopted local government segments

Segment	Description	Local government
Coastal (15)	Local governments principally located along the Queensland coast line. These local governments are experiencing different growth scenarios with some experiencing strong population increases and demand for infrastructure to service economic growth and others seeking to renew economic activity and reverse population decline.	Bundaberg RC Burdekin SC (Rural/Regional) Cairns RC Cassowary Coast RC (Rural/Regional) Douglas SC Fraser Coast RC Gladstone RC (Resources) Gympie RC (SEQ) Hinchinbrook SC (Rural/Regional) Livingstone SC Mackay RC Noosa SC (SEQ) Rockhampton RC Townsville CC Whitsunday RC (Resources)
Indigenous (17)	Local governments based in Indigenous communities, where service delivery is constrained by capacity and which share similar capability challenges and representational demands.	Aurukun SC Cherbourg Aboriginal SC Doomadgee Aboriginal SC Hope Vale Aboriginal SC (Resources) Kowanyama Aboriginal SC Lockhart River Aboriginal SC Mapoon Aboriginal SC Mornington SC Napranum Aboriginal SC Northern Peninsula Area RC Palm Island Aboriginal SC Pormpuraaw Aboriginal SC Torres SC Torres Strait Island RC Woorabinda Aboriginal SC Wujal Wujal Aboriginal SC Yarrabah Aboriginal SC

Segment	Description	Local government
Resources (15)	Local governments in, or adjacent to, Queensland's key mining regions/basins, where their operations are affected by current or proposed resource activity. A local government is recognised as a resources local government if greater than 30 per cent of activity in the local economy is due to the mining and mining related (manufacturing and processing) sectors.	Banana SC (Rural/Regional) Barcoo SC (Rural/Remote) Bulloo SC (Rural/Remote) Burke SC (Rural/Remote) Central Highlands RC (Rural/Regional) Charters Towers RC (Rural/Regional) Cloncurry SC (Rural/Remote) Cook SC (Coastal) Etheridge SC (Rural/Remote) Isaac RC (Rural/Regional) Maranoa RC (Rural/Regional) McKinlay SC (Rural/Remote) Mount Isa CC (Rural/Regional) Quilpie SC (Rural/Remote) Western Downs RC (Rural/Regional)
Rural/Regional (9)	Local governments in large inland areas with populations of more than 10 000 residents, and a high reliance on agricultural activities.	Goondiwindi RC Lockyer Valley RC (SEQ) Mareeba SC North Burnett RC Scenic Rim RC (SEQ) Somerset RC (SEQ) South Burnett RC Southern Downs RC Tablelands RC
Rural/Remote (13)	Local governments west of the Great Dividing Range in large areas, with populations of fewer than 10 000 residents. Due to a limited rate base, these local governments traditionally rely on external grants and subsidies to ensure ongoing financial sustainability.	Balonne SC Barcaldine RC Blackall-Tambo RC Boulia SC (Resources) Carpentaria SC Croydon SC Diamantina SC Flinders SC Longreach RC Murweh SC Paroo SC Richmond SC Winton SC
South East Queensland (SEQ) (8)	Higher capacity and capability local governments located in SEQ. These local governments manage high population growth resulting in increased service and infrastructure demand.	Brisbane CC Council of the City of Gold Coast (Coastal) Ipswich CC Logan CC Moreton Bay RC (Coastal) Redland CC (Coastal) Sunshine Coast RC (Coastal) Toowoomba RC

Source: LGAQ Report Factors impacting Local Government Financial Sustainability: A Council Segment Approach (September 2013) adapted by Queensland Audit Office

Figure C2
Queensland local government areas by category



Source: Spatial Services, Department of State Development, Infrastructure and Planning

Appendix D — Factors affecting sustainability

Figure D1
Factors affecting sustainability

Key factors impacting on sustainability	Indigenous	Rural/remote	Rural/regional	Resources	SEQ	Coastal
Cost of infrastructure burden per resident	x	x	x	x		
Reliance on grant funding	x	x		x		
Attracting and retaining qualified experienced staff and councillors	x	x	x	x		
Large areas		x	x	x		
Population density	x	x	x	x		
Impacted by natural disasters	x	x	x	x	x	x
Low population growth	x	x		x		
Low rate base	x	x	x	x		
High tourism					x	x
Remoteness	x	x		x		
Pressures from mining sector				x		
Capped infrastructure charges				x	x	x
Running operating deficits	x	x		x		
Ageing infrastructure	x	x	x	x	x	x
Increasing debt levels					x	

Source: LGAQ Report Factors impacting Local Government Financial Sustainability: A Council Segment Approach (September 2013) adapted by Queensland Audit Office

Appendix E — Relevant legislation

Figure E1
Key elements from legislation

Section	Description
s104(2) LGA s103(2) COBA	Definition of financial sustainable local government
s169(5) LGR s160(5) COBR	Measures of financial sustainability
s104(5) LGA s103(5)COBA	Components of a financial management system
S171(1) LGR S163(1) COBR	Definition of long-term financial forecast
S171(2) LGR S163(2) COBR	Annual review of long-term financial forecast
S167 LGR S159 COBR	Requirement for a long-term asset management plan
S168 LGR	Contents of a long-term asset management plan
S169(2)(a) LGR S160(2)(a) COBR	Long-term financial forecast must be included in budget process
S176 LGR S175 COBR	Current year financial sustainability statement and long-term financial sustainability statement must be prepared
S212(1) LGR S202(1) COBR	Current year financial sustainability statement to be audited
S212(2) LGR S202(2) COBR	Long-term financial sustainability statement to be provided to AG for information
S178 (2) LGR S170(2) COBR	Long-term financial sustainability statement requirements
S178(1) LGR S170(1) COBR	Current year financial sustainability statement requirements
S183(b) & (c) LGR S175(b) & (c) COBR	Must include current year and long-term financial sustainability statements in annual report
S179(2) (c) LGR S171(2) (c) COBR	Measures of financial sustainability to be included in community financial report

Note: LGA = Local Government Act 2009; COBA = City of Brisbane Act 2010.

Source: Queensland Audit Office adapted from relevant legislation

Appendix F — Better practice for long-term financial plans

Figure F1
Key characteristics for long-term financial plans

Key characteristics
Executive summary
<ul style="list-style-type: none"> ▪ Brief overview up front outlining financial objectives and key strategies ▪ Basis of preparation, sources of data, and key assumptions ▪ Key policies supporting financial plan.
Key financial information
<ul style="list-style-type: none"> ▪ Financial data at a summary level — income, expenditure (including capital expenditure), assets, and liabilities ▪ Statement of comprehensive income ▪ Statement of financial position ▪ Statement of cash flows ▪ Capital program ▪ Key parameters (including annual growth in rate base, population, employee numbers, and price drivers).
Key explanations
<ul style="list-style-type: none"> ▪ Financial strategies and policies ▪ Key risks ▪ Measures of financial sustainability and target ranges ▪ Sensitivity analyses.
Better practice
<ul style="list-style-type: none"> ▪ Concise and easily understood ▪ 10-year horizon ▪ Integrated with asset management plans ▪ Updated annually ▪ Publically reported.

Source: Queensland Audit Office

Appendix G — Inter-jurisdictional comparison

Figure G1
Plans developed by councils in each jurisdiction and the outlook of each plan

QLD	NSW	VIC	TAS	SA	WA	NT	NZ
	Community strategic plan Minimum 10 years	Council plan Minimum 4 years	Strategic plan 5 years	Strategic management plan Minimum 4 years	Strategic community plan Minimum 10 years	Community/strategic plan No fixed outlook — typically 4 years	
Long-term financial forecast 10 years	Long-term financial plan 10 years	Strategic resource plan (financial & non-financial) Minimum 4 years	Long-term financial plan 10 years	Long-term financial plan Minimum 10 years	Financial management plan 10 years	Long-term financial plan 4 years	Long-term plan 10 years
Long-term asset management plan 10 years	Asset management plan 10 years		Long-term strategic asset management plan 10 years	Infrastructure and asset management plan Minimum 10 years	Asset management plan 20 years		Infrastructure strategy 30 years
Corporate plan 5 years	Delivery program 4 years				Corporate business plan Minimum 4 years	Regional management plan 4 years	Financial strategy 10 years
Annual operational plan 1 year	Operational plan 1 year		Annual plan 1 year (incl. annual budget)	Annual business plan 1 year	Annual operating plan 1 year	Service delivery plan 1 year	Annual plan 1 year (incl annual budget)
Annual budget 1 year	Annual budget 1 year	Annual budget 1 year		Annual budget 1 year	Annual budget 1 year	Annual budget 1 year	
77 councils	152 councils*	79 councils	29 councils	68 councils	140 councils	17 councils	78 councils

* Prior to mergers announced in May 2016.

Source: Queensland Audit Office adapted from *Integrated Long-Term Planning: An Information and Resource Manual for Rural/Remote and Indigenous councils* — Australian Centre of Excellence for Local Government

Appendix H — Ratio definitions

Ratio analysis means analysing relationships in financial statements to draw conclusions about a council's financial performance and sustainability. Figure H1 lists the ratios we used, explains how they were calculated and describes what the ratio analyses.

Figure H1
Ratio definitions

Ratio	Formula	Description
Operating surplus ratio [#]	Net operating result (excluding capital items)/total operating revenue (excluding capital items)	Capacity to meet operating expenditure from operating revenue
Council controlled revenue	Net rates, levies and charges/total operating revenue	Degree of reliance on external funding
Net financial liabilities ratio [#]	Total liabilities less current assets/total operating revenue (excluding capital items)	Councils' capacity to repay long-term liabilities, especially borrowings
Debt service cover	Net operating result (excluding capital items) + depreciation + interest expense/interest expense plus prior year current interest bearing liabilities	Availability of cash-flow to service debt
Current ratio	Current assets/current liabilities	Ability to meet short-term debt obligations
Asset sustainability ratio [#]	Capital expenditure on asset renewals/annual depreciation expense	Extent to which assets are being replaced as they reach the end of their useful lives
Asset consumption ratio	Written down value of infrastructure assets/gross current replacement cost of infrastructure assets	Indicates the average proportion of new condition left in an asset
Asset renewal funding ratio	Planned capital renewals and replacement outlay (as per LTFP)/required capital renewals and replacement outlays (as per AMP)	Identifies a renewal gap that is not being addressed
Average useful lives of depreciating assets	Property, plant and equipment/annual depreciation	Indicates if asset lives are unrealistic or capital investment is not adequate

Note: # legislated ratios.

Source: Queensland Audit Office

Appendix I — Council financial sustainability

Chapter 2 explained we placed a low level of reliability over the underlying asset data, and the assumptions used to build forecasts were often inappropriate. Accordingly, the confidence placed in our assessment of a council's long-term financial sustainability is low.

Figure I1 lists councils by segment and summarises their 2016–25 long-term financial forecast (as published in councils' original budget) using the three legislated ratios and additional metrics we used in Chapter 4. Trend movements over the 10 years are illustrated by:

- an up arrow indicating improvement in the ratio result
- a down arrow indicating deteriorating ratio result
- a right facing arrow indicating no substantial change in result.

Figure I1
Assessment of council financial sustainability: 2016–25

Council	Avg. operating surplus ratio %	Avg. council controlled revenue ratio%	Avg. net financial liabilities ratio %	Avg. debt service cover ratio (times)	Avg. current ratio (times)	Avg. asset sustainability ratio %	Avg. useful life of assets (years)
Coastal segment							
Bundaberg Regional Council	5.84 ↑	90.60 →	56.76 ↑	3.18 →	2.72 →	135.64 ↓	43.52
Burdekin Shire Council	2.23 →	84.43 →	-26.67 ↑	0* n/a	7.61 ↑	71.91 ↓	38.01
Cairns Regional Council	0.19 →	92.89 →	34.65 ↓	7.22 ↓	1.43 →	79.40 ↑	36.03
Cassowary Coast Regional Council	0.20 →	87.68 →	-37.40 ↑	9.78 ↑	6.98 →	69.13 ↑	41.05
Douglas Shire Council	-1.02 ↑	92.95 ↑	-28.68 ↑	35.15 ↑	3.49 ↑	74.37 →	28.38
Fraser Coast Regional Council	6.10 ↑	80.82 ↑	-20.13 ↑	6.24 ↑	2.88 →	89.63 →	26.54
Gladstone Regional Council	5.27 ↑	87.62 ↑	36.29 ↑	3.92 ↑	2.25 →	63.20 →	51.37
Gympie Regional Council	7.09 ↑	82.80 →	-53.55 ↑	7.25 ↑	5.79 ↑	71.63 ↓	62.11
Hinchinbrook Shire Council	-3.36 ↑	90.00 ↑	-32.88 ↓	0* n/a	6.43 →	90.30 →	29.02

Council	Avg. operating surplus ratio %	Avg. council controlled revenue ratio%	Avg. net financial liabilities ratio %	Avg. debt service cover ratio (times)	Avg. current ratio (times)	Avg. asset sustainability ratio %	Avg. useful life of assets (years)
Livingstone Shire Council	4.51 ↑	88.07 ↑	66.16 ↑	3.85 →	1.76 →	56.85 ↓	41.58
Mackay Regional Council	5.27 ↑	91.47 →	34.96 ↑	3.92 →	1.65 →	63.94 →	49.82
Noosa Shire Council	2.38 →	75.42 →	1.61 ↑	4.34 →	2.91 →	99.60 →	57.44
Rockhampton Regional Council	4.38 ↑	86.20 ↑	48.86 ↑	3.17 →	1.70 →	93.95 →	43.39
Townsville City Council	0.67 →	93.31 →	75.71 ↑	3.33 →	1.06 →	85.75 ↓	39.14
Whitsunday Regional Council	7.03 ↑	76.79 →	-0.59 ↑	4.57 ↑	4.43 ↑	71.80 →	50.67

Note: * No debt or reducing to nil in the forecasted period.

Legend: ↑ An improving trend; → No substantial change; ↓ A deteriorating trend.

Council	Avg. operating surplus ratio %	Avg. council controlled revenue ratio%	Avg. net financial liabilities ratio %	Avg. debt service cover ratio (times)	Avg. current ratio (times)	Avg. asset sustainability ratio %	Avg. useful life of assets (years)
Indigenous segment							
Aurukun Shire Council	-71.95 ↑	25.87 ↓	83.16 ↓	0* n/a	2.01 ↓	103.25 →	27.79
Cherbourg Aboriginal Shire Council	-42.37 ↓	6.77 →	182.14 ↓	0* n/a	0.23 →	Forecast not provided	Forecast not provided
Doomadgee Aboriginal Shire Council	3.39 ↓	21.70 ↑	-65.14 ↓	0* n/a	208.25 ↓	90.97 →	27.83
Hope Vale Aboriginal Shire Council	3.38 →	2.69 →	-116.59 ↑	0* n/a	53.26 ↑	102.37 →	19.47
Kowanyama Aboriginal Shire Council	2.48 ↑	12.69 ↑	-125.19 ↑	0* ↓	32.05 ↑	83.54 ↓	31.38
Lockhart River Aboriginal Shire Council	4.30 ↑	1.19 →	-46.47 →	0* n/a	14.00 ↓	138.70 ↑	32.17
Mapoon Aboriginal Shire Council	-2.44 →	0.32 →	-50.30 ↑	0* n/a	7.76 →	87.61 →	22.08
Mornington Shire Council	-15.00 →	26.90 ↑	-77.69 ↑	0* n/a	4.42 ↓	50.60 ↓	18.29
Napranum Aboriginal Shire Council	No Forecast	No Forecast	No Forecast	No Forecast	No Forecast	No Forecast	No Forecast
Northern Peninsula Area Regional Council	-2.15 ↓	2.79 →	-15.09 ↓	0* n/a	4.11 ↓	93.00 →	15.14
Palm Island Aboriginal Shire Council	2.93 ↑	24.71 →	-20.16 →	0* n/a	6.96 ↑	253.80 ↑	51.00
Pormpuraaw Aboriginal Shire Council	-1.37 ↑	2.48 →	-101.56 ↑	0* n/a	18.24 ↑	95.00 →	22.83
Torres Shire Council	-10.85 →	67.79 →	-62.57 ↓	0* n/a	13.43 →	80.63 →	39.83
Torres Strait Island Regional Council	-65.13 ↓	7.40 ↑	-6.09 ↓	0* n/a	2.65 ↓	0.98 ↓	16.22
Woorabinda Aboriginal Shire Council	-6.39 ↑	1.11 →	-56.99 ↓	0* n/a	7.54 ↓	182.44 ↓	27.01
Wujal Wujal Aboriginal Shire Council	No Forecast	No Forecast	No Forecast	No Forecast	No Forecast	No Forecast	No Forecast
Yarrabah Aboriginal Shire Council	7.21 →	11.84 →	-105.17 ↑	0* n/a	21.46 ↑	42.37 ↓	20.43

Note: * No debt or reducing to nil in the forecasted period

Legend: ↑ An improving trend; → No substantial change; ↓ A deteriorating trend.

Council	Avg. operating surplus ratio %	Avg. council controlled revenue ratio%	Avg. net financial liabilities ratio %	Avg. debt service cover ratio (times)	Avg. current ratio (times)	Avg. asset sustainability ratio %	Avg. useful life of assets (years)
Resources segment							
Banana Shire Council	3.36 ↑	72.36 ↑	12.49 ↑	16.77 ↑	4.67 ↑	127.80 ↑	48.63
Barcoo Shire Council	1.21 ↑	8.45 ↓	-83.19 ↑	85.04 ↑	12.31 ↓	80.73 ↑	47.83
Bulloo Shire Council	1.68 ↑	36.92 ↑	-75.45 ↑	0* n/a	7.38 ↑	88.40 ↓	63.61
Burke Shire Council	-37.58 ↓	33.17 →	-150.23 ↓	0* n/a	21.14 ↓	129.40 ↓	80.49
Central Highlands Regional Council	6.14 ↓	70.76 ↑	-8.93 →	4.83 ↓	8.49 →	114.69 ↓	46.21
Charters Towers Regional Council	-11.32 ↑	68.12 ↑	-11.88 ↓	7.32 ↑	2.33 →	84.54 ↓	69.45
Cloncurry Shire Council	-1.74 ↑	64.70 ↑	-36.74 →	8.19 ↑	9.69 ↓	70.33 →	55.76
Cook Shire Council	-27.13 ↑	38.95 ↑	-12.04 ↑	5.65 ↑	4.12 →	75.09 →	28.26
Etheridge Shire Council	-1.02 ↑	28.01 ↑	-99.42 ↑	0* n/a	27.73 ↑	102.10 ↓	95.25
Isaac Regional Council	3.59 →	80.77 ↑	-45.78 ↑	9.03 →	5.20 →	89.81 ↓	48.68
Maranoa Regional Council	-10.62 ↑	52.14 ↑	-41.08 ↑	14.27 ↑	8.56 ↑	62.20 →	32.03
McKinlay Shire Council	-13.90 →	16.35 →	-45.02 ↑	0* n/a	7.43 ↑	63.00 →	31.54
Mount Isa City Council	2.79 ↓	77.88 ↑	-18.15 ↑	5.79 ↑	8.71 →	87.34 ↓	36.68
Quilpie Shire Council	6.26 ↑	39.41 ↑	-65.54 ↑	7.28 ↓	3.53 →	148.90 ↓	51.87
Western Downs Regional Council	0.73 →	56.55 →	-15.83 ↑	5.55 →	4.36 →	87.00 →	34.33

Note: * No debt or reducing to nil in the forecasted period.

Legend: ↑ An improving trend; → No substantial change; ↓ A deteriorating trend.

Council	Avg. operating surplus ratio %	Avg. council controlled revenue ratio%	Avg. net financial liabilities ratio %	Avg. debt service cover ratio (times)	Avg. current ratio (times)	Avg. asset sustainability ratio %	Avg. useful life of assets (years)
Rural/Regional segment							
Goondiwindi Regional Council	-0.01 ↑	61.42 ↑	-64.50 ↑	25.27 ↓	18.64 →	74.81 →	59.72
Lockyer Valley Regional Council	0.32 ↑	77.44 ↑	43.41 ↑	4.77 ↑	2.91 →	97.93 →	40.60
Mareeba Shire Council	8.33 →	64.69 →	-69.54 ↑	19.40 ↓	19.99 ↑	144.54 ↓	40.10
North Burnett Regional Council	-2.65 ↑	49.39 ↑	-26.47 ↑	20.82 ↑	3.08 ↑	103.30 ↓	75.24
Scenic Rim Regional Council	8.45 ↑	81.39 ↑	16.42 ↑	9.85 →	1.77 ↑	120.35 →	57.00
Somerset Regional Council	0.06 →	64.73 →	-172.97 ↓	0* n/a	22.93 →	90.20 →	35.44
South Burnett Regional Council	1.73 →	75.12 →	46.16 ↑	2.85 →	2.81 →	94.47 →	65.27
Southern Downs Regional Council	4.42 ↑	82.78 ↑	0.54 ↑	7.61 ↑	2.88 ↑	84.23 ↓	41.65
Tablelands Regional Council	3.91 →	82.67 ↑	-29.05 ↑	16.13 ↑	3.21 →	102.73 ↓	41.31

Note: * No debt or reducing to nil in the forecasted period.

Legend: ↑ An improving trend; → No substantial change; ↓ A deteriorating trend.

Council	Avg. operating surplus ratio %	Avg. council controlled revenue ratio%	Avg. net financial liabilities ratio %	Avg. debt service cover ratio (times)	Avg. current ratio (times)	Avg. asset sustainability ratio %	Avg. useful life of assets (years)
Rural/Remote segment							
Balonne Shire Council	-15.63 →	51.40 →	-51.41 →	8.32 →	-33.28 ↓	89.97 ↑	28.64
Barcaldine Regional Council	3.47 ↑	25.14 ↑	-55.38 ↑	18.15 ↑	8.27 ↑	145.34 →	68.03
Blackall-Tambo Regional Council	-8.34 →	31.04 →	-17.88 ↓	7.32 ↑	2.41 →	72.80 ↓	41.93
Boulia Shire Council	-31.47 ↓	18.59 ↑	-93.00 ↓	5.39 ↓	22.80 ↓	38.95 →	31.58
Carpentaria Shire Council	4.02 ↑	45.35 ↑	-24.18 ↑	9.37 ↑	9.36 ↓	133.21 ↓	34.42
Croydon Shire Council	18.19**→	5.86 →	-241.61**↑	0* n/a	103.11 ↑	132.40**→	57.31**
Diamantina Shire Council	-6.29 ↑	12.65 →	-108.29 ↓	4.38 ↑	48.21 ↑	128.82 →	45.96
Flinders Shire Council	3.49 ↑	20.85 →	-83.20 ↑	31.48 ↑	11.56 ↑	73.49 ↓	34.77
Longreach Regional Council	3.45 ↓	42.09 ↑	-53.34 ↓	9.29 ↑	9.79 →	110.06 ↓	32.01
Murweh Shire Council	-8.52 ↑	41.70 →	-18.42 ↑	7.08 ↑	7.61 ↑	73.76 ↓	54.89
Paroo Shire Council	-23.69 →	31.22 →	-24.28 ↑	9.34 →	5.98 →	64.32 →	43.17
Richmond Shire Council	1.03 ↑	18.26 ↑	-73.93 ↑	0* n/a	30.11 ↑	71.15 ↑	25.05
Winton Shire Council	0.00 ↑	23.00 ↓	-79.20 ↓	12.79 ↑	20.02 ↓	162.93 →	47.14

Note: * No debt or reducing to nil in the forecasted period.

** Ratios calculated on a 3-year average as council does not forecast depreciation expense for years 4 to 10.

Legend: ↑ An improving trend; → No substantial change; ↓ A deteriorating trend.

Council	Avg. operating surplus ratio %	Avg. council controlled revenue ratio%	Avg. net financial liabilities ratio %	Avg. debt service cover ratio (times)	Avg. current ratio (times)	Avg. asset sustainability ratio %	Avg. useful life of assets (years)
SEQ segment							
Brisbane City Council	9.80 ↑	61.29 ↑	75.58 ↑	4.51 ↓	0.77 →	62.92 →	49.70
City of Gold Coast	-0.26 ↑	96.45 →	17.13 ↑	3.35 ↑	2.61 →	37.70 →	41.23
Ipswich City Council	19.61 ↑	73.89 ↑	77.22 ↑	4.27 ↑	2.07 →	94.04 ↑	42.46
Logan City Council	2.34 →	92.55 ↑	28.88 ↑	3.98 →	3.75 →	74.60 →	49.37
Moreton Bay Regional Council	12.31 ↑	73.55 ↑	39.48 ↑	3.21 →	2.23 →	73.16 →	45.61
Redland City Council	4.68 ↑	92.40 →	-15.06 ↑	10.23 ↑	2.83 →	61.11 ↓	45.32
Sunshine Coast Regional Council	7.07 ↑	77.70 ↑	43.60 ↑	5.80 ↑	2.35 →	77.87 ↓	49.33
Toowoomba Regional Council	4.46 ↑	90.66 →	79.58 ↑	4.60 →	2.13 →	56.23 →	51.74

Legend: ↑ An improving trend; → No substantial change; ↓ A deteriorating trend.

Appendix J — Measures from the national framework for council sustainability

Figure J1 outlines the eight indicators included in the nationally consistent framework for local government financial sustainability.

**Figure J1
National Framework Indicators**

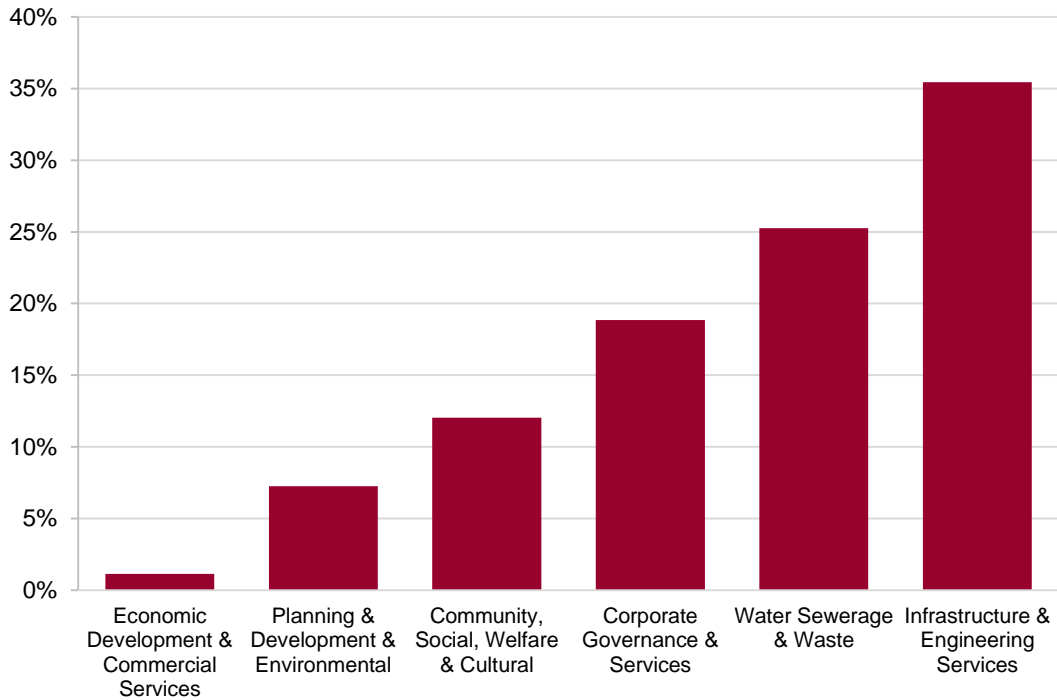
Indicators for closer examination	
Income generating efforts	
Rates	where rate increases fluctuate substantially where rates are considerably different to comparable councils
Other own-source revenue	where there is a lack of transparency in the determination of the pricing of services
Operating costs	where significant and continuous annual increases in operating costs have been incurred or are well above the group median
Operating results	where operating deficits have been consistently incurred where resource plans do not make adequate provision to rectify the situation
Efficiently delivered services that are appropriate to needs	
Service standards and level	where there is an absence of robust community engagement processes to determine appropriate service standards and levels
Short- and long-term financial sustainability	
Liquidity	where difficulty in meeting short-term financial obligations is being experienced and where no prospect of improvement is evident
Debt	where debt limits capacity to fund essential services and negatively impacts on the capacity to provide operational services where future ratepayers face an unmanageable bill for services where the level of net interest costs associated with debt cannot be met comfortably from council's operating revenue
Ability to maintain, renew, and upgrade assets	
Asset renewal	where spending is considerably less on capital works compared to depreciation expense where renewal levels as stipulated in asset management plans are not being met i.e. there is a renewal gap that is not being addressed

Source: National framework for criteria for assessing financial sustainability.

Appendix K — Council and segment metrics

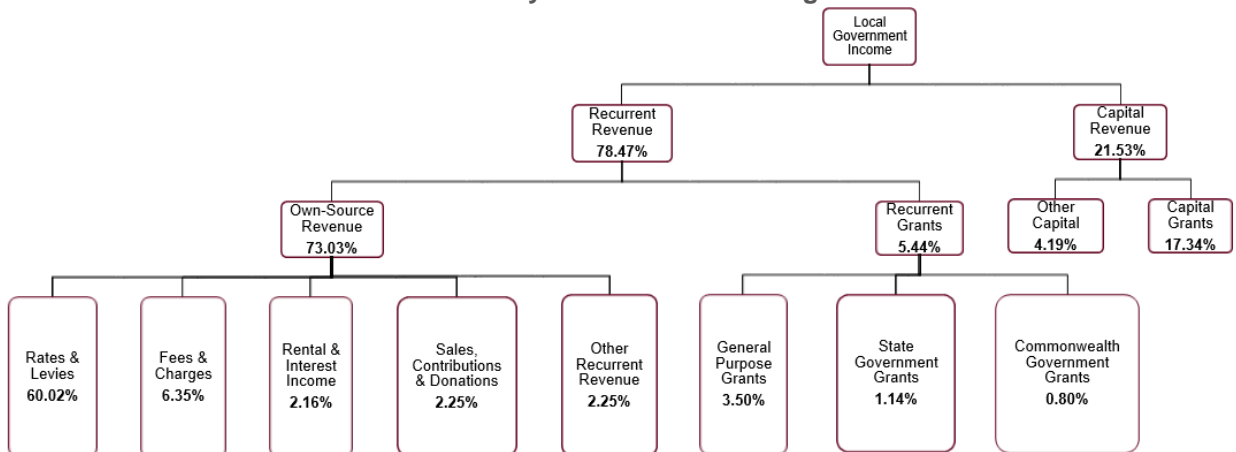
Coastal segment

Figure K1
2014–15 percentage of total expense by function: Coastal segment



Source: Queensland Audit Office using council financial statements

Figure K2
2014–15 revenue by sources: Coastal segment

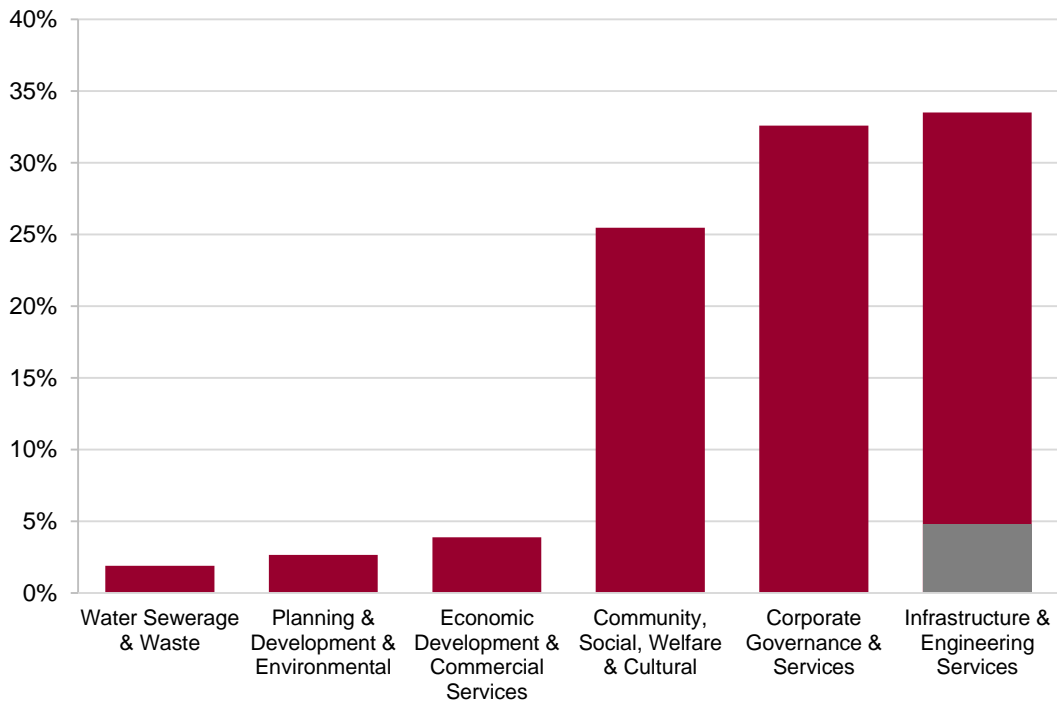


Note: General purpose grants are from the state or Commonwealth, but haven't been identified as such in council financial statements.

Source: Queensland Audit Office using council financial statements

Indigenous segment

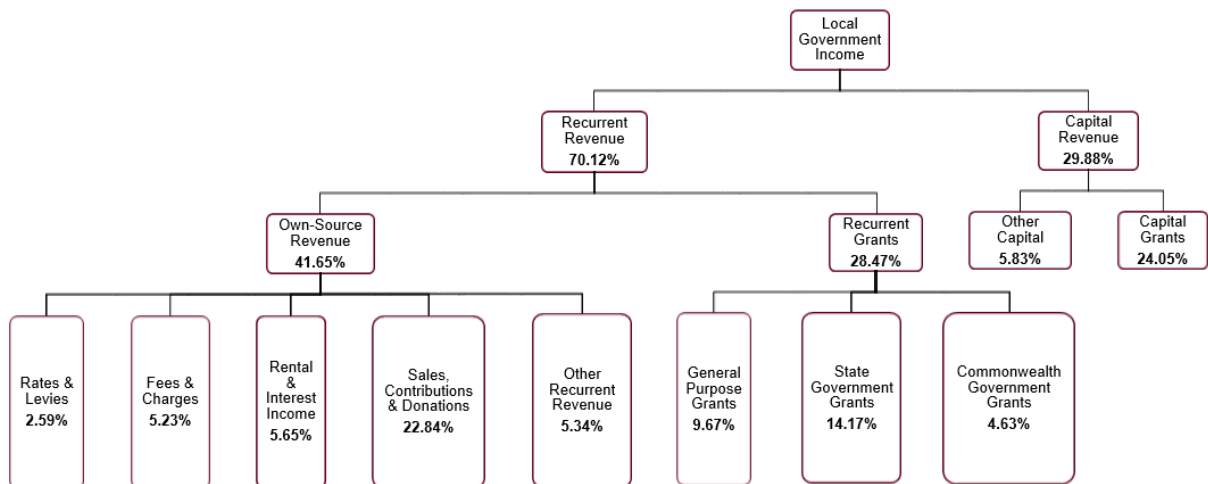
Figure K3
2014–15 percentage of total expense by function: Indigenous segment



Note: Grey indicates expenditure on housing. Excludes Kowanyama Aboriginal Shire Council, Mornington Shire Council and NPARC because the 2014–15 financial statements are not completed.

Source: Queensland Audit Office using council financial statements

Figure K4
2014–15 revenue by sources: Indigenous segment

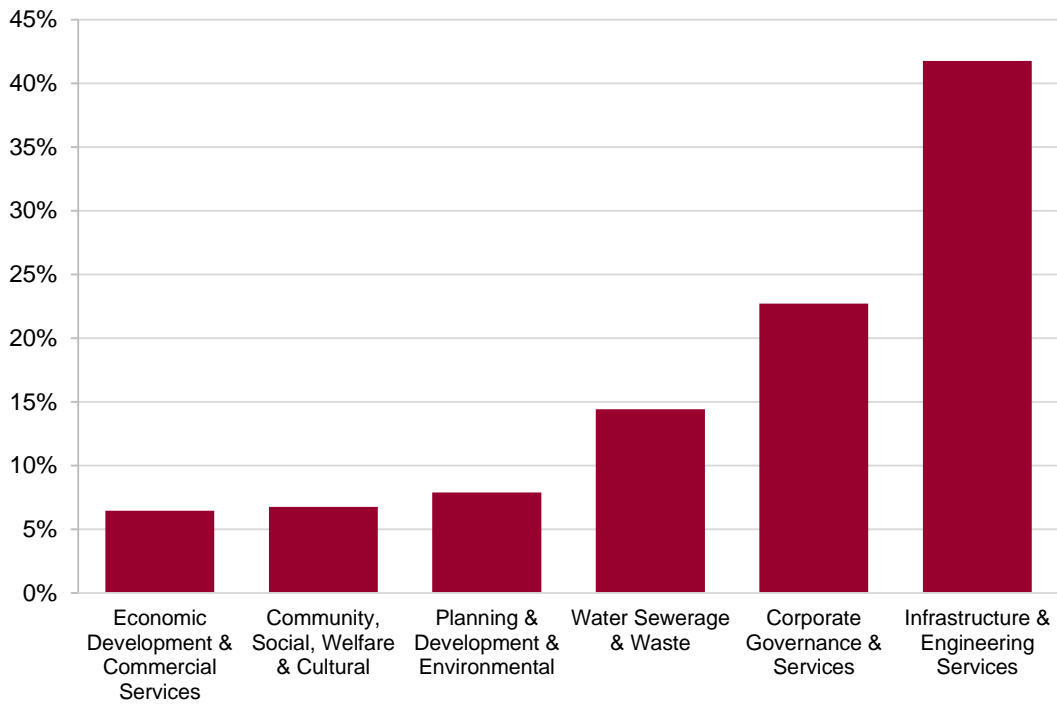


Note: Excludes Kowanyama Aboriginal Shire Council, Mornington Shire Council and NPARC because the 2014–15 financial statements are not completed. General purpose grants are from the state or commonwealth but haven't been identified as such in council financial statements.

Source: Queensland Audit Office using council financial statements

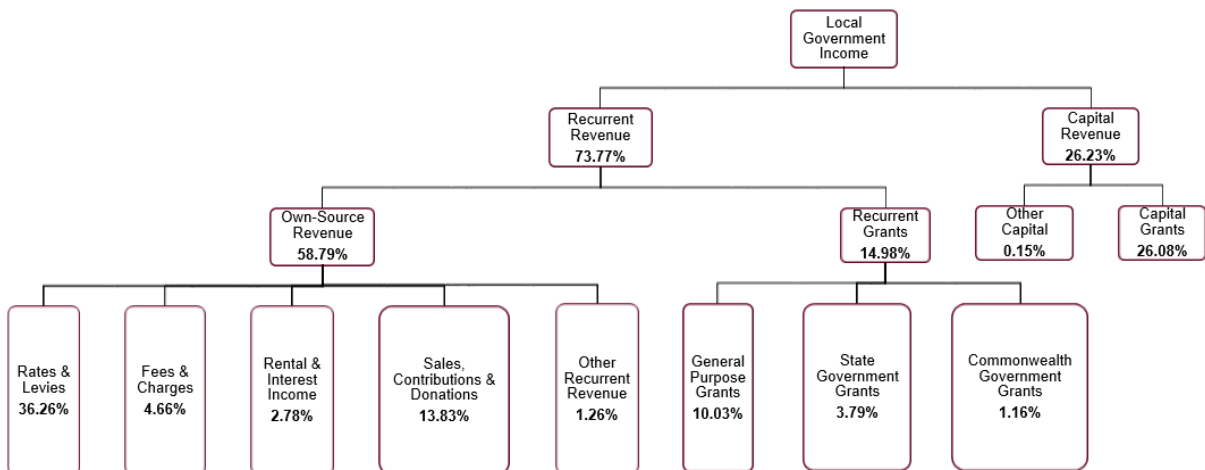
Resources segment

Figure K5
2014–15 percentage of total expense by function: Resource segment



Source: Queensland Audit Office using council financial statements

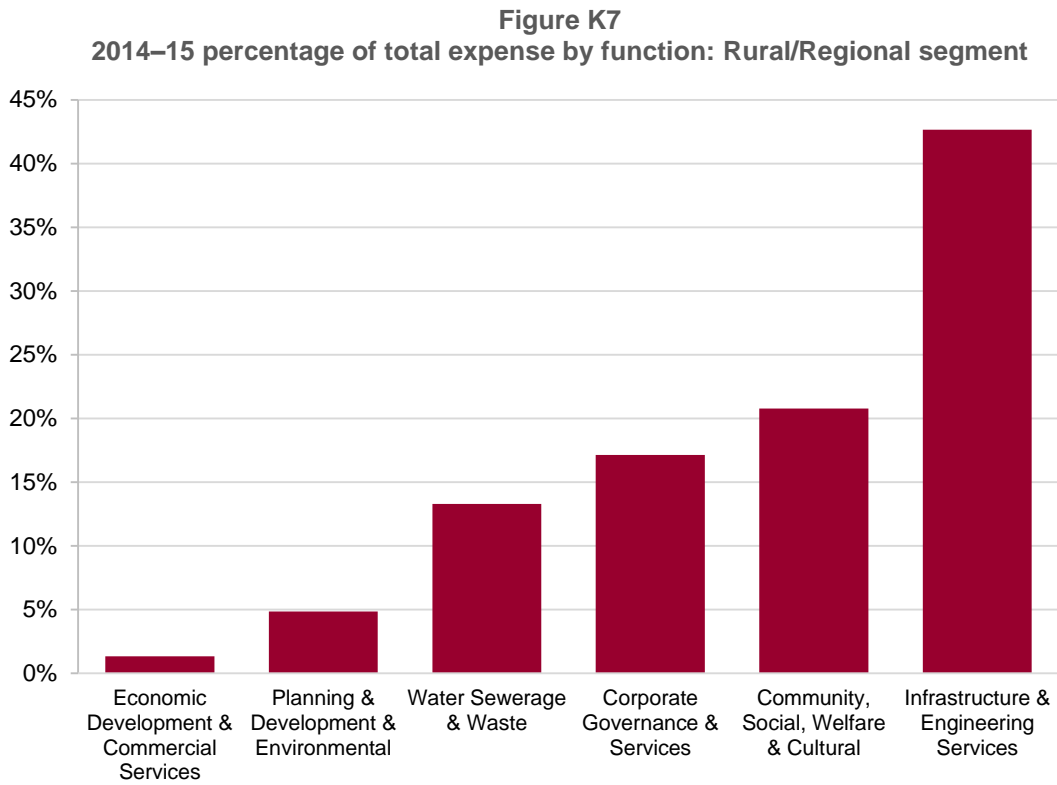
Figure K6
2014–15 revenue by sources: Resource segment



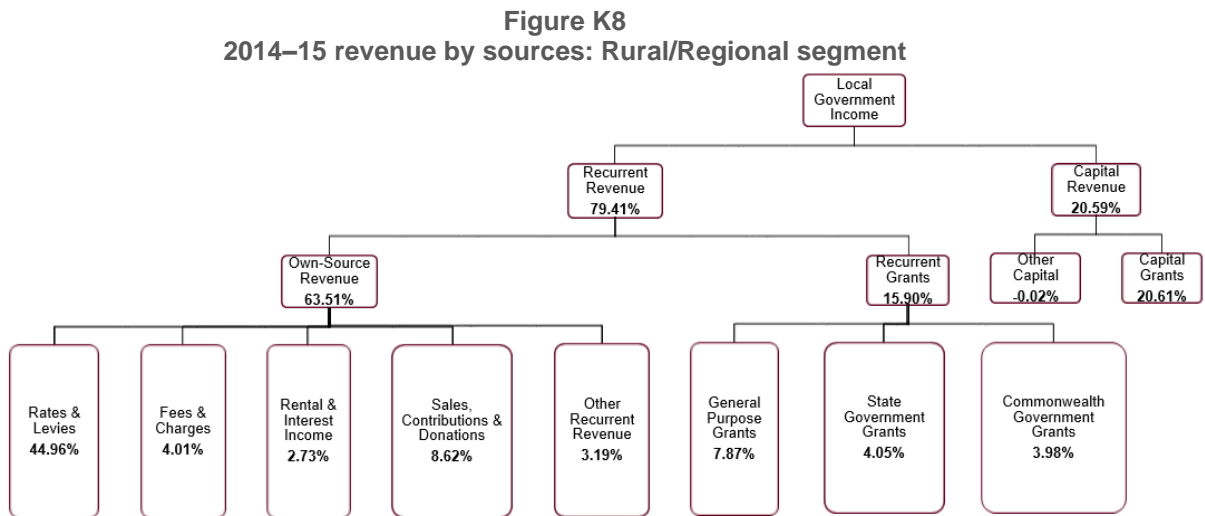
Note: General purpose grants are from the state or Commonwealth, but haven't been identified as such in council financial statements.

Source: Queensland Audit Office using council financial statements

Rural/Regional segment



Source: Queensland Audit Office using council financial statements

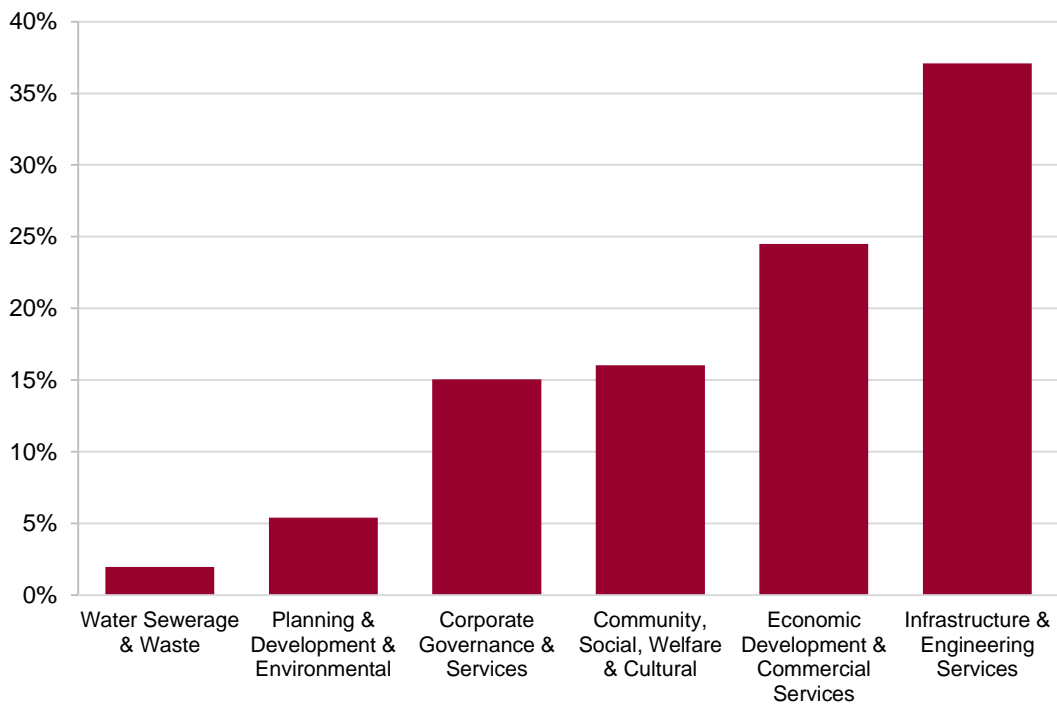


Note: General purpose grants are from the state or Commonwealth, but haven't been identified as such in council financial statements.

Source: Queensland Audit Office using council financial statements

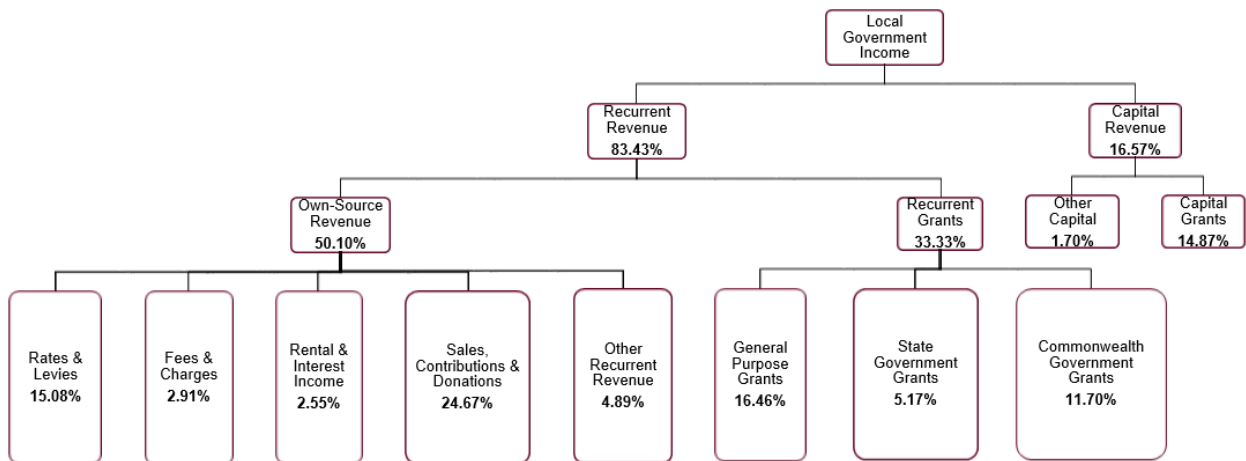
Rural/Remote segment

Figure K9
2014–15 percentage of total expense by function: Rural/Remote segment



Source: Queensland Audit Office using council financial statements

Figure K10
2014–15 revenue by sources: Rural/Remote segment

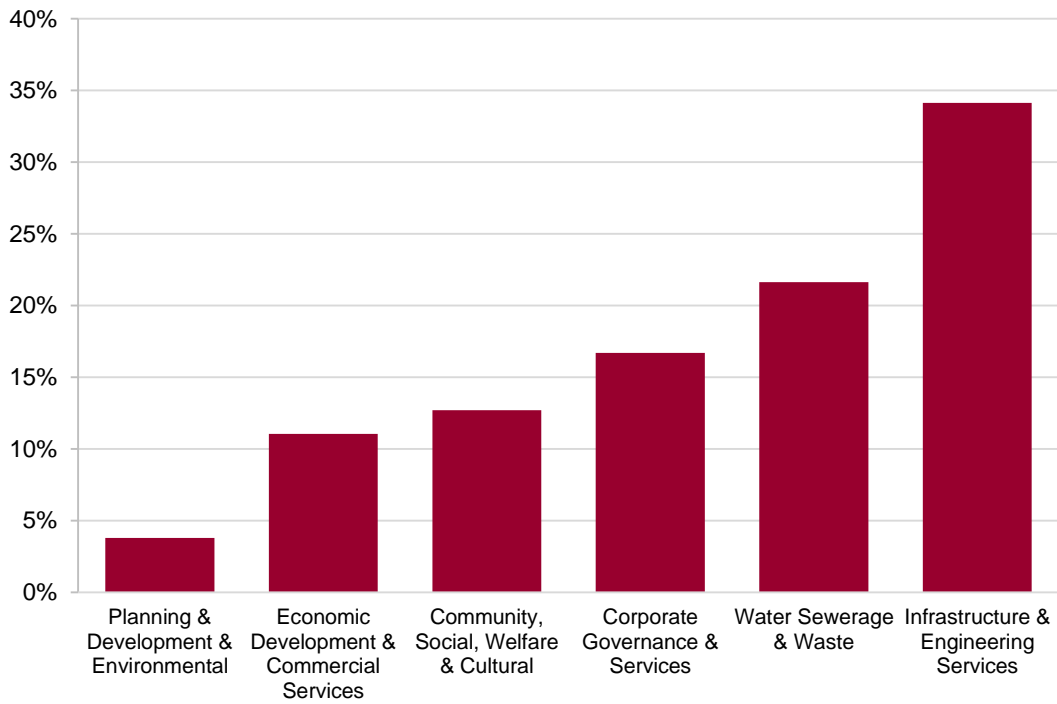


Note: General purpose grants are from the state or Commonwealth, but haven't been identified as such in council financial statements.

Source: Queensland Audit Office using council financial statements

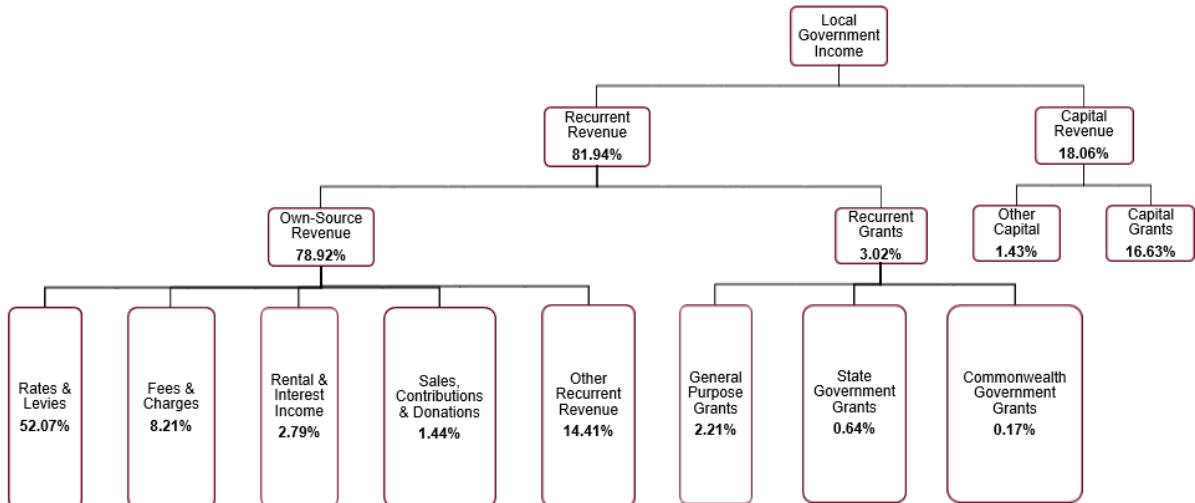
South East Queensland segment

Figure K11
2014–15 percentage of total expense by function: SEQ segment



Source: Queensland Audit Office using council financial statements

Figure K12
2014–15 revenue by sources: SEQ segment



Note: General purpose grants are from the state or Commonwealth, but haven't been identified as such in council financial statements.

Source: Queensland Audit Office using council financial statements

Auditor-General Reports to Parliament

Reports tabled in 2016–17

Number	Title	Date tabled in Legislative Assembly
1.	Strategic procurement	September 2016
2.	Forecasting long-term sustainability of local governments	October 2016

www.qao.qld.gov.au/reports-resources/parliament