



INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES COMMITTEE

Members present:

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

Staff present:

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

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

TRANSCRIPT OF PROCEEDINGS

WEDNESDAY, 10 MAY 2017

Brisbane

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Committee met at 9.44 am

BARRIE, Mr Max, Director, Program Implementation and Review, Local Government and Regional Services, Department of Infrastructure, Local Government and Planning

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

CHAIR: Good morning, ladies and gentlemen. Thank you for your attendance. Today we have a public hearing for the committee's inquiry into the long-term financial sustainability of local government and matters relating to Auditor-General's report No. 2 for 2016-17, *Forecasting long-term sustainability of local government*, and Auditor-General's report No. 13 for 2016-17, *Local government entities: 2015-16 results of financial audits*.

As our first two witnesses, Ms Parton and Mr Barrie, have already been through the established protocols, I will not bore them with those again. Two members have had to leave to attend the black lung inquiry because they sit on that committee as well, but the remainder of the committee is here. I welcome the representatives from the Department of Infrastructure, Local Government and Planning. Do you have an opening statement?

Ms Parton: Yes, we do. As Mr Barrie outlined in our previous session, the Local Government Act, the Local Government Regulation, the City of Brisbane Act and the City of Brisbane Regulation currently form the legislative framework for local government in Queensland. Under this framework, local governments are not directly controlled by the state, but they have to operate within the parameters set by the legislation. The department takes an active role in enabling, supporting and monitoring councils to help them deliver effectively for their communities. In terms of financial sustainability, the department does that by building council capacity and capability by providing funding, monitoring, assisting with industry and government collaborations, and triggering formal state intervention when it is necessary.

In his report to parliament on forecasting long-term sustainability of local government, the Auditor-General acknowledges the role of the department and has examined how the department has fulfilled this role and made five recommendations for improvement. The department agrees in principle with the report's recommendations. We also recognise that there is no formal one-size-fits-all solution to this issue. Councils have limited resources and are increasingly expected to do more with less. The department is keen to deliver practical outcomes and improvements that consider the costs and benefits to councils and their communities.

In discussing financial sustainability with some colleagues from Queensland Treasury Corporation earlier in the week, they did point out that it is certainly not all doom and gloom in Queensland's local government sector. Despite the QAO report findings, our councils overall have a low net debt and their economic health as a sector is quite high. Broadly, they do undertake long-term planning, especially looking at 10-year financial forecasts. In comparison with local government sectors in other states, the economic health of Queensland councils is relatively positive overall.

In the department's experience there are a number of key factors, though, that do have an influence on the maturity of councils' financial management and sustainability. First is the awareness and commitment of elected representatives and key management personnel to financial management, accountability and sustainable decision-making. The stability of key management personnel—most critically the CEO and CFO positions—also has an impact.

Second is asset management and the impact of natural disasters. Local governments in Queensland have a huge asset base. I think we heard in the last session that they are responsible for more than \$100 billion in assets across the state. Because of this, asset management and the financial treatment of assets are big issues across the local government sector. When roads, bridges or water treatment plants, for example, are impacted by natural disasters and the state and Commonwealth governments contribute providing assistance to rebuild them, councils are then required to reflect the full value of rebuilt assets financially. This financial accounting treatment for depreciation impacts on councils' budgets and on their measures of financial sustainability.

Third is council's ability to generate its own revenue. In general, those councils with a greater ability to generate their own source revenue have better financial management and are more sustainable. The Auditor-General's report No. 13 for 2016-17 found that South-East Queensland and coastal councils are operating with over 70 per cent of their total revenue coming from own-source revenue. Indigenous and rural and remote councils on the other hand are operating with over 50 per cent of their total revenue being funded by grants and contributions. Many of these councils have a very small rates base often spread over a large area with little development activity. They have a lot of road and water infrastructure assets that need maintaining. The lack of own-source revenue results in a greater reliance on grant funding from the state and Commonwealth which has been reducing in recent years.

The fourth key factor, in the department's experience, that impacts on councils' financial management and sustainability is the distance from a major population centre. Councils far from major population centres find it more difficult to attract suitably skilled key management personnel, experience greater turnover, often lack the ability to generate own-source revenue and experience greater costs per head of population because of the smaller populations across greater areas. The department is actively working with councils to assist with all of those key issues.

The department supports the recommendations of the QAO while acknowledging that there are very different types of local government in Queensland—some of which have limited resources and difficulty sourcing specialised assistance. Many of the larger local governments—for example, those based in South-East Queensland—are well resourced and are already responding to the Auditor-General's recommendations without further support. The department is adopting a multi-tier approach, providing some support across the sector and other support on a targeted basis to individual local governments.

In terms of engaging and informing elected representatives, the department already conducts information sessions prior to local government elections for intending candidates to make sure that candidates are fully informed about their responsibilities, financial and otherwise, should they be elected to office. After the elections, the department conducts councillor induction training which involves interactive sessions that outline statutory obligations and good practice across council. Sixty-six of 77 councils attended this training following the March 2016 local government elections.

Further to this, the department holds capacity-building sessions which are tailored to council needs, and we deliver them on matters like governance, conflicts of interest, ethical behaviour, complaints management and other topics as determined by councils. To date in 2016-17 we have had 36 training sessions, with most of them involving multiple councils. The department also prepares every year a set of sample financial statements which are intended to help councils with their statements. We also deliver annual forums to run through these which are very well attended by the council financial specialists.

In relation to asset management, which has been identified by the Audit Office as a major issue, the department has set up a working group with Queensland Treasury Corporation, the Local Government Association of Queensland Ltd, the Institute of Public Works Engineering and the Queensland Reconstruction Authority to try to identify initiatives that can be implemented to improve asset management across all councils. Some of the work currently being scoped includes developing common approaches, tools and reporting for asset management and investigating alternative financing and management options—for example, special purpose vehicles—to effectively pool assets of a similar nature or from a similar region.

In the past 12 months the department has also established a chief engineer within our local government division who is available to provide advice to councils. This has been especially valuable for remote councils that may not have in-house expertise on managing and maintaining assets such as water treatment plants. One of the approaches taken by the chief engineer is to try to build networks between councils, putting them in touch with each other to learn from councils that might have a particular strength or expertise in an area of asset management or maintenance. The chief engineer's office is also involved in projects based on identified needs such as the current project to assess and make recommendations on the condition of water and wastewater assets in Indigenous local government areas.

The government's \$20 million Maturing the Infrastructure Pipeline Program, which is part of the State Infrastructure Fund and is also administered by our department, is also supporting long-term infrastructure planning for councils. This program provides early stage assessments of new infrastructure proposals from councils which are done by independent experts to ensure that the information that is being used by councils in their forward asset planning and budgeting is more accurate. In the first round of this program, which opened in September last year, more than 70

proposals were received from 28 councils for infrastructure proposals spanning from transport, arts and recreation to water. This early assessment will not only provide councils with independent advice on the costs and viability of projects but also help reduce the cost of future project planning for the councils and reduce the costs of their procurement activities for projects that do go ahead because they have that independent assessment in place.

As part of the State Infrastructure Plan, the department is also currently undertaking a review of all local government grants programs, in consultation with the Local Government Association, to try to streamline multiple government grants and subsidies programs and use them to achieve better outcomes. The department is also working with Queensland Treasury Corporation to develop information sessions and targeted training for councillors and staff to assist with their long-term financial forecasting and project decision-making and how to link asset management to annual budgets and corporate plans. Since the Audit Office report was issued, the department has strengthened this role by implementing a new council performance monitoring program and a mobile specialist team focused on tailored individual assistance to councils about that financial sustainability.

Where a council is identified as being potentially financially stressed, the department may use its legislative powers to access more specific information in the local government's records or conduct an investigation. If there is sufficient evidence to indicate that a local government is not performing its responsibilities or not complying with the legislation then the department may recommend an adviser or a financial controller is appointed. However, in the department's view, intervention is only recommended if we have not been able to assist the council in other ways—for example, by providing targeted capacity building or coaching and other assistance. This reinforces our role as an enabler and facilitator for local government.

Our experience has shown that investing in council capacity is much more effective in the long term than introducing further rules and regulations and legislative reporting requirements for councils that are already stressed with these requirements. Improving the quality of understanding and inputs into financial and asset management and providing access to specialist resources and advice will ultimately result in the best outcomes in terms of future focused and financially sustainable councils.

CHAIR: You spoke a minute ago about training. It would appear that the department has certainly put a lot of resources into councillor training, both financial and human resources. Is there any way that you measure the success of that training and the benefits that are delivered? If a councillor does not feel comfortable about the training, how can he or she follow up on the training and how can it benefit themselves and the council?

Ms Parton: The department does undertake an annual survey of mayors and councillors to evaluate our performance. We use that data to report our performance in our annual report as well. We ask questions of councils about their satisfaction with the training and support services provided by the department through that. That is one way that we evaluate whether we are meeting council needs in terms of training.

We would also look at reports like the Queensland Audit Office reports and work with our partner agencies and statutory authorities such as the Queensland Treasury Corporation and the Queensland Reconstruction Authority to provide some more specific feedback on which councils might be needing assistance in particular areas and how we can help them with that.

While the Queensland Audit Office reports on sustainability are one measure, there are also the financial statement audits that the QAO undertakes which in the past year have shown a bit better compliance, with councils putting forward their financial statements on time as well. There are a number of inputs the department uses when it is tailoring its training. Our 2017-18 program is very focused on sustainability.

CHAIR: If I am a newly elected councillor and I do not understand the proper processes, where do I go for my information—back to you?

Ms Parton: Hopefully as a newly elected councillor you should have been picked up in our Welcome to Council induction program. We run that and coordinate with the LGAQ. We go through and try and provide that training to as many councillors as possible. In addition, our director-general and senior staff are always available for councillors and mayors to contact so they can be directed to the right area of the department if that is the only person you know in the department. We are happy to take calls from councillors and mayors with questions. Our regional officers are a very good network. We have a lot of people based in regions, and they are generally the contact for council inquiries and discussion in those regions. They are very knowledgeable about their local area and local councils. Councillors can also go to the LGAQ if they need advice as a member agency. The LGAQ also has ways into the department, and we share our resources for that type of information for councillors with them.

CHAIR: I can remember that I was a very shy councillor and your assistance would have been very helpful at that time. Regarding financially stressed councils, in its response to the Queensland Audit Office recommendation the department advised that it uses a number of indicators to make a reliable assessment of whether a council is financially stressed or not. Can you please advise what these indicators are and how these are assessed and used? In the department's information paper to the committee the department advised that since the release of the report it has implemented a new council performance monitoring program and further analyses of councils' long-term financial forecasts. Can you please provide more details about that as well?

Ms Parton: The Local Government Act and the City of Brisbane Act allow the Minister for Local Government in certain circumstances to remove unsound decisions, remove a councillor, dissolve a local government and appoint an administrator. The director-general of the department can also appoint an adviser or financial controller to the local government when specific conditions are met. They are obviously legislative interventions that the department and minister have the option to undertake. The department also undertakes a lot of activities to monitor local governments and identify those that might be financially stressed, which include: reviewing the long-term financial forecasts submitted by local governments as part of the borrowing program; monitoring the media and complaints, which provides a source of information as well; developing relationships with key council staff so that issues can be proactively identified, especially through our regional officers; and analysing budgets, audited financial statements, financial sustainability statements and the annual reports. We do have a finance and funding area in our department that looks at those sorts of measures. We would firstly go and consult with the council and try and provide them with support and capacity building to address those issues, but if that was not effective then it would be a matter of looking at the legislative abilities that we have to intervene if that is necessary.

CHAIR: Using that process, is it better to get onto these financially stressed councils earlier rather than later?

Ms Parton: Certainly. I know the department has put financial advisers or controllers in place in councils previously, and that has certainly helped them pick up their performance and remain financially viable on occasions where you may not have thought that was possible by looking at their financial statements and issues that had been raised. The earlier the department can intervene and provide training the better. We do tend to find that, in those situations where councils become financially stressed, quite often that can be as a result of key management personnel exiting the organisation. Someone who has a lot of expertise or experience has left the council and they may not have had a plan to replace that person internally. In regional and remote councils it can be difficult to find a person with that same level of expertise. That is where we are trying to be there for the councils. Our 2017-18 capacity-building program includes the option to have resources that we could use to help councils in that situation. If we have identified that need, then we might be able to have a team or a person that could go and assist the council with those types of issues.

Ms LEAHY: There was some mention of debt. Could you give us the figure of the combined total debt of all councils in Queensland?

Ms Parton: I can certainly come back to you with that.

Ms LEAHY: Would you also give us the combined total debt, which is the debt of all councils in Queensland, over the last five years? Is it increasing, decreasing or staying stable?

Ms Parton: I can certainly come back to the committee with that. My conversation with Queensland Treasury Corporation was about having a relatively low debt, but I would not want to provide any figures in case they were not accurate.

Ms LEAHY: I notice the comment about the combined operating loss of \$99 million. Even though the operating result was positive there is a combined operating loss of \$99 million for Indigenous, rural and remote and resources councils. Do you know why resources councils were included in that?

Ms Parton: I am not sure. I know that they used a regional breakdown that had been previously defined, and resources councils were one of the segments that they used for the report.

Ms LEAHY: In relation to their 10-year forecasts, the council term is fixed for four years and state and federal governments change their priorities and funding programs on a regular basis, so how do councils do long-term forecasts when they have all of those variables? A long-term forecast is a bit of a stab in the dark really, because you do not know if that council is going to be there and you have no idea of who the state and federal governments will be from a grants and subsidies point of view.

Ms Parton: That is right. I recognise that, and I suppose that is the same with any long-term forecasting or planning. I think what the Audit Office is saying, and the department would support this, is that just because there may be changes to it does not mean you should not undertake it in the first place, because it can be very valuable to try and set a future direction for a community by the council in the same way that I suppose the state government has an infrastructure plan. We look at a four-year definite program but then also 10- to 15-year ambitions or problems that we think need to be resolved across that longer period. While it can be difficult to find the direct inputs into that plan, I certainly think there is value in councils developing a longer term outlook for their community if they possibly can.

Ms LEAHY: In relation to the State Infrastructure Plan, when the state does that do they also plan to fully fund the depreciation of that State Infrastructure Plan?

Ms Parton: I am not sure, but I can take that question on notice as well and we can come back to the committee on that.

Ms LEAHY: I would appreciate that.

Mrs LAUGA: When we were briefed by the Audit Office they said that most councils plan poorly for the long term, that it is really often about a question of leadership in the councils and that the sustainability of local government is not necessarily linked to the size of the council. Mr Strickland from the Audit Office said that they are aware of efforts from the department with respect to providing support to councils, but he did say that both the department and Queensland Treasury would be better off speaking about exactly what councils are doing, when they are doing it and how they are doing it. It says they are aware of the efforts that you are making to engage and build capacity in councils, but most of that is on a volunteer basis and councils need to opt into that. Part of their concern is that some councils either do not know that they need help and assistance or, if they do, they cannot always afford the time to attend those sorts of sessions and build up their knowledge or implement what they have learned. Do you have any recommendations about how best to encourage the councils that need the help to get the help?

Ms Parton: I suppose that is why we do start with a fairly broad program of councillor induction sessions—to try and build the relationship between the councillors and the department so that they do know where to come when they need assistance and also just to cover off on a number of topics so that they know the range of expertise. In terms of the more targeted training that we offer, our regional officers do work very closely with the councils to try and get a read on those issues. I know in any one week we might get calls for assistance from, for example, an Indigenous council asking for someone to give them some help with procuring a contractor for a water treatment plant, to someone else asking for assistance on what to do with a complaint they have received. The topics are fairly broad, and there is an awful lot of communication between department staff and council staff to try and gather that intelligence about which councils are struggling and which councils need assistance.

I take your point in that the department does only have the legislative ability under the act to intervene when there is a serious issue. While we do try and build that up through our relationships and capacity building and training for the councils and making those experiences as positive as possible, once you move into that legislative realm it is a fairly serious step to be taking, and those are what options exist under the legislation.

Mr Barrie: In her opening statement Ms Parton mentioned that 66 of the 77 councils participated in the induction program following the local government elections, and that was the highest number of councils that the department had ever attracted to that type of training. That was a one-day session. It was the department's strategy to follow up with that, and through that induction program we advised the availability of further training to those councils. As Ms Parton has also said, in the subsequent period there have been over 30-odd sessions involving, from my memory, 200-plus councillors undertaking further detailed training around specific topics. It would be our intention to do the same in 2017-18. Our experience in 2016-17 is that there has been a better uptake than in the past.

What we are trying to do, for example, in the next financial year—this is well and truly apart from responding to the Auditor-General's recommendations and asset management et cetera—is address the issue of meetings, because they are a real issue in many councils: the conduct of meetings; councillors not understanding how to deal with their interests in meetings; efficiency in meetings; closing sessions to the public and not necessarily acting appropriately in terms of when they come out of those closed sessions; and making resolutions. We have identified specific topics, as we did this year. Meetings will be on the agenda for 2017-18 and we hope to attract a good response to that as well.

Mrs LAUGA: With respect to the long-term sustainability of councils, the Audit Office did note that leadership is important—not only leadership from the councillors' perspective but also from council staff, CEOs and managers. These induction programs are targeted to councillors. What programs are specifically targeted to council staff, including the CEO and managers?

Mr Barrie: My apologies. I should have also said that these sessions have been open to CEOs and senior executive staff. Typically they will attend these sessions anyway. But there are other initiatives, for example, through our Local Government Capacity Building Program. The Deputy Premier at the beginning of last financial year implemented a Women in Local Government Strategy. That strategy is specifically targeting women in CEO or senior executive positions or aspiring to those positions to undertake professional development. We have allocated approximately \$100,000 this year through the Local Government Managers Australia (Queensland) to sponsor women in senior positions in local government. We also offer sponsorships of local government diploma programs for staff of councils. We pay attention to senior staff and executive staff, but also lower and middle management in councils as well.

Mr PERRETT: I have a number of questions relating to asset management within councils. I particularly draw your attention to one of the Queensland Audit Office's summary of issues which states many councils lack good-quality data and a clear financial strategy to set parameters needed to produce accurate forecasts. My observation of local authorities over a period of time is that they have been very, very good at building assets—roads, water infrastructure, sewerage and the like—but never very good at understanding what they have when they have it there and then ultimately funding the depreciation on those assets and, as they discover more and more within their council areas, then obviously increasing their depreciation levels within council to make certain they have certain reserves there to be able to replace those assets when needed. Are you confident that the process of asset management and understanding what councils have is progressing well? I know you mentioned there is a working group, but we are talking about \$100 billion worth of assets, if that is accurate. I do not believe it would be accurate. From my observations within local government, as I mentioned before, I think they kept finding more and more. How confident are you that asset management by local authorities is where it needs to be?

Ms Parton: Previous to working with the department I worked with the Queensland Reconstruction Authority so I have a bit of experience in how important asset management is to councils. A lot of the work that the Reconstruction Authority did was around gathering data to try to get better value out of the whole reconstruction program. That was a big program, and that is why they are one of the key partners we are working with on the working group, along with the institute of public works engineers.

Ideally, if you could have a system that every council could use to put all of their asset management into and that the department could access that would be fantastic, but every council has different requirements and different assets. There is not a one-size-fits-all solution to asset management, either. I think the large reconstruction program in 2011 and 2012 certainly did set councils back a way when it comes to the asset management program. I think it required them to take on quite a bit of depreciation for all the new assets that were rebuilt after that run of natural disasters, but I think we are seeing there is a bit more understanding within the staffing of councils of the importance of asset management. We are doing that work with the Queensland Treasury Corporation and the institute of public works engineers. We are also looking at those specific projects, like I mentioned: the Indigenous Council Infrastructure Project, which is looking at different asset classes and seeing if we can find common solutions to those. I think work like that will really help councils more broadly to improve their asset management approaches once we share those learnings as centres of excellence for particular types of asset management within councils.

Mr PERRETT: Once a ratepayer has a bitumen road or whatever they have, they expect it is going to be there forever. That is where some of the political problems come from in getting long-term plans, because the priorities change and local authorities want certainties. I would like your comment on the observation that what has created some of the challenges for councils was the change when—I think it was in 2009—the financial assistance grants for key infrastructure projects like water and sewerage, particularly the SCAP funding, which provided up to 80 per cent for their small communities and some of those rural councils, was removed and that has placed financial pressure on asset management when they could no longer rely on the state government providing assistance to those key infrastructure projects. How have councils managed to change that approach over the ensuing eight years?

Ms Parton: I cannot comment on the policy intent of those changes, but I know that part of the work we are doing at the moment in terms of reviewing the Local Government Grants and Subsidies Program is really about getting better value out of those programs. I think we are working out that

there are specific funds for councils for a lot of different things that come from the Queensland government. Quite a few of them have different intentions when they are released and it can be difficult for councils to apply for a little bit from that bucket and a little bit from that bucket. It makes it harder for them to pull together their overall programs. Part of the piece of work we are doing on the grants review is going through all of those grants programs and seeing if we can build into those more effective measures to build council sustainability so that the investment that is coming from the state is more effectively used to target those issues that are identified as issues to their long-term sustainability. We certainly acknowledge that and are working on that actively at the moment.

CHAIR: It is mentioned in the Audit Office report that the financial sustainability issues of a number of councils have been noted in consecutive audit reports and limited corrective action has been taken by councils to address or change their operational practices. Would you like to tell us a little bit more about that and what are you doing to fix the problems?

Ms Parton: I know that the audit report does note there was a recommendation, I think in 2013-14, and after that the department entered a partnership with LGAQ to increase the content in the Local Government Diploma Program around financial management and financial sustainability. That is one piece of work that we have done in the past around that.

CHAIR: Was that successful? It is all right to say you have done it, but was it successful?

Ms Parton: In the longer term, in terms of growing capability within council employees, I think the diploma program has been successful, but it is difficult to measure it on a council-by-council basis because you do end up with movement of staff across different councils so it is difficult to evaluate.

Mr Barrie: Some of those highly stressed councils, unfortunately, are Indigenous councils and that is the nature of how they are financed, I suppose. As an example, and this is not a strategic approach by any means, we have assisted a number of Indigenous councils with very specific asset management projects—these are typically \$20,000 or \$30,000 at a time—where they have improved their asset data. The consultants that we engage to do it are well-qualified asset management specialists, much better at it than the department would be. They go in and they deliver a good value for money service in improving asset data but also identifying personnel within those councils who can be trained and mentored and supported over a long period of time. I would estimate that over the last two to three years we have probably invested about \$300,000 in that sort of activity in possibly a dozen or 15 small projects for some of those really financially stressed Indigenous councils. I guess, from where we sit, those small steps can make a big difference rather than trying to take a high level or strategic one-size-fits-all approach across the state.

Ms LEAHY: We keep looking at the long-term sustainability of councils, and I think the Queensland Audit Office analysis says there has been an overall increase in the risk of councils becoming unsustainable: 44 councils in the high or moderate risk rating compared with 37 in 2014-15. We seem to be saying this is a councils issue all the time, but in 2009 there was \$1 billion taken out of grant and subsidy funding by the state government to councils. Aren't we really seeing here the result of what has happened—a massive reduction, that billion dollar cut to local governments? Isn't this really a state issue, not a councils issue?

Ms Parton: I would say that long-term sustainability is a very complex issue and it has a lot of changing external social, environmental and economic factors. I do not want to comment on a policy decision of the government, but I do not think it is a simple issue that the state can fix by itself or that the councils can fix by themselves. A solution that might work on the Gold Coast is certainly not going to work in Paroo. I think it is very complex, and I think the reason we keep seeing these issues is that there are a lot of factors to it. As Mr Barrie was just saying, I think we can target those issues as they come up and probably the best approach is to collaborate with the councils and try to work with them to increase their capacity and capability and to use the funding the state provides for the very best outcomes that we can in the communities.

CHAIR: I am happy with that response. We are walking into the area of policy so we had better be careful. We are out of time. Thank you very much for your attendance. We appreciate the frankness with which you have responded. May we please have any answers to questions taken on notice returned by 17 May.

McMILLAN, Mr Roland, Principal Adviser, Finance and Economics, Local Government Association of Queensland.

TALBOT, Ms Simone, Manager, Advocacy, Infrastructure, Economics and Regional Development, Local Government Association of Queensland

CHAIR: Do you have an opening statement?

Ms Talbot: Yes, we do. In order to understand the long-term financial sustainability challenges faced by Queensland local governments it is necessary to appreciate the fundamental challenges councils face in their daily operations. Queensland's 77 councils spend \$9 billion each year to serve 4.8 million people. Councils provide a wide range of infrastructure and services across areas with vastly differing population densities. For example, 56 of Queensland's 77 councils have population densities less than 10 people per square kilometre. Councils continue to face challenges from vertical fiscal imbalance, cost shifting from other levels of government, increased compliance costs, skills shortages, increasing community expectations and ageing infrastructure.

Under the Australian Federation's fiscal arrangements, the federal, state and territory governments together collect approximately 97 per cent of all public revenue. Fiscal redistribution is an inevitable consequence of this pattern of revenue collection. Councils raise about 32 per cent of their gross revenue from general rates and charges and 33 per cent from other charges, including for water and sewerage. Almost all of the initial cost of major infrastructure for which local government is now responsible was funded over many years by grants from federal and state governments. Councils have subsequently been required to fund the whole-of-life costs of those expensive public assets. Many of those long-life assets are nearing the end of their useful life, and the requirement to replace those assets has only been addressed for a small proportion of a local government's asset stock.

The scale of the asset management task and ultimately the replacement of those assets is considerable, with Queensland local governments managing \$98 billion of non-financial assets. A recent survey conducted by the LGAQ found that 43 per cent of respondent councils believe that they cannot fund new or replacement assets and that direct support will be required. This is not surprising. If you calculate as an example the asset-revenue ratio for government sectors as an indicator of the capacity of taxation revenues to support assets, the Commonwealth has a ratio of 2.8 compared to a local government ratio of 0.04.

Local government is also under constant pressure to expand the range and quality of services due to rising community expectations, increasing demands from other levels of government and changes in standards and legislation. Another primary driver is growth or, in some areas of the state, lack of growth. As a consequence, all local governments must manage their business life cycle position. That is, is the business growing and requires an expansion of infrastructure and services or has growth peaked and the business reached a point of maturity with existing demand being met and renewal and maintenance becoming a key issue? Managing the demands of growth can often place a local government under financial pressure as significant infrastructure will be required against revenues currently being earned. Given the different roles and characteristics of local government and the type of services provided, it should be expected that over time most local governments will move through a number of growth and maturity cycles. The modest share of public sector revenue that it is able to raise and the relative scale of its infrastructure assets and service responsibilities makes local government, especially remote councils, highly dependent on reliable transfers from other levels of government.

The standard recommendation by reviews of local government financial performance, that local government should be undertaking better asset management and longer term financial planning, might be achievable if—and it is a very big if—the transfer payments from other levels of government on which local government rely were more predictable and reliable, as this supports better long-term planning by councils. Both the Commonwealth and state governments need to acknowledge that, over the past 10 years, significant reductions of grants and other transfers from the state and the Commonwealth governments have placed severe financial pressure on local government. For example, over the past 15 years Queensland government funding to local government went from a high of about \$580 million in 2008-09 to a low of \$160 million in 2014-15. The federal government's freeze on financial assistance grants indexation cost Queensland councils an estimated \$150 million over the past three years, noting of course that last night's federal budget has restored this arrangement. The quantum and variability of these movements is a major contributor to the uncertainty that is faced by the local government sector. Additionally, local government only has access to property based taxes and charges as its main income source. Revenue increases from

these sources are constrained by capacity to pay. The drought is one such example, where rural communities are faced with financial hardship and therefore are limited in their capacity to afford increases in council rates.

Further to seeking more stability in fiscal equalisation transfers, the LGAQ is advocating for a change to capital grant program eligibility criteria to include asset renewal and non-capital infrastructure solutions. The aim of this proposal is to support improved asset maintenance, as well as alternative solutions to infrastructure management, in place of an approach that only awards grants for new capital works. This proposal is currently with the Department of Infrastructure, Local Government and Planning for consideration.

The LGAQ acknowledges that there are also internal issues that councils themselves need to address as financial sustainability is also impacted by policy choice, governance, leadership and management oversight. In supporting councils the LGAQ works with partner agencies including the Department of Infrastructure, Local Government and Planning, the Queensland Audit Office, the Queensland Treasury Corporation, the Local Government Finance Professionals Association and the Institute of Public Works Engineers Australasia, among others. These partnerships harness the combined expertise available from these agencies and provide valuable support through consolidating and sharing expertise, services and products that can help councils to address matters that are raised during audits.

On asset management, various programs have been conducted over recent decades seeking to promote improved asset management systems and practices. However, the LGAQ found, despite a short-term improvement in the period after delivery, the programs have only achieved minimal sustained change. On integrating asset management plans with budgets and long-term financial forecasts, the majority of councils recognise that integration of asset management plans with budgets and forecasts is desirable. A recent LGAQ survey shows that 78 per cent of respondents indicated that their council's asset management plan is either fully or partially integrated with their long-term financial forecasting model process or is expected to be by 2020. However, the resources necessary to develop and implement systems are not available to all councils. The remaining 22 per cent of respondents indicated that there is no current connection between their council's asset management plan and their long-term financial sustainability modelling and planning. This may be attributed to a number of factors including a lack of continuing local expertise, staff turnover and resource constraints.

As part of its current advocacy action plan, the LGAQ is seeking Queensland government support to establish a regional network of asset management mentors to work directly with councils. The intention of this proposal is to address the issue of availability and retention of appropriately qualified asset management expertise in regional areas. In terms of the scalable project decision-making frameworks, the LGAQ promotes the QTC, the Queensland Treasury Corporation, project decision framework product for use as an appropriate methodology by councils. The message of engaging in conversations on service levels and standards was a key theme at this year's Queensland Treasury Corporation and LGAQ finance summit, and councils are well aware of the opportunity costs that alternative service levels represent in the context of their finite budgets.

Over recent years the working relationship between the LGAQ, the Queensland Audit Office, the Department of Infrastructure, Local Government and Planning and the Queensland Treasury Corporation has become very good and there is a program of events that involves the joint delivery of presentations, seminars and other education to council officers and elected members. The LGAQ also directly assists councils with communications and technology support, procurement, training and other services and tools to reduce costs and build capacity of individual councils to help them implement financial system improvements. There is clearly more work to be done. Councils are aware of the importance of the integration of asset management and budget financial processes and systems. The issues that have prevented more rapid progress are associated with the availability of skills and the resourcing of activities under difficult operating conditions, including reconstruction works following several natural disaster events.

CHAIR: The Queensland Audit Office recommended that councils engage directly with their communities on future service levels. What is your understanding of the progress that is being made in this area, particularly in Indigenous, rural, remote and resource councils?

Ms Talbot: As I mentioned in my opening statement, there is certainly an awareness of the importance of understanding levels of service in councils' planning and budget deliberations. That is one avenue for them to look at how they can either cut service standards to reduce costs or, in some circumstances, improve service standards and levels of service.

It is difficult to provide a total summation across the state. As I said, there is definitely a greater level of awareness. There certainly has been a lot of focus from the Queensland Treasury Corporation, the LGAQ and also the engineering fraternity on understanding levels of service. We are seeing councils become more confident and more sophisticated in their ability to conduct community engagements around levels of service and understanding what the community desires and expects, as opposed to what councils can afford at the end of the day. We have had recent examples with the Southern Downs Regional Council looking to introduce participatory budgeting processes where they are going out and actively engaging the community about levels of service.

It does vary across the state. We see some councils that are very good at it and some councils that are not so good at it. Overall across the state I think there is a greater level of awareness about the need to focus on levels of service.

CHAIR: I appreciate you saying that there is an awareness. It is alright to be aware of a situation, but what are we doing to correct it and to make sure that it does not work into the negative?

Mr McMillan: There is some scope for councils to introduce special levies for particular services. An example that is taken up by a number of councils is where they are putting the decision through a priced service to the community. That obviously is a very clear signal about the cost of providing that service. I think that is one area where there is room for more of that being considered by councils. Certainly it is being taken up by a number of councils.

CHAIR: Does the Local Government Association do anything to drive those local authorities that are not doing enough, to encourage them to do more, or do they just run along?

Mr McMillan: Councils have well-established relationships in their local communities. That is understood. They vary in their degree of community consultation. A number of regional and rural councils will have people on council who are local businesspeople, farmers et cetera who have very good contacts in the community and an understanding of operating in those communities. They bring that to council personally. There are also mechanisms for councils to consult with their communities, as outlined by my colleague. Some councils conduct their meetings in different locations around their council area and invite community members to contribute to the discussion on any issues that they may wish to raise. A number also operate survey products that inform council decisions through the collection of those survey responses.

Ms Talbot: Certainly an initiative that the LGAQ is pursuing is what is called our Ready. Set. Go performance benchmark. The LGAQ has collated all publicly available data across a number of indicators of local government performance and financial sustainability. We are working with councils, especially the executive management teams, in promoting that tool. It is almost a peer benchmarking approach. Again, that is acting as a bit of an incentive for them to improve their performance. The LGAQ is having discussions about that process being made publicly available as well.

CHAIR: I want to go to local governments in the resources sector. You would be aware, as I am, that over the years there has been a significant reduction in the level of contributions made by mining companies to local government. Indeed, I could probably say there is a growing resistance to providing funds to local governments. In the past, those funds have been provided for the development, maintenance and replacing of assets, even sewerage plants. Has the LGAQ recognised that there is an issue here? Has the LGAQ put together a policy or a means of trying to address it with your contacts in government and the mining industry?

Ms Talbot: Certainly we have had a sustained campaign working with collectively what we call our resources segment of councils which comprises 18 councils within the major resources basins. One of the fundamental platforms that the LGAQ pursued, recognising the pressure that those councils were under and the fact that that industry was contributing but probably not contributing to the level required to help facilitate growth of the industry, was what became the Royalties for the Regions program. Back in 2010 we started the campaign. We have also actively worked with councils on their rating policies and practices to make sure they are rating the resources sector appropriately compared with other major industry sectors in the community. Western Downs Regional Council is an example of where they have attempted to equalise the rating approaches between the agricultural sector and the mining sector in their community to ensure that both sets of industries are contributing fairly to the impact on local government infrastructure.

CHAIR: Did you put together some sort of formulas or have general discussions?

Ms Talbot: We engaged our legal advisers and engaged other financial experts to provide some guidance but also actively went out and sat down with the councils and worked through their rating regimes to look at whether they were underrating the sector and what was a fair rate to apply to the sector as a consequence. Many councils have adopted that.

Ms LEAHY: Thank you, Ms Talbot, for appearing here today. In relation to FAGs from the federal government, when did that freeze come into place? Has the LGAQ done any figures on the loss of funding due to that freeze to Queensland councils?

Ms Talbot: I believe it was 2014-15 that the freeze was implemented. It was for a three-year period and the cost to Queensland councils as a result of that was \$150 million.

Ms LEAHY: I am just wondering whether the LGAQ has done any analysis or estimates on the funding. There was a major change to the grants and subsidies in 2009. I am just wondering what LGAQ figures have been done in relation to assessing how much funding is no longer available to local government councils because of those 2009 changes?

Ms Talbot: Certainly the reduction in capital grants and subsidies in the 2008-09 period did have a significant impact on the sector. Certainly if you can make the correlation that there were increases in council debt we believe as a consequence of some of those changes as well as the capping of infrastructure charges that councils were able to apply, I think the loss was attributed at around \$800 million. It is somewhat difficult to quantify sometimes given the cycle of grants and subsidies over government election cycles.

Ms LEAHY: What were the grants? Can you recall what the grants were? I think there was roads and drainage, security improvement and SCAP, which funded up to 80 per cent of water and sewerage. I am just trying to think of the other ones.

Ms Talbot: They are the main ones. The main cuts were to the Small Communities Assistance Program, the SCAP program, which largely funded a lot of water and sewerage infrastructure in smaller communities, obviously, as the name implies. The capital grants and subsidies program of the department of local government, as it was at the time—I cannot remember its specific name all those years ago—covered some of those roads and drainage and recreation and sporting facilities et cetera.

Mrs LAUGA: I just wanted to ask about LGAQ's subsidiary, Local Buy. The terms of reference of this inquiry include local government procurement and Local Buy, being a subsidiary company that provides procurement services to local governments. I am interested to know about the fee that Local Buy charges to contractors who are procured for a project through them.

Ms Talbot: I may have to come back with clarification. My current understanding is that there is a fee structure of around one to 1.5 per cent that is charged to different bodies seeking to be on those panels. They are charged a very small fee in terms of the overall products and services attached to a particular panel. I am happy to confirm that for you.

Mrs LAUGA: Thank you. Is there a concern that, by attaching a fee like that to procurement of local government projects, contractors add that fee into the price of works and therefore ultimately the Local Buy process adds that one to 1½ per cent in contract value to the cost of public projects?

Ms Talbot: I think people would overwhelmingly indicate that, because of the savings due to the bulk purchasing arrangement that Local Buy offers across the state, any fee of one to 1½ per cent is a small cost compared to the overall saving because, as I said, basically they are leveraging purchasing power across the state. From the fact that Local Buy panels continue to exist and grow in scope and that more and more contractors are seeking to be on those panels I would draw the conclusion that the arrangement seems to work quite well and the savings overshadow any costs incurred through the fee structure.

Mrs LAUGA: The LGAQ's 2015-16 annual report says that Local Buy returned a solid dividend back to the LGAQ. That is through the charging of that fee with respect to procurement. I get a lot of constituents who have concerns about Local Buy saying that there is a doubling up of preferred supplier panels and that they have to put a lot of time and effort in to submit to councils individually for specific panels and then also submit to different panels for Local Buy. They put all this time and effort into applying to these panels and never even get asked to quote for work and if they do they get hit with a 1½ per cent contract fee. Is Local Buy effective in procuring for projects where we are talking about public money?

Ms Talbot: That is probably a question for the CEO of the LGAQ and also the CEO of Local Buy. As I said, given the trend of Local Buy continuing to be successful and more councils continuing to use it, I would maybe not suggest that some of your statements are fair. Local Buy does have rigorous processes in place. They have legislative and statutory rules and arrangements that they need to comply with. If there is a high standard set for people to be on the panel, there are reasons for it.

It is a panel established for councils to purchase off. Those councils need to have confidence that the people who have been presented on those panels have the skills or goods or whatever it is that will satisfy local government's needs. As I said, that is probably a question for Greg Hallam, our CEO, or the CEO of Local Buy, but Local Buy is certainly driven by setting high standards because of the service that it does offer to councils in terms of procurement arrangements across the state.

CHAIR: Are those rigorous processes audited to ensure they are fulfilling their intent?

Ms Talbot: I would have to take that on notice. I would assume that Local Buy is subject to audit but, again, given that I do not work in Local Buy and it is a subsidiary, I cannot say.

Mr PERRETT: Thank you for your frank assessment of local government and some of the challenges that local authorities have right across this state. Cost shifting is something that local governments have been burdened with for some time. I think you mentioned earlier that a lot of the challenges they are now facing through depreciation and replacement of assets have come about because a lot of those assets have been built with the assistance of the state and federal governments. How critical is it?

My observations of the Auditor-General's report tell me that some of these councils are never going to get out of this cycle and that in fact it is getting worse. As a committee we have some responsibility. Given that we have used our own referral powers to instigate this investigation, obviously we can then report back to the parliament on some provisions that need to be made. Can you expand on the cost shifting and some of the challenges that these councils have and perhaps what we as committee should be recommending back to the minister and the state government?

Ms Talbot: Certainly cost shifting has been a systemic issue over many years. It has been the subject of separate inquiries at a Commonwealth level, I think through the Hawker report, if memory serves me correctly, back in about 2006 or 2007. Local government across the state is often the provider of last resort, especially in rural and remote communities.

More and more, as other levels of government are obviously tightening their budgets and looking to maybe withdraw services, it comes back to local government to still keep those services going in communities. We have seen increasing examples of local government stepping into the realm of service provision, whether it be public health or schooling or other arrangements. It is an ongoing dilemma for the sector. It is difficult with local government being the closest level of government to the community that are out there every day and have to confront these issues.

I have been travelling around the state recently as part of our elected member update program and I am hearing more and more conversations from councils, not so much anymore about roads, rates and rubbish but about the social issues they are contending with, whether it be domestic violence or whether it be the ice epidemic, and the responsibility they feel to participate in some of those processes or to try to manage or respond to those almost crises in some communities.

Cost shifting is not unique to Queensland. It has happened all over the nation. It has been a systemic issue. It has certainly contributed to local governments' cost base because they are taking on more and more. Will we ever solve the problem? Certainly the key focus of our opening statement is that we have, through our Federation, a structural issue with vertical fiscal imbalance. We have heard year on year on year the Audit Office does their reports of local government financial sustainability and they continue to flag issues.

I think issues will continue to arise by the nature of our Federation and the issue of vertical fiscal imbalance. Yes, the financial assistance grants are an avenue to try to address vertical fiscal imbalance. As our communities grow and also retract in some parts of the state, we also made mention of the life cycle that local governments go through in terms of responding to growth and decline. I do not think there have been any reports that focus on the councils over a number of years. There are always different councils that are focused on, so you get a lack of context as to where those councils are in their life cycle and their business environment. Is it a resource council that is at the height of the boom and what are they contending with? Is it a rural council that is trying to deal with a reducing rate base because of the drought and people exiting the community or whatever it might be.

It is a difficult one. Certainly in terms of taking recommendations back, another strong point of focus in our opening statement was that the way in which the current grants and subsidies are structured from the state government acts as a perverse incentive for local government to chase capital upgrades all the time, which impacts the asset management problem. If the grants are always available only for capital, that contributes largely to local governments having more and more of an asset stock, and their ability to maintain that and manage the life cycle of those assets, as you pointed out earlier, becomes increasingly difficult.

Certainly, from LGAQ's perspective, we would like to see as a key point of focus from the state government—and we are currently working with the department on it—a grants and subsidies program that is not competitively based but is based on an allocative approach across a number of years and is focused not purely on capital works but also on other infrastructure solutions. Certainly, with the advent of innovation we can see councils that are able to implement solutions that do not necessarily have to be driven by new capital being built.

Mr PERRETT: Earlier you mentioned ageing infrastructure as being one of the critical challenges for local government across this state. How critical is that? Are we at the point now where we are starting to see water and sewerage schemes fail or not being replaced, or some of the challenges that local authorities have to meet in terms of other legislative requirements, be it by the EPA or others? Where are we at with ageing infrastructure?

Ms Talbot: The infrastructure backlog, as we often refer to it, has been the subject of a lot of studies. The conclusion and common theme across all of those studies is that there is a large and continuing backlog. With regard to water and sewerage, in working within that industry sector, the guys on the ground talk about the infrastructure cliff that they are about to hit with water and sewerage. As well, when you analyse most of the projects that are being submitted for state government grants and subsidies—and I use Building our Regions as a classic example—most of them are water and sewerage projects, which demonstrates that councils understand that there is a real need and there is an emerging issue that definitely needs to be addressed; hence they are chasing those grants and subsidy programs as an avenue to help them address either the upgrades or the retrofitting required for water and sewerage, as an example. Certainly there is the potential for it to become problematic with discharge standards, especially for councils along the coast and along the reef. Yes, ageing infrastructure is a current dilemma for the sector.

Mrs LAUGA: This morning we heard from the department about the advice that they provide to councils in relation to building support and capacity in the area of financial management. Have you received specific feedback from councils about the training and professional development that is available from the department? Do you have any advice with respect to that?

Ms Talbot: Any information that we have received has been informal. It has been through dialogue and discussions when we are out speaking to councils. I can only speak from my perspective. We have not surveyed councils to ask, 'Have you found that there has been value in the training offered from the department?' Overwhelmingly it has been positive, in my experience, in discussions with councils. There is a desire and a need for ongoing training. They recognise that; hence they seek it out through the LGAQ, the department or Local Government Managers Australia. I think there is a concerted collective effort, but there is a lot of turnover of staff in local government. It is a perpetual challenge to keep that training up to the sector.

CHAIR: Do councils set aside funds for critical infrastructure upgrades or replacement? I am trying to remember back to when I was on the council and I cannot remember it happening. Is there a requirement for them to do that or is it just left to the capacity of the council to do it?

Ms Talbot: Under the act and through their budgeting processes I would not say that there is a specific requirement to address critical infrastructure. I cannot recall any legislative requirement around language such as that. Obviously there are obligations under the Local Government Act and budgeting processes that need to be followed. I think a lot of councils are aware of the need to fund capital. Local governments are predominantly an infrastructure provider, so funding capital is always a key consideration in the budget. Maybe you can ask your next witness that question as well.

Mr McMillan: One of the questions earlier was about the amount of debt. QTC is the lender to councils—or through the QTC—so councils have the option of borrowing for capital projects from QTC. I believe that is detailed in their annual report each year, so that figure would be published.

Ms LEAHY: What is the difference between the methodology the local governments use to calculate their depreciation and what the state government would use to calculate depreciation on assets?

Mr McMillan: They would be both required to follow Australian accounting standards. They would both be applying the same.

Ms LEAHY: Is the requirement on the state government to fund that depreciation the same as it is on local government?

Mr McMillan: The funding of depreciation is a broad topic. It could include whether an organisation keeps a sinking fund in a very specific way or, in the case of councils, whether they are aware of upcoming capital costs and apply to grant programs to try to fund it. I do not believe that many councils keep sinking funds, no.

Ms LEAHY: Does the state government keep sinking funds?

Mr McMillan: I am not in a position to comment on that.

CHAIR: We have two questions on notice. Could you get back to us by the 17th, please?

Ms Talbot: Yes.

CHAIR: Thank you very much. Thank you for your attendance and thank you for the responses that you have provided.

GODFREY, Mr Lindsay, Mayor, Paroo Shire Council

CHAIR: I now welcome Mayor Lindsay Godfrey from Paroo Shire Council. On behalf of the committee, I thank you for making such a long trip. We had better find some tough questions to make it worthwhile.

Mayor Godfrey: Sure.

CHAIR: I am sure you are very capable at answering them, anyway. Would you like to make an opening statement?

Mayor Godfrey: I do not have anything prepared, but I can make an overview statement. Paroo has been identified in the audit report as being a council in the 'of concern' area as a rural and remote council. I have a substantial interest in that area, obviously, because I do not particularly want to be the last mayor of the Paroo Shire Council.

I think we have done a considerable amount of work in the sustainability area. This is not unique to local government. With my health board hat on, the situation has been much the same around the various assets owned by Queensland Health in the bush. The asset management has not been done. It is the same way with hospitals and facilities. It is the same way with all of our roads and infrastructure assets. It has been a culture of operating without managing depreciation, without taking into account asset renewal across a range of areas.

I have come into local government quite late in life. I have an economics and business background. I have spent a lot of time in various restructures of the wool industry at all levels. I have been through the turmoil and this takes me back to it. This is a much more pleasant scenario here today than some that I have been exposed to.

CHAIR: We appreciate that recognition.

Mayor Godfrey: A much more capable chairman, of course! Sustainability is not just about financial issues. When I come into this, the big issues are to do with community. If I look at health, we have asset problems, but the fundamental problem in sustainable health is, in our world, zero to five—what we are doing in the early stage development of our youth. A lot of the problems that we have in health start back there, so we have to start there.

If I walk into local government, we have the same issues of lack of sustainability with our assets. In most rural and remote shires our assets have not been managed, but we have this other problem in that, outside the resource councils, the farming world in the main pays the rates. Ninety per cent of our rates are paid from the farming community.

If we put the scenario up economically, before the mid-1970s everything was relatively in sync. Since the mid-1970s, the cost of operating has gone up. The CPI has gone up around six times, whereas the income from commodities has gone up around three times. That can be very easily charted. That leaves a substantial gap in the ability of the ratepayer to suffer the substantial rate increases that are required to maintain the asset. That is the fundamental issue—the ability of the rate base in farming communities to pay.

When you walk out into the larger eastern, seaboard councils, in the main their rateable income and their other income has kept up with the CPI, whereas in the bush, because it is an international commodity that is being exported, the world price dictates the income. That has not kept up. That is the fundamental issue in the bush. The costs have gone up a lot faster than the incomes have gone up. All of our rural and remote councils are seeing this same issue in the ability to pay. If a new CEO came into the Paroo shire he would look at our books and say, 'We've just got to increase rates.' You can increase rates, but it is the capacity of those ratepayers to pay.

The other big issue I see is the community. More and more, I do not see the councillors just running the council. It is not just cost shifting. I have grown up with Indigenous people. I have grown up in an Indigenous community. You cannot ignore the social issues, because people do not want to live in your community if it is not highly liveable—if there is lots of ice, if there is bad law and order. Local government is not just local government. When I walk into the local government department, it is not just the local government that is responsible for the sustainability of our communities. We have health, we have justice, we have communities, we have education. All of these departments need an integrated approach to what is going on in the rural and remote sector.

It is probably not the same here in Brisbane or in Ipswich or Toowoomba because everything is much bigger, but in small communities that are struggling and where the issues are much more visible you need a whole-of-government approach. Sustainability is not just about the bottom line, as the Audit Office would indicate. We have to invest in social capital in our communities, otherwise we

may as well not be there. It is a responsibility that comes with it. That is not only the state government but also the federal government. The Prime Minister and cabinet are involved. Indigenous affairs is involved. All the infrastructure money and all these different departments all come into play in a very big way in a small community like ours.

My challenge, as I see it, in local government is to get some sort of strategic local framework so that we are not duplicating; we are addressing the issues that we have. It has been exactly the same in health. Otherwise everyone does their own thing in isolation and you do not strategically take your community forward. That is fundamentally what I would say. My point is that sustainability is not just about local government. It is an integrated approach that is necessary.

I think questions are probably the best way for me to answer the asset management specifics. I am trying to put across the world as I see it, as someone who has come in from outside of local government. I am in my fifth year now in local government trying to understand these rural and remote communities. I also chair the south-west six council shire. The issues are not different in all these councils. We have a very big sustainability issue but it is not just the bottom line. It is across a whole range of different departments and will require interdepartmental cooperation to bring about a sustainable solution.

CHAIR: Thank you very much. That was very well put. I will play the devil's advocate. How do we fix it? What do we do?

Mayor Godfrey: We have had to define our asset management problem—that is, if we are talking about asset management here again. I gather that is where—

CHAIR: You might as well cover social as well.

Mayor Godfrey: How we fix it is with integration. What we have done in health is try to get all the players around the table to devise a strategy so that everyone knows what everyone is doing and it has to be from the bottom up to be successful. We know in our communities what the big issues are, but if a solution is put into our community from Canberra or from George Street invariably it does not hit the nail on the head because the people implementing it do not necessarily understand what is going on at the coalface.

An example would be that we recently received a large chunk of money for domestic violence into our community, but what is so gratifying is that it is going to be run by a local committee. The council have bought the building. It will be at no cost because the committee is going to pay for that building over time, but it is run by a local committee that consists of police, the coalface domestic violence people, health and education. There is a group of 10 people around the table who have been virtually hand-picked including a lady from the office of Prime Minister and cabinet but they know what the issue is. We have complete control over how that money is spent.

I think that is a model that can work in solving these issues. I am not being disrespectful in any way, but in Brisbane we look at the LGAQ office, which does some wonderful work, we look at the Audit Office and we look at Treasury, but you really have to have grassroots ability and knowledge of the issues to solve them. If you are asking me what is necessary, it is that whole-of-government approach but it has to be delegated back down as close to the problem as you can get it to solve the issue.

CHAIR: Does that include maintaining new infrastructure—for example, a pool of money with somebody managing it to ensure that your council is considered and your neighbouring councils are considered at the same time?

Mayor Godfrey: Sure. There is a very different level of understanding of asset management between councils.

CHAIR: Yes, for sure.

Mayor Godfrey: There is a very different level of understanding of what asset management is around the council table. I was hearing about the skilling and the leadership that is necessary. That is a very difficult problem because you have elected locals who have been carrying on as they have been since the turn of the century without any meaningful asset management. We have almost had to grade up bitumen roads because no-one has done any reseals, because reseals do not employ locals. There has been that sort of culture rather than an actual asset management culture.

For the last few years we have employed an asset manager at a managerial level which has caused me considerable grief because people are saying, 'Why do we need an asset manager?' You have to elevate asset management in a council right up to the same level as your director of engineering or director of corporate. The asset manager has to be right up there, otherwise asset management gets subordinated. That is one big answer from where I am.

The other one is the standard of the asset manager. We have a particularly good asset manager but it has taken three years to move us to where we have a proper asset management plan that is detailed right through. For the first time we know what our asset requirements are and what our sustainable numbers are. We have yet to integrate that into our 10-year financial plan, but when we do that is the starting point. We will know that in 2017-18 or 2018-19 we will need certain lumps of finance to bring our assets—whether it is water and sewerage or whatever it is—back to a long-term sustainable trend.

We will be coming with that plan to government to ask for injections of capital finance, because that is the only way we will catch up. I think there has been so little done for so long that is the only way we can do it. From then on we have to do our share of the heavy lifting. With respect to the levels of service we have to set, we may have to drop off a considerable number of minor roads around our shire. That is not going to be popular but most of our assets are in roads. Something like 80 per cent of our assets are in roads. Whether or not we give the golf club back their clubhouse, whilst that is something we could do it is not something that is going to make a big difference. It is roads. We are going to have to drop off some assets so we drop off the depreciation. That is really the only solution for us. It is not going to be popular because that is where most of our rates come from, but there are some innovative solutions around that. There could be locals who might take over the responsibility of the maintenance who can do it a lot cheaper, but what we are trying to get away from is the depreciation.

CHAIR: Yes, I understand.

Ms LEAHY: Thank you very much, Mayor Godfrey, for coming all the way down to Brisbane. In relation to funding the asset plan, in the past a lot of the subsidies programs have been competitive. Would that be something that would help? You will have to fund certain assets and the renewal of assets. Should it be competitive funding or a fixed formula to help fund that down the track from the state and federal governments?

Mayor Godfrey: When you say 'competitive', can you expand on what you mean by that?

Ms LEAHY: All councils. It is very difficult for the Paroo Shire Council to fund something when they are competing with, say, the Gold Coast, or should it be a tiered approach?

Mayor Godfrey: The rural and remote shires have a particular case because of their reliance on commodities. There are not a lot of rural and remote shires, either. It is not a massive amount of money we are talking about here. If you are trying to change the budget of the Gold Coast, you need an enormous amount of money. In terms of rural and remote shires, I think when they get their asset plans up to date there is going to be an initial requirement for a certain amount of money to get their assets because of water and sewerage and because a lot of core maintenance and capital renewable programs have not been done. We are where we are. I cannot take responsibility for what was not done in the last 30 or 40 years, but what I can take responsibility for is where we are now. I think you have to look at the rural and remote shires as a special bracket, because the higher population areas have enormous opportunities to raise revenue. They do not have great problems meeting their operating surplus ratios, for instance, and that is the big one for us—funding our operating surplus.

Whether the money is competitive or not, I think it should be competitive in the sense that you need to be able to justify to your internal and external auditors, and the Audit Office requirements need to be satisfied. You need to have a properly worked out professional asset management plan that is integrated into your 10-year plan. It should be looked at from bracket to bracket, because it is really unfair to compare a resource council to a rural and remote agricultural council. Isolate the bigger need, and that will be the rural and remote councils—some of the Indigenous councils and some of the more isolated councils based on their geography such as Cook and Richmond—but you cannot look at everybody. You have to look at where the serious sustainability issues are. You have heard from other people about training. All of that has to be embraced. I am not exactly talking about cross-compliance but in some way I am. You need to have a credible program to address your issues and take responsibility as a council to get the funding, otherwise there will be a range of other steps that will be necessary.

Mrs LAUGA: Mayor Godfrey, thank you for your time and thank you for coming to the inquiry today. The Audit Office says in its report that timely and accurate financial reporting is essential for effectiveness in decision-making, management of public funds and assets, and the delivery of public accountability. There is no doubt a link between councils having their house in order and the ability for that council to manage their public funds and assets. I see that Paroo Shire Council did not do exceptionally well, although you do have one green light in the traffic light summary of the Audit Office report *Local government entities: 2015-16 results of financial audits*. I wondered about the internal

controls that your council has. You rated okay in terms of control environment, risk assessment, controls activities, information communication and monitoring activities. Is your council getting sufficient training and professional development advice from the department and the LGAQ in order to provide the skills and tools that your council needs to have its house in order?

Mayor Godfrey: Thanks for that. It is a massive area. The answer would be that it is there but whether it is taken up is another matter. If we look across our risk assessment, capability within our organisation is a massive issue. In terms of attracting skilled staff, the culture has always been to elevate locals where possible but it is an absolute trap if locals do not have the standards and the ability to run the upper level management area. That is a trap that some of our previous CEOs have fallen into.

In terms of getting the capability back, we have just appointed another CEO. We have gone through a couple of CEOs. To attract a CEO to Western Queensland is not easy, as with a CFO. We got into some serious financial issues a couple of years ago with cash flow. We had two CFOs working for us and still the eye was taken off the ball as far as cash flow was concerned. It is about attracting those people. Whether they are getting the training or not is another matter. We have just done a course, with all due respect to everybody else, with the LGAQ. Councillors did that course and I think it was accepted well. As to whether it was absorbed, I have serious doubts. We have just done another course with the Institute of Company Directors which was at a higher level, looking at risk and the roles of councillors, trying to get to the heart of what is operational. A lot of councillors who come in without much experience want to dive into the operational aspects. That is a massive issue. It makes life impossible for a CEO.

There is also the issue of what is a conflict of interest. These are issues that from a leadership point of view are very hard to manage in a rural and remote shire where the culture is something different and has been for a long time. The community expectation is that the councillors will get in and make sure that the grader is replaced or something like that. To get through to them that that is not the role of a councillor is very difficult. When you have a problem with a particular councillor, it is not easy to rectify that situation. What do you do? You can make a complaint to the tribunal or whatever, but all of that does not necessarily change anything. You are still stuck—unless you could replace a councillor, which is very difficult to do. It is very hard to get that sort of discipline of the organisation directed at the strategic level, to get the council up to here. No amount of training seems to be able to achieve that.

I think there are some councillors who do take the training on board and who do absorb it and change. In the main, it is very difficult. People in small communities are connected. All of these things happen. It is very difficult to bring about a change in culture. Asset management is something new. The whole organisation has to embrace asset management. We are going to be embarking on far more rigorous training at our council level across all of our managers and some of our senior staff in that area to try to get more happening. I do acknowledge that it has not been a great area for us, as has been pointed out by the internal auditors, the external auditors and the Audit Office.

Mrs LAUGA: The Audit Office also outlines the factors affecting sustainability and the key risk factors with respect to rural and remote councils. A lot of the things that you have mentioned are identified as risk factors like the cost of infrastructure burden, having a low rate base, a large area and ageing infrastructure. Do you think there is enough support to help address those risk factors for rural and remote councils?

Mayor Godfrey: It depends on what support you talking about. The support to address it really lies in the numbers and the funding to get this straightened out. The ability is there at an operational level to solve these things locally. The more we can do that locally the better, but it is at the management level. I am not really sure how I answer that. I think it is there, but it is up to each councillor to take responsibility. Anyone who runs their own business knows about assets and depreciation. To me it is no different to the council. If you have that sort of leadership then you take responsibility. Whether that is going to be achievable for all of the councils in rural and remote areas I do not know. That is where the line is. The Audit Office will require a certain level. The auditors will be pointing this out. It is up to the councils to take responsibility and get themselves to that level. I am not sure that I have really answered your question.

Mrs LAUGA: Yes. Thank you.

Mr PERRETT: Has the asset management document that you have held up a couple of times just been completed?

Mayor Godfrey: Yes. It has been completed since the audit report came through. This has taken a long time to put together. There has been 100 per cent verification of all the numbers that are in this document. We have had site visits. We have gone around all of our roads. We have had Brisbane

Proterra involved. Everyone has had to be trained up in business assets. It is a very time-consuming process to get the capability internally and to do the valuations and get the documented valuations up to a standard.

Mr PERRETT: I am interested to know, because you then have to go through the process of incorporating or integrating that into your financial management processes and obviously budget forecasts. When will that happen? Then from there presumably you will be able to make some of the key decisions and perhaps see some of the shocks that you are going to have to deal with politically.

Mayor Godfrey: From this we have an idea of the numbers and when they are going to be coming. Ideally, I would have had this information early so it could have been programmed into this year's budget. That is going to be a bit of a struggle because of where we are now. Even if I approached Treasury, or whoever I approached, to bring in some extra resources to plug this into our 10-year plan, it is going to be very difficult for this year's budget.

We still do know some of the big numbers in this document. We are going to be looking at our levels of service, which is going to be the big discussion. Are we going to grade roads? It might be 30 kilometres of road that services one property. Are we going to continue our grid replacement program? We can obviously continue and ramp up our water and sewerage because they are funded internally. They are on a cost-recovery basis, so they are not issues. It is really the roads. Most of our rates come from people to whom we will be saying, 'We are not going to be grading. We are going to be handing this road back to the local landholders to look after.' They have to be taken off our books, otherwise the depreciation is still sitting there. That is going to be the challenge—the level of service. That is the only way that we can go. Unless there is another injection of cash through some sort of FAG formula change, there is not really another way. This is recurrent funding. Even if we take the one-off capital funding required to fix up a shire hall or to do some more reseals or to do our water and sewerage, we can arrange for that, but the ongoing recurrent funding over a long period is roads and grids.

If we are going to be compliant and sustainable, we will need those two things to happen. We will need an injection of funding to get ourselves over the hump with the main big-ticket items. This asset management plan is front loaded because of the state of sewerage and water. We can do some lifting. We can increase our rates, sure. Our rural general rate base is about \$2.5 million, so a 10 per cent increase in rates is \$250,000. It is not going to do a massive amount except get everyone steamed up and they will be ringing the local member, no doubt.

There needs to be a more sustainable solution. Then there is all of the NDRRA money. For a lot of these roads that we are saying, 'Here you are. Here is your road back. You can grade it'—they could have a levy on their rates from a certain group to do a road, like we do with bushfire brigades, so everyone pays. There is white rock on these roads from the NDRRA experience. Once again, I can just hear it. People are going to say, 'That road is not safe and you put all of this white rock on the road.' All of the NDRRA money—\$100 million—went into our roads over the various flood events, but that was a one-off injection. There were no whole-of-life costs in that. We had to spend the whole lot. You could not keep 20 per cent back for asset maintenance over X number of years.

This is a very difficult issue to get hold of. If we have to do it, we have to do it. There is going to be substantial fallout. I think we are probably in front of the pack as far as our valuations are concerned and where we are at. A lot of valuations are also going to get lifted through various audit action over the next couple of years around many of the rural and remote councils anyway. I am not sure. This is very difficult, Mr Perrett. It is not just for us, either.

Mr PERRETT: I appreciate the difficulty. You talk about rural roads. You have sufficient funding currently to be able to maintain those roads. The depreciation that you mentioned before is the challenge that you have as a council. Is that something that you perhaps should raise—obviously you have raised it with the committee today—more directly with the department? If you are able to satisfactorily maintain those roads currently out of general revenue but it is a depreciation item—I assume that is on things like bridges and causeways and those sorts of things—is that not perhaps a conversation that should happen in the broader scheme of things?

It gets back to a comment you made earlier about whether government wants people in those areas and whether there should be some cross-subsidisation. It gets back to a comment or question from the member for Warrego earlier about whether this should be contestable funding or whether it should be funding that you can rely on on an annual basis, based on the state and federal governments wanting those areas to keep producing produce. Effectively that is what it is about. Presumably if you do not maintain these roads then the produce, be it cattle or sheep or whatever it may be in those rural areas, just does not get out?

Mayor Godfrey: It is possible to maintain those roads for a lot less money than what councils can do it for. That is not a popular thing. The works department do not want to hear that. A contractor can maintain the roads, especially the outer roads, at half of what it costs the council. There are other ways also. There are also landholders who do have the ability to maintain some of these roads if such a deal could be stitched up.

We are managing our roads now but all the time we are dropping our level of service. We are dropping off roads. We have our tier 1 and tier 2 roads. The numbers of tier 3 roads, which may only get graded once every five years or once every three years, are growing. We are not actually doing it now. We are so reliant on grant funding. All of the rural and remote councils are. It is grant funding that comes in and that allows you to shift some of your budget or to save some of your budget or you will be doing some capital works on the road so you will not have to do the maintenance. All of those sorts of things have been helping—the R2R program and the TIDS program. All of those programs help us meet our obligation to our ratepayers to maintain a safe road. Safety is the issue because the moment you stop and you have a big wet year they are regarded as not being safe. Then that is opening another can of worms. We are not managing it now.

CHAIR: Is the grant funding that you are now receiving keeping up with inflation—not that we have had increases in inflation recently? Is the money pool increasing or is it staying at a flat level?

Mayor Godfrey: Grants have been good in this period. The R2R program has been good. Actually spending the grants has been our issue. To not spend your grants is the cardinal sin. If you can get the money from government and you do not spend it, that is just a sin. Because of capability, turnover of staff and internals, we have had some issues delivering on that grant funding. It is in our records. That is something that is not acceptable. Outside of the FAG grants, which obviously have been frozen, our grants to roads have certainly been keeping up. It is doing better than keeping up. Quite a large chunk of our \$7 million operational budget was grant funding.

What happened was you came off the back of the NDRRA with a big thump. There was so much dislocation in all of these communities. There were contractors out of work. It caused great grief because it just stopped. It is very specific money. It has been very good at keeping our capital expenditure going. That is what has got us through. That is not a sustainable model. You cannot assume that we are going to keep getting high levels of R2R or R for R, or whatever it might be. The security and the availability of these grants is a very, very big risk. Next year is an election year which is a good year for getting grants. We do not have an election every year. We would like an election every year, but I do not think we can get that.

CHAIR: We appreciate the way you have responded to the questions. Your input is very helpful to us. You are obviously managing to stay afloat at the moment and keep the shire ticking over, but you must have in your mind a time when you cannot continue in the way that you would like to continue. Do you have anything in your mind at the moment about when that might happen?

Mayor Godfrey: It has to start with this year's budget. We have a new CEO coming in who is experienced. He is not walking into a lack of capability. There is quite a good team that he is walking into. This year's budget will be the challenge. I certainly would not think that I cannot continue. I am still a woolgrower, so that says something. We will continue. I certainly do not like seeing an at-risk red dot in the audit report, but I could not argue with the fact that it is there because we have not been able to fund our operational budget and our asset renewal rate has been dropping. We do have cash in the bank. We have restored our cash position. We have a \$4 million cash reserve in our cash flow documents, which is quite healthy.

We have very low debt for a council. I am not getting into the good debt, bad debt argument. Debt can be one of the solutions here. Say we are doing water and sewerage, we can raise money to supplement our grants in water and sewerage to get that to happen through the asset management plan. That can be serviced from levies or whatever, but debt to manage the swimming pool overruns is not on. I believe we can continue on. We are certainly doing something about our capability.

We have had a lot of trouble with CEOs out in the bush. When I look around—I am not sure how publicly I can say that—there is a lack of capability at the CEO level. With doctors we have implemented a rural generalist model whereby doctors go in and they are trained up in four or five main disciplines and they are ready to come out into the bush. The same thing I think is true for a council CEO. When you come out to these rural and remote councils you need a range of skills. It is not like the corporate structure when you walk into Toowoomba or Ipswich or the Gold Coast. You have to know quite a lot about a lot of things. In the training of CEOs we need some sort of a rural generalist approach to a CEO. The guy we have just put on is very much a generalist. He is very community minded but he has been across all the areas of infrastructure and communities. He is very

skilled in those areas. I would be very surprised if he did not do very well. Amongst all the candidates there were not too many who had those generalist skills. That would be one suggestion that I could put forward—specific training for a CEO. A lot of the CEOs do not have those diverse skills.

CHAIR: It would appear, too, for ongoing management you need certainty of grant funding. You need to know what you are going to be getting over the years ahead?

Mayor Godfrey: Certainly, to put into here, yes.

Ms LEAHY: In relation to gravel roads, I understand that you have to fund the depreciation on gravel roads; is that correct?

Mayor Godfrey: Yes.

Ms LEAHY: You can take this question on notice. If there was some sort of minimal service level and the council no longer had to fund the depreciation, would it equalise itself out? You seem to be paying twice here. You seem to be paying to fund the depreciation. A gravel road is not necessarily going to wash away, but the bridges or some parts of it might. Once you have it there you have it there pretty much for good; you just have to maintain it. If council no longer had to fund the depreciation, would that enable them to have a minimum level of service over a 10-year period for the maintenance of those gravel roads? It is sort of like you are paying for the maintenance and you are paying for the depreciation, but it is an asset that will always be there. If you maintain it, it will be a good asset. I am just wondering if you have any comments on that?

Mayor Godfrey: It is not going to always be there, I do not think. You still have to maintain it. It is still an asset. You own that road. Whatever its level of pave is, if it is brought up to standard and it has had a heavy formation grade and it has had a certain amount of gravel put on it, all our roads have been assessed at where they are in their life cycle. Some of them might have 10 years to go before they need resheeting and a heavy formation grade at X amount of dollars per kilometre. It is where it is now. If it is just a dirt road into somebody's place, that only needs grading. There is not an asset, but the moment you put gravel down and do paving and a heavy formation grade it is an asset.

Whichever way you look at it, every year it is going to reduce in value because that is what happens. When you see dust on a gravel road, that is the gravel road disappearing. Anything we can do and any innovative ideas to reduce the level of depreciation—we still have that requirement to find the money to keep that pavement at a certain level. That is what the depreciation is. In funding your depreciation, theoretically you are keeping that road back at certain a level. That is why if you cannot fund your depreciation you are letting your assets deteriorate. You are not paying twice because one is offsetting the other, but that is what is happening.

CHAIR: Thank you, Mayor, for your input and being so frank. It is good to be able to talk to somebody like you and know that you are going to get a countryman's response—straight down the line. That is the way I like it. Thank you for being here today. I thank all the other witnesses who appeared this morning. Certainly the information that we have gathered will go a long way to helping us in our deliberations with regard to this particular matter. I declare the hearing closed and once again thank you very much. Thank you, Hansard.

Committee adjourned at 11.55 am