INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES SUBCOMMITTEE

Members present:

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

Staff present:

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

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

TRANSCRIPT OF PROCEEDINGS

THURSDAY, 22 JUNE 2017

Brisbane

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Subcommittee met at 8.58 am

CHAIR: Good morning. I declare open the public hearing for the committee's inquiry into the long-term financial sustainability of local government. I thank you for your attendance here today. I am Jim Pearce, the member for Mirani and chair of the committee. The committee members here with me today are: Ms Ann Leahy, deputy chair and member for Warrego; and Mr Tony Perrett, member for Gympie. Mr Craig Crawford, the member for Barron River, and Mrs Brittany Lauga, the member for Keppel, will be here shortly. Shane Knuth is an apology for today's hearing, so this is a subcommittee.

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

The Parliament of Queensland Act 2001 provides that the committee may assess the integrity, economy, efficiency and effectiveness of government financial management by examining government financial documents and considering reports of the Auditor-General. That is what we are doing today. Today's public hearing will form part of the committee's consideration of matters for its inquiry into the long-term financial sustainability of local government and issues arising from the Auditor-General's reports 2 and 13 for 2016-17. Before we commence, could we please make sure we have our phones switched to silent mode. I now welcome representatives from Brisbane City Council.

JENSEN, Mr Colin, Chief Executive Officer, Brisbane City Council

OBERLE, Mr Paul, Chief Finance Officer, Brisbane City Council

CHAIR: Do you have an opening statement?

Mr Jensen: Brisbane City Council has robust long-term financial sustainability planning and asset management processes in place. These are appropriate for the scale and breadth of council's operations and our asset base. This integrated asset and financial planning is compliant with the recommendations within the QAO's reports 2 and 3 for 2016-17.

The financial sustainability of an individual council cannot be assessed by a simple measurement of ratios. In addition to the usual measure-up of financial performance, the financial risks, outlook, planning assumptions and underlying drivers also need to be taken into account. There also exists a significant range of operations for local government in Queensland. I think that is an understatement for the committee. Certainly the revenue base and scale and breadth of operations and our financial capabilities have to be taken into consideration. This diversity needs to be considered in the context of the existing approach, where measurement of financial sustainability is done by a limited number of three metrics. They are also taken at a single point in time, namely the end of financial year, and with a single target measure for everyone for that point in time. This one-size-fits-all approach may have advantages in ease of administration or measurement; however, it is questionable if it provides meaningful insight into the financial sustainability of a council.

Some of the financial challenges for councils in Queensland include: the planning, delivery and funding of particularly growth driven infrastructure, capped infrastructure charges and the increasing gap between those charges, and the cost to service new development; financial risk exposures associated with the ability for developers to convert trunk infrastructure and then to seek recalculation of the establishment cost of trunk infrastructure, resulting in infrastructure charges being refunded; and requirements for long-term financial forecasts to align with the local government infrastructure plans. The LGIP—the infrastructure plan—reflects South East Queensland Regional Plan dwelling and employment growth forecasts and the required trunk infrastructure to service that, but the LGIP is a long-term, 10- to 15-year plan whereas it has to be aligned with a 10-year financial and asset management outlook.

For those councils that are subject to a credit review process by the Queensland Treasury Corporation, we would strongly recommend that the credit review process replace those measures of financial sustainability utilised by the Department of Infrastructure, Local Government and Planning. Credit reviews provide a far more robust assessment of an organisation's financial sustainability. To overlay the credit review process with a DILGP financial sustainability process adds duplication and negligible value.

The measurement of asset sustainability also deserves special note. The current approach of assessing asset sustainability by a ratio of asset renewal expenditure as a percentage of depreciation is considered flawed. The ratio is provided inappropriate gravitas by a mandatory assessment required by DILGP against an arbitrary target which is not reflective of the mix of assets and their stage in the asset life cycle, which may be up to 100 years. Council supports the replacement of the asset sustainability ratio with more appropriate measures which would be reflective of the level of maturity of the asset within an asset management process that each council would run. However, council does not support any legislative changes to prescribe the recommendations set out in the QAO's reports 2 and 3 for 2016-17. Our preference is for guidelines, as opposed to a prescriptive approach, because that is reflective of the significant change of scale, complexity and financial capacity of councils in Queensland. A response driven by compliance within a one-size-fits-all framework we believe will not drive a value-added approach.

CHAIR: You just spoke of the legislative changes. Could you tell the committee about the changes that would happen because of the legislation? Could you explain why you do not support them?

Mr Oberle: Asset management planning, which is a platform for good financial planning, requires significant capability in terms of resources, and those resources are not available across all councils in Queensland. If legislatively we drive to the one-size-fits-all, we are putting a heavy prescription on some councils that would not be able to meet those requirements. There is also a possibility that we would be driving those councils that have significant asset management processes to a compromise. It is important that the drivers around asset sustainability promote the approach around asset management planning. The current ratios are more based in accounting concepts of depreciation and do not drive that outcome around a focus on asset management planning feeding into longer term financial planning.

Mr Jensen: In fact, ironically, the councils that are poorly performing perhaps in this regard will not be capable of meeting the legislative requirement and those that are exceeding it—they already have good financial management and asset management practices—would just be doing a process for legislation purposes and not improving their processes.

CHAIR: Does the fact that you operate under your own legislation put you at an advantage or disadvantage to other councils across Queensland?

Mr Jensen: With regard to the purposes of this committee, it does not have a particular bearing. The requirements under the City of Brisbane Act are very similar to those under the Local Government Act in this respect. There are no particular advantages or disadvantages. There is some great detail, but it is not particularly relevant.

CHAIR: I understand when you talk about one-size-fits-all that the recommended changes would disadvantage you to some extent?

Mr Jensen: Yes.

CHAIR: Can you tell us why?

Mr Jensen: If we talk about asset life cycle as an example, we have a $22 billion asset base and a budget of just over $3 billion per annum. In that respect, our assets tend to be a bit larger as well. The Legacy Way asset is now only a few years old and is $1,500 million; Kingsford Smith Drive, which is under construction at the moment, is $650 million. We have some very chunky, large step changes in asset base. To apply a straight line depreciation methodology that says we have to then take a percentage of that and reinvest it immediately in asset renewal is not particularly sensible. In the first year of Legacy Way opening, taking a depreciation percentage and then applying it to asset renewal on totally different asset classes just masks all of the detail that we do go through with proper asset management planning.

We acknowledge that small councils will need to work through either LGAQ or other regional association bodies to get a little bit of size around how they would do asset management planning—it might be a little too large for some of the smaller councils—but asset management planning is horses for courses. We do a far more thorough process than I would expect to see in an organisation a tenth of our size.

CHAIR: You would have to be a lot more thorough?

Mr Jensen: Yes, absolutely.

CHAIR: In report No. 2 for 2016-17 the Queensland Audit Office found that most councils plan poorly for the long term. Could you outline for the committee what long-term planning your council undertakes and what resources and costs are involved? I know that you have touched on these things a little bit, but can you be a bit more specific?

Mr Jensen: Yes. Ironically, I think the definition of 'long term' depends on what asset class we are talking about. We have some 1,200 buses in our bus fleet operating for TransLink bus services throughout Brisbane and slightly beyond. A bus is mandated to have an age of 20 years. Our average bus age is seven years, so long-term planning in that context around the business and the assets with transport for Brisbane is a far shorter proposition than, say, Legacy Way, where tunnel life design might be 100 years or even beyond. I will talk by nature, therefore, of an average proposition.

Ten years in terms of a financial plan I think is appropriate. It is a sufficiently long duration for us to forecast where we are headed—whether revenues are going up or down and to take action accordingly. Also, when I mentioned we have large asset investments—$1 billion to $1.5 billion at a time—we do have to plan for when those occur. With our budget cycle being linked to the asset management planning, we very much tie those two together. Ten years on a financial outlook is great but in an infrastructure outlook we are looking far beyond. The business case for the Brisbane Metro Subway System has just been released. Those sorts of projects look 30 and 40 years out as appropriate long-term planning.

The final point to make is that the way we tie those two processes together must occur. It is possible to do asset management planning and then still ignore it and not put it into your financial planning. Obviously we do not do that. An example would be that we are spending $90 million per annum for this term of government on asphalt overlays, road rehabilitation. The reason it is so much more than it was—$60 million or so before that, going back half a decade—is that our asset management planning looked at it and said, 'If you continue this, your assets will degrade and lose value over time.' It has to be that direct linkage of doing the assessment and then financially planning for it.

CHAIR: In terms of your financial planning, do you set dollars aside for the replacement or upgrade of facilities even if it is 10 years away? When do you start thinking about the funding side of it?

Mr Oberle: We run an investment prioritisation framework that is largely looking at the budget bids. In that evaluation process we look at the whole-of-life costs of those budget bids. It is not just looking at the up-front capital costs but also looking at the implications for the longer term in terms of maintaining and renewing that asset.

Mr Jensen: That is a significant point of maturity. When you start these processes, just to do asset management planning is a good deal. To then link it to your budget is a good deal. What Paul has just mentioned is that you must also look—it is a maturity thing; you have to get there eventually, not in your first year—at the whole-of-life cost of assets being figured in from day one. Indeed, the investment decision that you take is based on the whole-of-life cost of that asset: its maintenance and, importantly for local government, its operation—to operate the asset properly for the community.

Ms LEAHY: Some of the submissions received by the committee talk about funded depreciation as not being an accounting term, that it is a term that perhaps was generated by a department. Can I get your thoughts on that?

Mr Jensen: I think I should defer firstly to an accountant.

Mr Oberle: We have a requirement to determine depreciation for compliance in terms of compliance with accounting standards. A good while ago we transitioned from cash accounting to accrual accounting. My belief is that funded depreciation is a legacy issue associated with cash accounting and the concept of saying, 'That amount of depreciation we need to put away in a reserve to fund the replacement of that asset.'

In contemporary approaches, it is inefficient to put funds into reserves and preserve those for a specific asset or a specific class of assets. We need to look at the longer term trading results for the organisation and at the longer term capital requirements and then determine what are the appropriate funding mechanisms for that overall entity's funding requirements, being a mix of funds from operations and debt, not necessarily the concept of putting money in a jam jar and putting it on the shelf and preserving it there. That would be my view of funded depreciation, that it is a legacy issue from cash accounting.

Ms LEAHY: Looking at funded depreciation, even though some of the submissions say it is not exactly a precise accounting term, to deal with depreciation on assets—Mr Jensen talked about some assets that obviously have a very long life span—in what sorts of ways would you as Brisbane City Council fund some of that depreciation? Is that grants funding, or rates income? Can you tell us about the mechanisms you might use for some of these assets and maybe give an example?

Mr Jensen: As an overall perspective, picking up where Paul left off about the jam jar, it would be a very large jam jar for Brisbane City. In terms of the amount of depreciation set aside on $22 billion worth of assets, they would be very lazy funds if they were sitting just to fund depreciation as such. Conversely, in terms of your second question, you are budgeting for the entire business, not budgeting for depreciation in isolation. In terms of the funding source being allocated to depreciation, I do not believe I really have a view as to where it comes from—and perhaps nor should I in our operations. Maybe if you were a small entity you might have to consider it in those terms.

It is not something I have turned my mind to, but for a $3 billion turnover business it is working out what all of your outgoings are, including needing to fund renewal of assets and maintenance of assets, and then looking at all of the appropriate funding sources and the mixes that you can get from there. As Paul said, perhaps in very large infrastructure investments you start looking at individual business cases with funding examples around those particular pieces of infrastructure. The bulk of the $22 billion are not in those large, one-off pieces of infrastructure; they are across the entire business. Funding is considered not necessarily on a case-by-case example unless it is material—I do not really mean 'material' in an accounting sense—firstly, because it is large—it still would not be material necessarily financially—and, secondly, in the context of expecting the investment decision you are making to consider from where you will fund its future renewal and maintenance. It is not a hypothecated process, if that answers your question.

Ms LEAHY: Do you think some councils when looking at new infrastructure—there is always that need to go out there and cut a ribbon—

Mr Jensen: Shiny is nice.

Ms LEAHY: Yes, shiny is nice. Maybe there is not that consideration in some grant funding programs, too.

Mr Jensen: It is a fair observation. I will take it as an observation that applies probably to all three levels of government in the nation. It is not uniquely a council thing. I have spent a long time in government and infrastructure. It is a universal problem. Having said that, by tying the asset management planning process to financial planning, 80 per cent of the problem goes away immediately. You can identify early that you are going to have a problem. The 'stitch in time saves nine' concept is very true in asset management—so earlier interventions of smaller amounts.

One thing that often gets missed in this is that some assets you do want to retire; they are not necessarily forever. An asset might have a purpose and that purpose may no longer exist for a council in 30 years. Instead of dogmatically simply replacing it because you already had it, the right investment decision might be to retire that asset. 'Retire' might be to dispose of it or sell it out into the market. In terms of, 'Is something new fundamentally more attractive?,' I think you are describing a community thing here; it is not actually a government thing. People like new things, but good management will cover off the problem of investing to keep things working properly.

I mentioned $90 million per annum in asphalt for this term of Brisbane. In the last term it was more like $100 million per annum. Before that it was about $60 million. At $60 million it would not have cut it going forward. It was okay, but when you look at the long-term run—and in that context that is about 20 and 30 years for pavement life and road asset—investing earlier saves us a lot of money in the longer run. As an observation, the community has appreciated that activity of Brisbane which fundamentally looks like maintenance, yet it is still appreciated. No-one likes potholes.

Mr CRAWFORD: Do either of you have any experience in other councils, prior to Brisbane City Council?

Mr Oberle: No, I do not.

Mr Jensen: No. Interestingly, my prior role was as a director-general and coordinator-general of the Queensland government. The portfolio back then included local government, so I went from the CEO under the Local Government Act for the state to CEO of Brisbane City Council. In my career I have worked with local government but not in local government and then I joined local government as chief executive of a very large council.

Mr CRAWFORD: So far during this inquiry we have basically been able to almost pigeonhole, if you like, councils into three different groups: the large, the medium and the small. In respect of the medium sized councils, we have noticed that some have very good systems but some do not. What advice would you give medium sized councils in respect of how to get their houses in order for asset registers and how to get that long-term financial stability under control?

Mr Jensen: These things are a journey. In one of my previous responses I indicated there is a maturity thing here. You should not expect to start from day one or set yourself a target that in three years you will have a fully integrated asset condition system in terms of measurement, asset management system in terms of forecasting and financial planning. However, there are some very good systems and standards, internationally and nationally, that Brisbane uses that are scalable. They do not have to be the multimillion dollar IT system supporting these. They do not have to be massive programs. It is more a commitment, both from elected members and from executive management of councils, that says, 'This is important to us—important in a good community governance sense and important in a good business process sense—because we are stewards of community assets here.'

There are steps you can take in terms of fundamentally getting your foundations right and then building on those over time with complexity. In fact, those mid-range councils you describe are very competent in the main. They just may not have made this a priority or might not have had the competency in their management team to tackle it. One would not take Brisbane's systems and apply them to them because you would probably make them financially unsustainable, just because of the impost of our routine system. However, I think some of the fundamental processes can be applied there.

You mentioned the small or very small local governments. Some of those are the ATSI councils, which have a totally different structure financially. They are the ones where there needs to be a bit more external assistance in terms of giving them a bit of a head start. Being a former director-general of local government, I think the mid-size councils are in a good position if they are committed to doing it.

Mr CRAWFORD: Where do you think that assistance for the small councils should come from? Should it be from your old department, as in government, or should it be an LGAQ thing? How do we get some of that, bearing in mind that some of them are very remote, although they do have other councils around them that are larger? How do you think that could happen?

Mr Jensen: I think I will be stepping just into personal opinion now, rather than anything to do with Brisbane City.

Mr CRAWFORD: That is all right.

Mr Jensen: Drawing on pragmatic experience is an important consideration in answering your question. Having the organisations with some connection as to how it works on the ground and what the real pressures are would be important for me in addressing that question.

Mr PERRETT: Thank you for coming in today to enlighten us in respect of the largest local government entity in Queensland, how you operate and some of your concerns. In your opening statement you mentioned financial asset management and the ratios linked to it by the Queensland Audit Office. Quite often we see the green lights, the amber lights and the red lights with respect to what they believe may be the challenges ahead for local government. Can you expand on why you think those ratios are really a poor method of indicating the success or otherwise of councils going forward in financial asset management?

Mr Jensen: Sure. I will get Paul to respond in detail. It is perhaps remiss of me not to put on record, however, in the opening statement that the intent is very sound. There is no complaint at all about the intent of either the department or QAO looking at financial sustainability in an asset sense, because there is no doubt that internationally councils have failed because they fundamentally have not addressed this issue. They basically have gone broke because they have not managed their assets well. Brisbane City has no complaint about the desire to do something in this space. It is incredibly important and it is incredibly important to provide assistance about where to start in this complicated process. As to an alternative to the three simplistic metrics that we are currently posed with, I will ask Paul to comment.

Mr Oberle: I would compare the financially sustainable metrics, which are three ratios at a point in time at the end of the financial year, to a process around a credit assessment of any large organisation. From a credit assessment point of view, you take into account what is the financial performance—so the financial history of the organisation—how that financial performance compares to budget—so what is the financial discipline within the organisation—and what is the future outlook for the organisation in terms of the commitments and the financial projections. For a start, you look across that from a balance sheet, cash flow and trading statement point of view. It is a very holistic view around where the organisation is, how well it has performed and what is the outlook in terms of the performance going forward. That is a much more comprehensive and robust assessment, compared to three data points measured at the end of the financial year.

Mr Jensen: Legislation is paramount, so Brisbane council complies with legislation unequivocally. The next step beyond it is the sort of processes and metrics and things that you are judged on by others. My assertion is that, were I as CEO to pursue those three metrics for Brisbane City Council and concentrate on them always being in the green, I would be diminishing the performance of the organisation and the management of the city's infrastructure, assets and services. A large organisation could even be gaming it just to hit the 30 June numbers. We do not do that. We would be more prepared to have a red traffic light and be doing the right thing than just hit a 30 June metric for the sake of it.

I could do it if I wanted, but it would probably be against CFO advice and all of that because you are not doing the right thing. We steadfastly go, 'If we fall into the red on a metric because it's not the right process and not leading to the best outcomes, then we will not do it.' The reality is that the QAO and the department alike in our discussions with them—we at times can fail a metric—will look at it and say, 'Yes, but you're doing very well.' The metric is not the right measure of it. In summary, hitting a single date is a bit nonsensical because you will just target your entire performance around hitting that date. Hitting simplistic measures at that date has now simplified the task even more, but it does not lead to a practice which instils good management—financial or asset management—and that is where our focus has been. We do not think it is a large council thing. We think that this is a fundamental view that you should be looking at councils' actual underlying performance. Paul also mentioned that a credit agency will also look at the team—the people, both the elected officials and the executive—and ask, 'Are they performing correctly?' A credit agency would mark us down if we just hit the three metrics on a particular date because they would say, 'You're not actually managing the organisation properly.'

Mr PERRETT: As managers—I want to lead into the political interface between managers in respect of the processes that you have to work within and then the political dynamic that is also within local government politics just generally—how do you manage that process of the interface between you as managers with the responsibilities you have and the political interface where you get certain councillors or mayors in local government who make promises that perhaps may lead to challenges into the future?

Mr Jensen: Firstly, Mr Chairman, before you said differences between the Local Government Act and the City of Brisbane Act and I said that I did not think it really applied for this discussion—except for this point. The City of Brisbane Act embodies in the Lord Mayor executive powers that are not applicable in the other local governments with mayors. For example, an executive power of the Lord Mayor will be the Lord Mayor shall prepare a budget and present it to council for its adoption. That means that I and the organisation—the management—work with the Lord Mayor to prepare the budget and it is his budget that is currently being debated in council. Another CEO would be preparing for the council the budget in consultation with each councillor separately and having to manage that process. In ours all of the councillors make submissions to us about what their individual ward requirements are, management considers that, puts it up and it is kind of bottom down and top up simultaneously then. I do make the distinction: it is the Lord Mayor's budget, not the CEO's budget, so that is a difference that is of note.

I would have to say—and I draw on state government executive experience here as well as local government CEO experience—that I have never been presented with the outright political interference of, 'You should do something. It's obviously wrong but you should do it anyway.' Maybe I have been blessed in my career, but that is an honest appraisal for governments of all persuasions in terms of political alliances and majority governments or minority governments, state and local. At the end of the day, if a manager is doing their job properly, they will be making the assessments and making available the information on which decisions can be made. I do not have a personal example but I know of others, particularly in councils, where an announcement is made part of an election campaign that you look at and think, 'That would send us broke.' An honest conversation afterwards—after the election and things have settled down—resolves those things because if you have your processes set up to present facts then the facts can be considered. Democracy is a great system.

Brisbane is blessed in our system because it is not just the budget and the size of the council that is large; the experience of councillors is at the upper end of the scale of experience, if you like, across the state or the nation. We have full-time councillors, so every councillor is full time. It is their job. They are professional in doing that job. They are diligent in doing that job. In other local governments a councillor has another job to pay the bills, so it is a different circumstance for those local governments. Good systems assist immensely in having a robust conversation.

Mr PERRETT: The final question that I have gets back to the business management of the council and the risk in terms of how you factor the risk in. I am getting the feeling that you do run it very much like a business in that you do not horde away money and you do not put money in a jar sitting in the corner when it may have better value injected into a piece of infrastructure or another decision within council. How do you balance the risk with a business decision based on the legacy that it may leave for future councils or administrations?

Mr Jensen: I might have Paul add to this, but we have a very robust corporate risk process. Risk is not a once-a-year consideration of what could go wrong. Risk management is a discipline in its own right. It is something we have not spoken about—it was not in our submission or anything—but we have an entire risk management process as well. The risk management process is tied not just from an assessment quarterly or monthly or anything like that; it is tied back into our systems—that is, what are the conditions of our assets, what is our financial performance, what is the global/national/state financial outlooks and what is the weather outlook, which is significant for councils in terms of the likelihood of damage or service interruption? The risk management is embodied in the process of broader management.

With regard to your comment that we run it or we manage it like a business, I would say Brisbane City Council runs on business-like principles. We do not run it as a business because fundamentally the business of government is quite different to running a corporation. Every decision has to be tainted not by what profit can be made out of this; rather, the decision has to be driven by community response, what the community is desiring and what they need at any point in time, so 'business-like' would be my description rather than 'run a business'.

Further on risk management, we have several processes which are hold points as you go through where you stop and you go, 'What are we missing?' Despite having, if you like, a mechanistic sort of approach in terms of all your systems and processes, you still need to introduce a sort of review process which says, 'Okay. Everyone stop. What are we missing here?' On risk management the executive management team sit down and get presented with all of the risk assessments that staff and everyone else have done and go, 'Does this smell right? Does it sound right? Do I believe those results or go and get some further information?'

In terms of the one that I do not have a ready answer for about the speed of disruption as it would now be called—it was just innovation before but disruption now—disruption is a meaningful thing where you could look at it and go, 'We have buses and ferries and all the normal local government assets and services. What if someone came in and significantly disturbed that sort of balance that we had?' You never know a disturbance really until it occurs, so what you need is agility in your system to be able to respond to it. So not all risk can be managed out; you need to be able to make provision for the fact that you will accommodate risk should it eventuate and you did not foresee it. Business continuity planning has a big part in that as well.

Mr PERRETT: Thank you.

CHAIR: I want to talk about Commonwealth financial assistance grants funding. Some submitters have argued that FAG funding should support financial equalisation. What impact would any reduction in FAG have on BCC?

Mr Jensen: I suppose there is a policy answer in there which we would need the Lord Mayor to answer rather than myself. Firstly, if I detach financial assistance grants for the moment—I will come back to directly answering it, but if I just detach that and just say also in answer to the risk—what if something happened that we did not foresee and had not allowed for? Brisbane actually has good financial credentials, so my confident answer is that we would cope but it is what is the consequence of the actions of coping? If financial assistance grants were reduced by 20 per cent for some horizontal equalisation activity I will come back to, then the city would not go broke because the whole process and desire is not to allow that to happen. So of course we would cope is my sort of confident but slightly worried response.

In terms of more the policy aspect of it, I suppose I can say these points: I always seek in policy development or policy analysis to detach the actual cause or symptom that is being sought to address in this circumstance and put it in the context of the broader environment. Horizontal imbalance is a real issue, but so is vertical fiscal imbalance as well. To solve one in isolation of the other is inherently problematic. There is no doubt that local governments throughout the nation but in Queensland have suffered greatly from reducing revenue streams from other source revenues. That has hurt many local governments deeply and I suppose their sustainability has taken a hit whereas I have said with confidence Brisbane would survive, and does.

With regard to the 2011 floods—I will do approximate numbers because they may have changed over the years a little—there was $441 million worth of damage to the city's assets. Some other city would go broke with that. It was $441 million and $109 million or thereabouts as the final number was our loss after all disaster relief payments, insurance and self-insurance—we are insured both internally and also externally. Once the dust settled or the water receded, there was a $109 million financial loss to council. That is devastating in any organisation. Some $100 million in $3,000 million is still a lot of money, but we survived. We reallocate, we reprioritise, we move on and then we seek to recover. Yes, I am confident we would recover, but I am not so certain that as a policy initiative it solved anything rather than just creating the next problem for councils.

With regard to the amount of—a long topic—service provision, local government really is the service provider of last resort in government—last resort not that it is not appreciated but last resort in that other government layers pull out and leave it to local government. Local government is in the community. They do not leave. I think across the state—and, again, I probably should limit my comments because I am representing Brisbane here, not other local governments, but as an observation—other layers of government do tend to pull out of different services at different times, usually without a lot of notice because that is the nature of things. Council is there. It stays, so councils pick up that sort of slack. There is no doubt that some councils in Queensland are on a very fine edge and the next hit is almost a mortal blow as such. It would not be for Brisbane, but that is not to say that we would not have to reduce our services and provisions. The sad thing is that if local government stops doing those things then there is no-one left.

CHAIR: I guess you also have the advantage that the revenue base continues to grow as the population grows.

Mr Jensen: Yes. Rate revenue for Brisbane is a lot less growth than it was in the glory days, if you like. It is now a few per cent. It is not double-digit growth numbers or something. It is a few per cent. You are correct in that we have not gone into decline at any point and we do not forecast decline for Brisbane. Indeed, we have a lot of policy initiatives to ensure economic and social sustainability. You are right: we have an ability to raise a bit more own source revenue. Rates of course are always a topical thing, but the reality is councils can put rates up to cover shortfalls. That is always true. The difference is councils tend to then have to pass the rates directly on to the community and it is whether a local community can—and, again, I am broader than Brisbane here—take on that extra cost as well. Yes, $3 billion of turnover gives you more flexibility than $4 million of turnover does; absolutely.

Ms LEAHY: You mentioned earlier that council does not support any legislative changes to prescribe the recommendations set out in the audit report and the preference is for guidelines. I have to agree with you on this: not one size fits all because I have councils like the Bulloo Shire Council which has a population of 300 people compared to Brisbane City Council. Could you perhaps give the committee some indication of the guidelines? Should they necessarily be the same for Brisbane City Council as for Bulloo, or should there be some sort of sliding scale? How would you establish that sliding scale?

Mr Jensen: Paul can provide some more detail in a moment. Firstly, in terms of separating guidelines as in process or methodology—methodology is a better word than process even—around how this should be approached, that is almost foundational, so that can apply to all. The one size fits all or does not fit all often really is more accurately referred to as 'one size fits no-one'. Really it fits no-one when it comes down to it, so it is hard to find an entity that it works for. If it does work, it would be transient. It would just be for the briefest point in time and then they would move on. In terms of targets or expectations, I think it is hard to even classify on the three levels of small, medium and large councils. I think more accurately it is to consider their circumstances of where they are at and where they are headed, and that might be your generic classifications because the reality is you could be a midsize council in decline or you could be a small council that is growing rapidly due to economic development. My personal belief is that the guidelines are about methodology or principles or learnings or leadings, if I could use that term, to take people forward. Setting expectations around that has to be based on an understanding of the local governments rather than just saying, 'You've got a population of under 50,000, under 100,000 or under half a million.' Paul, do you wish to add anything?

Mr Oberle: I would just possibly go further in terms of depending where you are in the economic cycle of the local community, but then there is variability—and if we just took a simple concept—around an asset register versus an asset management approach. The asset register has to be maintained for compliance and it is enshrined in legislation and accounting procedures. That is a given and there are resources required to maintain that asset register. Where the organisation is in terms of its asset management maturity is not necessarily aligned to whether they are small, medium or large. Those simple concepts around asset management and working through for each asset class—what is the desired asset condition—means that the right answer there is not that they are in perfect condition, so what is the desired and then the measurement of what is the actual and, to close that gap, what is required in terms of financial commitments around renewals of those assets and that feeding into the long-term financial plans? To prescribe the organisations based on large, medium or small would not necessarily take into account where they are in that level of maturity around asset management. It is a fundamental platform that feeds into longer term financial planning which leads into your financial sustainability.

CHAIR: Just going back to your submission, you raise concerns about capped infrastructure charges and trunk infrastructure charges. Could you explain why capped infrastructure charges affect your asset planning and management and how you believe this needs to be addressed?

Mr Jensen: Again I will turn to Paul for some detail in the answer, but I am struggling to separate capped infrastructure charges from the trunk infrastructure problem as well. The trunk infrastructure problem is perhaps easier to describe in a way. We are at the mercy almost of the development industry or individual developers—developments—as to whether they will choose to request a piece of infrastructure be deemed trunk and therefore previously was to be provided by them and now to be provided by the council. Also then we are at their mercy in terms of how much that should be costed at. It could bear no relation to how much we thought it should cost in our asset planning and then our financial planning. They can simply say, 'This is how much it's cost and we seek a reimbursement.' The uncertainty around that is very large and I know for Brisbane that we are spending a lot of effort in trying to predict—forecast—what exposure we have to that, and it is millions of dollars obviously for Brisbane—many millions of dollars of potential liability. For a small council that must be very hard because just one bill that comes in to invoice for a change of trunk—or even a medium sized council—could wipe out any sort of sense of having a surplus for several years.

In terms of the capped infrastructure charges, the difficulty is that there is no perfect methodology here. There is no perfect methodology in terms of infrastructure charging. It is a policy oriented decision as to what infrastructure charges should be put in place. It is interesting to detach one sort of policy lever from the balance of the policy levers around planning. To have a capped infrastructure charge as a policy mechanism that is now isolated from all of our other planning impacts would mean that everyone is paying the same amount of infrastructure charge now throughout the city regardless of how much it really costs to provide that infrastructure in that location at that time. A council is left with the fact that a development can occur—within the planning rules of course—but across the city a development could proceed in isolation by itself and cause great cost to a council to service that development and get little return just from the capped charges, because there is no relationship to that sequence of development nor the actual cost of servicing that development because by nature it is an average that is then capped. I will try to keep it short, but that simplistically is the biggest concern. That is not to construe an anti development sentiment in any sense; it is just trying to manage the financial risk around it.

For an economist a perfect system would not exist I suppose but would more subscribe what is the true cost of infrastructure provision for that development at this point in time, because the timing of it is as important as the geography—the location—of it? The timing issue there is big, even if it washes out in the long run. Our assertion would be it is a cap for a reason, meaning that many of the costs are greater than the cap, so by nature it would not be a cap. If everyone thought that it was above what they would need to charge, it is a cap. Even if it ran out in the long run, particularly smaller councils than Brisbane—which is everyone—could suffer financial distress because of the timing of the development. Even for Brisbane, the uncertainty of having to constantly manage the cost of our infrastructure provision by external influences can be a challenge.

CHAIR: Just for the record, what do you mean by the timing issue?

Mr Jensen: Simplistically, if there were 12 different developers all in the same area that all needed infrastructure and one of them goes forward and puts in and gets their approvals and pays their infrastructure charges, the trunk infrastructure that is put in to service that one development is the infrastructure that will service the 12 developments. You cannot just scale it because infrastructure is like that. Not all of the problem is Brisbane City Council's. To be explicit, Queensland Urban Utilities does the water supply and sewerage separately; other councils of course do it all. Simplistically, the timing out of sequence can be that to service a development all of the infrastructure charges have not been collected but all the expense will have to occur.

CHAIR: It is not that simple really.

Mr Jensen: It is not a simple topic.

CHAIR: As there are no further questions, I thank you very much for your appearance here this morning. Thank you for being so up-front. It has been quite a good session where we have certainly learnt a few things that will help us with our inquiry. Thank you very much. We look forward to seeing you some time in the future.

Mr Jensen: Thanks.

CHAIR: The committee will have a short break and then hear from representatives from the Southern Downs Regional Council.

Proceedings suspended from 9.55 am to 10.11 am

KEENAN, Mr David, Chief Executive Officer, Southern Downs Regional Council

KELLY, Mr Rod, Councillor, Southern Downs Regional Council

PAGE, Mr Andrew, Manager, Finance and Information Technology, Southern Downs Regional Council

CHAIR: I now welcome representatives from Southern Downs Regional Council. Do you have an opening statement?

Mr Keenan: Council appreciates the opportunity to provide a submission to this inquiry. As members of the committee would be aware, we were one of the pilot councils in the original investigation undertaken by the Queensland Audit Office. We provided feedback into that process that looked at the long-term sustainability of local government. We are very happy that this inquiry is occurring. The way we responded to the inquiry was to deal with some of the recommendations that came out of the original Queensland Audit Office. We also sought comments from our audit and risk management committee members and they were provided as well.

There are a few things in our submission. It is probably not worthwhile going through them verbatim but I will speak to them in an overall manner. I have been at Southern Downs for only a short time, about 2½ years. I guess one of the observations I would make is that I was surprised that the financial situation Southern Downs had got itself into was permitted to happen. There needs to be a much higher degree of scrutiny as to how the budgeting and long-term financial forecasting of any local government authority is undertaken. It should be done on a fairly regular basis because there is no point coming in after the fact. The argument will come through that the ultimate judgement of the financial sustainability of any local government authority will be at the elections. That is great, except it takes you three to four years to make up ground after the facts that have already occurred.

Just prior to me starting, Southern Downs council found itself in a position where it probably was getting fairly close to the bone in relation to having the capacity to pay all debtors and even pay staff and councillors. The level of cash in the bank got down to a very low level. To the council’s credit, and to the credit of the manager of finance and IT, we have managed to bring that back to where we are likely to have two surplus budgets, which means we will be able to establish restricted cash reserves. We are very happy that we have been able to move from red to amber on the Queensland Audit Office’s report on local government and other financial entities. That has been because of the hard work of council. There has not been facilitation outside of council saying that there is a requirement that we get off the financial watchlist.

We are still in a position where we cannot borrow at this point in time. Unfortunately, the council has in the past borrowed for operations, which realistically should not occur. We are going down a path of austerity, so this community to a large degree is perhaps paying for the sins of the past, so to speak. There is a recognition by council that the rate base is not never-ending, that you cannot go back to the rate base over and over again. We are also in a position where, unfortunately, there has not been a lot of asset management done in the past. I heard Brisbane talking about asset management. I agree wholeheartedly with everything Colin said. On a micro example, that is exactly what happens to us when there is a big development occurring. How do we plan for that going through? How do we ensure that our infrastructure is up to grade?

One of our other big issues at the moment is trying to create a sustainable population and an increasing rate base. Our population growth has stopped somewhat, especially in the southern part of the municipality. It is technically in decline. In going back and having an expectation around services, one needs to realise that you cannot have this continual reliance upon rates coming through.

There are a couple of things that do not help us, and this happened very recently. The manager of finance and IT was as ecstatic as I was when we were told that our FAGs grant has already been paid. We did not really need it to come through this year because all our budgeting is based on the fact that the FAGs grant would come through next financial year. We are very happy that we get funding through FAGs and we are very happy about the unfreezing of the FAGs coming through and to have a look at how the indexation may be done in the future or the formulas, but I guess when we are planning an operational budget of around $66 million it would be really nice to know when grants are coming in so we can schedule them. By way of example, we have made a number of applications to the federal government for—I have to get this right—Building Better Regions—

Ms LEAHY: No, it is Stronger Regions.

Mr Keenan: No, I think Stronger Regions was replaced and now it is Building Better Regions. Either way, we do not know the date that will be announced. We obviously try to plan for these grants and funding applications as they come through, but it would be really helpful for council if we understood time frames around when each amount of funding comes through. That would encourage us, compel us, to do proper financial planning—structure our milestones knowing they are coming in in any financial year so that I can go to the councillors and say, 'Councillor Kelly, there is matching funding that will come through for a sewer line and I know that will come through within this period of time and we have a good chance of getting that funding.' Sitting, hoping, waiting and wondering if funding is coming in is not prudent financial management and there would be very few other organisations in the private sector that turn around and hope something is going to come through.

There are a number of external factors that play on our budget. Obviously the valuations around properties is another one. The one that we are about to deal with is the enterprise bargaining agreement. When we do our risk analysis, within our risks universe et cetera, we need to look at how we incorporate them into the budget. We are a bit different to other local governments in Queensland. I am not sure if Councillor Kelly wishes to speak about how we put our budget out.

Councillor Kelly: Thanks, David, and thanks very much for the opportunity to speak today. Just by way of background, this is my first term in local government. I had a 40-year career in Westpac and retired just over two years ago. My motivation for standing for council was the financial status of this region as explained by the CEO. I am also on the audit risk committee with the Deputy Mayor, Jo McNally, who is an apology today. I think she has been down to Canberra for a conference there. Together with the deputy mayor, who is also finishing an accounting degree, we have got very close to the numbers to turn this around. We are one of five councils across Queensland on a watchlist.

The budget we approved last week was about six months in the making. We sat as a group of councillors and delivered to the executive what we wanted to see in terms of increase in rates and surplus, debt reduction, capital works and operational. It took us six months. It was back and forward. We put a lot into that and I believe it is a very financially responsible budget that we have brought down.

In the process—and we are the only council in Queensland, as I understand it; it is an idea that certainly was put forward by the CEO from his southern background—we took the budget out to five communities to consult. We did that in Warwick, Stanthorpe, Killarney, Allora and Wallangarra. I think in the submission it says about 100 were there, but more than that were there. It gave those communities the opportunity to speak to the budget as they saw the draft budget. It also gave them the opportunity, and others who did not attend these sessions, to put in submissions to council and then deliver at special meetings their presentation. As a result of that we did make amendments to the budget, which just goes to show consultation is a very important aspect and it brings the community along on the journey with you in setting that.

Mr Keenan: The consultation gives the community a clear understanding of exactly what the finances are and there is a better comprehension that we are not a benevolent society that can simply just give funds out willy-nilly. It also allows them to place items in the forward estimates. At the same time we have also done a 10-year capital works program. That was one of the recommendations to come out of the Queensland Audit Office report. The 10-year capital works plan will by no means be perfect but, as we do better asset renewal and asset plans, that will inform the 10-year capital works program so that will sit fairly well. That, combined with most of the grants that come in, combined with developer contributions, means that the capital works program is almost filled up for a period of four years, potentially going out to about eight years, leaving very little discretionary funding. The discretionary funding that is left is there for the councils to then turn around and say, 'These are the initiatives that are coming through from the community.'

We have made some other comments, and both Councillor Kelly and I have undertaken the Institute of Company Directors course. In our submission we have indicated that it can be quite daunting for a new councillor to come into an environment and to have a large budget presented to them and say, 'There you go. What do you reckon?' There is not a lot of comprehension sometimes. The Institute of Company Directors course is hopefully going to get councillors' knowledge up. I certainly found it a challenging course when I did it quite a few years ago.

The clear thing we have also put forward in our submission is that we see a much greater role for the department. We see that role as participation. I am—and I believe Councillor Kelly is—a great supporter of audit and risk management committees. They are there as the strongest committee of council. They are the ones that should be questioning the strategic direction, questioning the operational direction, encouraging us to mitigate risk and, at the same time, to incorporate risk where there are opportunities. I note that within Queensland audit and risk management committees are not mandatory. I believe that they should be mandatory. We certainly use ours. We have three independent members on ours. We have a cross-border situation whereby we send one of our staff members to go on the Tenterfield audit and risk management committee and they send one of their staff members to come on our audit and risk management committee. That works very well.

The submission indicates that, it the department is to be involved—I believe it should be—there is a role for the department to be present on an audit and risk management committee to provide that oversight and to be involved in how the budget is presented. If suddenly a local government authority is turning around and saying, 'We are doing 12 per cent rates,' someone should be aware of the rationale behind that and understand where that local government is coming from.

Councillor Kelly: I served the previous council. Again, my motivation was mostly the financial side. The councillors are like a board, and we are there to set the strategic direction not for the four-year term of this council but looking out 10, 15, 20 or 25 years. We talked about the 10-year plan. We have worked very hard not to get involved in potholes and other operational matters but to take that higher level look.

I would like to back up the comments about our ability to borrow. This council is not in a position to borrow. However, it has reduced the debt from $31 million to just a bit under $22 million. That is $8.3 million over about three years. It certainly is on track to reduce the debt, which was a commitment made by the previous council and it has been upheld. There have been asset sales. Those asset sales were parked to reduce the debt, as they should have been, and we were able to reduce those Treasury loans. We hear people talk about good and bad debt. I do not follow that concept. I believe debt does create wealth, but debt has to be for the right reasons and it has to be for capital infrastructure that is income producing. If you are borrowing for operational needs, it is like using a credit card to run your business and that is not what should be.

I also back the qualifications. I think it is important. I know this probably does not sit well with everybody, but I do believe there needs to be a level of financial management or understanding by councillors if they want to put their names forward for local government. I think that is an important aspect. The company directors course does go a long way towards that. It does have that content but also deals with other issues around responsibility of board members.

CHAIR: I will start of by saying that this committee is not about finger-pointing; it is about finding out what has been happening in local councils with regard to their financial sustainability. I appreciate what you have said already, but for the committee I would like you to be brutally honest and tell us why the council got into such a difficult financial situation. What happened to get itself into that sort of trouble?

Mr Keenan: I have been at the council for 2½ years. I can go back and look at that. The decisions that were made were very operational. To Councillor Kelly's credit, he has indicated that the new council is looking at strategy much more than operations. Some of the decisions made around capital works were opportunistic and did not necessarily deliver a return. There were certain decisions made in council that meant lots of funds were allocated on specific projects where there probably should have been a degree of austerity. I do things a bit differently, as the councillor and the manager would know. We have monthly financial reports but we also do quarterly reports to council on estimates going through and we do our changes through those. We will have first quarter adjustments, second quarter adjustments. That was not done in the past. From what I can observe, there was no ownership of the budget in the past, whether that be by staff or by the councillors.

A staff member once said, 'Be careful of the new CEO. He no longer sees budgets as a guideline. He sees them as something that needs to be delivered upon and he is not particularly interested in underspends or overspends. He wants the correct forecasting.' Yesterday the manager and I threw in an extra review, which is an end-of-year review prior to the end of the year just to give us some certainty of where we are going in relation to a surplus.

Going back to your question, I think it is really important for a CEO to attend audit and risk management committees. Obviously a CEO is not a voting member on that, but I think it is really important for CEOs to attend those. I do not think that necessarily always happened in the past.

I think there was a degree of hoping the debt would go away, so not really accepting what was there. That contributed towards the debt. Inappropriate works associated with natural disaster recovery where people did not go through the correct process in relation to jumping too quickly on to emergent work without doing the proper documentation caused loss. Different charging mechanisms for the supply of water in different regions caused issues. QTC did advise previous councils to go through equalisation processes in relation to pricing on water and wastewater, but that advice was not necessarily taken up.

CHAIR: Again, not finger pointing, not trying to embarrass anybody, it would appear to me from what you have said there that there was a lot of inexperience and lack of knowledge in the council in previous years?

Mr Keenan: I think there were a lot of decisions that needed to be reviewed very carefully, especially in relation to infrastructure and in relation to funding. In terms of operational activities, there are a number of projects where large amounts of money have been spent that have not necessarily delivered a return for council. There has been limited risk taking, albeit there was risk taken of certain other issues that went through at the same time.

Councillor Kelly: There were also a number of CEO changes before this CEO arrived and I think that had a major impact on the continuous rhythm. That has been settled under the present CEO. We are very much about if you want to get a business back on track—and this is a business, you have to live within your means—the first thing you do is tighten the screws a bit to see where the wastage might be. That has been done and done very prudently. We are probably at a stage now—and the CEO spoke about the quarterly reviews, we do those religiously; they are an important aspect of the budget—where we are able to allocate some extra funds for various things that people can see and touch and say that they are part of their community, that they ordinarily would not see apart from the services that we are obliged to provide.

CHAIR: I appreciate your response. You earlier mentioned sustainable population. Why is your population not steady or in decline?

Councillor Kelly: Our population growth is probably about 0.4 per cent. I think Queensland's forecast this year is about 1.5 per cent. We are certainly doing everything in our power in terms of economic development. Council is putting a lot of effort into economic development. That is led by the mayor. I am working with the mayor on that. We have portfolios and that is the mayor's primary portfolio. It is my secondary portfolio, along with regional promotion, tourism and the arts. There is a linkage there. We have a very low unemployment rate in our region; however, those unemployed will never work or are probably unemployable. At the present stage, if we are calculating jobs that we know are coming through and possibly coming through, it is about 700.

Mr Keenan: Correct.

Councillor Kelly: We have an issue with employment. We are actively looking outside the region to encourage that. We have a new residents' pack that is available to new residents, whether they become ratepayers or rent. If they took up the full value of that it is about $20,000, including schooling. We are offering those incentives. We are also looking outside. I have the view that immigration should be considered—the Nepalese, for example, are coming in and they are good, hard workers. We have a major abattoir in Warwick that is the biggest employer—600 or 700 people. It has a large contingent of international people. In the Stanthorpe-Granite Belt area for six or seven months of each year about 7,000 backpackers come through. Obviously, that adds strain—you will see that within the submission. They are there to provide the workforce. It is an issue. We are doing lots of things in terms of economic development to increase our population. It is an affordable town. You can get a really good home for $250,000 in our locality.

Mr Keenan: The population we have at the moment is characterised by two things. In Warwick we have one of the highest levels of population aged over 65 and we have the highest level of obesity and overweightness. Many people sell their houses in Brisbane or other areas and move to either to Warwick or Stanthorpe which, as the councillor indicated, have very affordable housing. We have hospitals, we have RSLs, we have bowls et cetera. There is a lifestyle opportunity there for people.

As the councillor pointed out, we are experiencing strong opportunities and economic development that may come through in the next 12 to 18 months. The issue will be that we need to import labour to do that. By doing that, one hopefully expands the rate base and therefore shares the contribution to the maintenance of the infrastructure and the delivery of services going through as well. A key thing is making people aware of where the Southern Downs is and that it is not a 'pack a lunch because it will not take you that long to get there' destination. Andrew and I, and even Councillor Kelly, managed to get here this morning without having to leave too early.

In the longer term, with better transport connections, it may be that places such as Warwick will be only 90 minutes from Brisbane. We already have the NBN operating very successfully there. We already have a very good and safe lifestyle. We have quality schools and quality recreation facilities. If we can attract more people and diversify the rate base, then that will help us in the longer term be more financially sustainable.

Councillor Kelly: And seven-day trading from 12 July.

CHAIR: Do you have major employers such as the resource industry? I do not think you have any of those? The main one is the abattoir. Are any timber mills still there?

Councillor Kelly: There is the abattoir. There is the council, of course. I will let the CEO speak more about this. As I said before, we have the backpackers coming through. Agriculture is our biggest industry, about 14 per cent of our industry base, followed by retail, manufacturing, tourism and health.

Mr Keenan: The Big W distribution centre is there, which employs over 250 people. The hospital employs about 280 people. There are other major employers on the Granite Belt that swell during the harvest period. There are mushroom farms and whatnot towards the back of Stanthorpe and Wallangarra as well. We have seen growth in the retail sector. There is a major redevelopment of the Rose City facility going through which ties in with what Councillor Kelly said in relation to seven-day trading. That will probably result in another 100 jobs. We also have the Church of Christ doing developments in both Warwick and Stanthorpe which will create in excess of 150 jobs.

Ms LEAHY: Thank you very much for coming down this morning to speak with the committee. I thank you very much for being very frank and honest about the position council found itself in relation to the deficits and the work it is doing to regain a surplus. I note in the submission it says, 'There was no provision of advice on how to establish a plan to become financially sustainable.' Perhaps you could expand on that a bit more? I am not sure if you were there at that time. Where did you go for advice? I note the training that you mentioned, the company directors' course, and the hybrid course offered in Victoria. It is very easy to spend; it is very hard to make it. Perhaps you could give us some ideas, suggestions and solutions about how advice should be provided to prevent councils getting into a position where it is difficult to trade back out of those positions?

Mr Keenan: Agree. I think that is a very good question. One never wants to get in that position where it becomes so difficult to trade. I note there are other local government authorities of a similar size to us that have never brought forward an operating surplus. They have had deficit budgets since amalgamation. Where do you go for advice? You can go to QTC and pay for advice. QTC are very good in that they offer a lot of free services and are offering more free services at this point in time. In the past all those services were a cost going through. The other thing you could do is look at the templated financial reporting that has been done. One of the issues we have is that there is no uniformity to the financial reporting that comes through across local government. Please correct me if I am wrong, Andrew.

Mr Page: No, Mr CEO, you are correct. You have options on how you want to report your financial statements. To go on a little further, there is no direction to councils that they must do quarterly budgets. There is no direction to councils that they must do monthly reports. If these simple financial measures are not followed, it becomes a snowboard effect as such. There is no guideline that we ever hear from the Audit Office. The Audit Office gives recommendations. It does not give a yes or no answer: it always gives a recommendation. I feel that the department lacks the appropriate skills. Smaller and medium sized councils need financial constraints to prevent us getting into financial difficulty. As the CEO mentioned, QTC do some measurements and give out guidance with their long-term financial plan. Other private entities also give out what they recommend for long-term financial plans. There is not one tool for all councils regardless of their size. There is really no ongoing consultation or monitoring among departments as to how local governments are performing. That is a real weakness in the industry.

Mr Keenan: Can I give you an example? Potentially, one state government department could ask us to be financially prudent but on the other hand another department could turn around and say, 'You should really be putting in for this funding application.' I will make another observation. If I remember correctly, Andrew, we have a forecasted surplus within this budget of $399,000 that was adopted last week?

Mr Page: It is $312,000.

Mr Keenan: Sorry, $312,000, my mistake. As part of that we will be paying approximately $2 million off the debt again this year. Have we got it right? I do not know. We are going down that path. That is the direction I have from the council based on a 3.4 per cent rate increase and the utility increase. Have we got it right?

CHAIR: Can you ask?

Mr Keenan: I agree. At the moment, we are operating within the parameters set by the councillors in relation to the financial constraints et cetera within the council. If we were to go higher, we could accelerate some of those works going through. If we were to go lower, those works or services would take longer to do. Is there a financial imperative for us to get out of debt? The only financial imperative for us to get out of debt is for us to be able to borrow again for infrastructure. Do I have an imperative from the state government at all for us to get out of debt? I do not. When you ask your question, 'Who do we get advice from?' I agree.

Ms LEAHY: Obviously I am drawing on some of your experience in the finance world over the last few years, Rod, but has council given any consideration to any external audits or accountants to seek that advice? As we heard earlier, sometimes it is about looking at that full picture of where councils sit. You are running it as a business. It happens that sometimes the human resources and the drive to get to certain targets that might be internally set and agreed are important things. Does council ever get that opportunity? It might not be the department or QTC—and I would hesitate to say sometimes government might not be the best ones to get that advice from—but are there some external resources?

Councillor Kelly: I will provide a little bit of input into that, and I am sure the CEO would like to add to that as well. Again, I would probably look at it pretty simply. Given my background I watch the numbers very carefully. The monthly and the quarterly reviews are a trigger point for us—the monthly reviews particularly. You can look at the numbers and see where it is going. We have been very definite around the table with the councillors that if they want something put in the budget something has to come out of the budget. We are going to live within our means. Again, we will try to keep away from the operational side, keep a higher level and look to the future to make this sustainable. QTC was up last week and it is providing a report to us in August. I will let the CEO speak more to that.

Mr Keenan: After the Queensland Audit Office review, we thought the recommendations could have been harder and more stringent. We wrote a letter to the Deputy Premier indicating that we agree with the outcomes of the review and that we would like to see further resources allocated towards implementing the outcomes of the review. That was a recommendation from our audit and risk management committee. As a result of that, the state government replied that they would allow Queensland Treasury Corporation to come in and do a strategic review. That is underway at the moment and we welcome that. That is in the form of an external auditor. Please keep in mind that we obviously have our external auditors sitting on our audit and risk management committee—Darren Singh from Thomas Noble & Russell—and we use effectively the most number of internal audit reports we possibly can. I will go back to what the manager said: if we had consistent benchmarking, consistent ratios, we would be able to do a comparison as to how someone with a similar rate base is dealing with their financial sustainability as well.

Mr CRAWFORD: I have two lines of questioning. In your submission I note the comments in relation to the department of local government being provided with additional responsibilities that would allow intervention and the comment that there is not a level of financial skills and expertise within the department. Can you expand on those comments?

Mr Keenan: Sure. It is when you think about intervention and when your milestones are. Hypothetically, we are not required to submit our budget to the state government. The only thing we are required to submit to the state government, if I remember correctly, is our annual report. By the time you get to an annual report—and I can tell you that not a lot of people read annual reports—it is probably too late. There are probably certain actions that have been put in place that are going through and they really need to be examined then. I have never had feedback from any form of government in relation to any of the details within the annual reports.

We are suggesting that there needs to be an earlier level of intervention. It does not necessarily have to be intervention; it may simply be the department coming back and saying, 'We are concerned about your decision-making processes in relation to putting the rates up to 12 per cent to fund a new performing arts centre'—this is not happening—'when, at this point in time, you are already running a deficit budget and it is likely the performing arts centre is not going to give you a return.' To have that degree of scrutiny would be helpful. That can be done at the audit and risk management committee, but to have the department simply attend would be good. In terms of my other comment in relation to the department, I believe there are plenty of excellent skills in relation to governance, in relation to funding applications going through and in relation to training for councillors, but I am not convinced that there are the financial attributes required within the department to come in and make that level of intervention at this point.

Mr CRAWFORD: You mentioned the word 'austerity' a few times. What has the public reaction been to that and what has the reaction been within council? We are all politicians in this room, we all like to see flashy new things in our patch and we all obviously fight among ourselves to get that infrastructure. When you come along and say that we will have austerity, there will not be a new playground and there will not be this or that, how does that fly within council, within the elected members particularly, and also with the general ratepayers?

Mr Keenan: I will make two really quick observations. It is recognised that council is doing its best to wind down our debt and that has caused a reduction of services, which I do not necessarily agree with. I will tell you what we are not doing anymore. We are not mowing other people's grass anymore. We used to do that quite a bit, but we are not doing that anymore. We are putting in appropriate levels of charging so we get a user-pays system. The councillors have been very strong on that. If you use something, you should expect to pay for it.

No-one likes being told no. This comes down to one of the other things we said that if we are talking about a shiny new playground or a shiny new sewerage treatment plant—they are often not that shiny—that in terms of funding we need to recognise that instead of doing something new it may be better to renew existing assets. Hats off to the government in relation to Works for Queensland. That is giving us the opportunity to do some of that rather than having new assets coming in.

The feedback from the community has been mixed. Some people said, 'Good, we need to bring the debt in and, good, we need to do the finances properly.' There are other sectors of the community that have turned around and said, 'No, I want to go back to what it was. We did not have to account for any of the funds that came in.' With our operational grants we have now implemented memorandums of understanding with key performance indicators. They were never there before. They just received grants and did what they liked with them. Councillor Kelly is in a better position to gauge the mood of the community.

Councillor Kelly: It is a good point, because people pay out money for rates and ask, 'What do we get for the rates?' You can go through the alphabet and explain what they get for the rates, but there is quite a lot. There are also people who ask, 'Why do I have to pay for tourism when I do not get any benefit out of tourism?' It is one of those things that absolutely is part of our business. Consultation has been very important in helping with those discussions. You have to take people on a journey and you usually have to tell people seven times what you are doing for it to really become relatable. The things that we really are talking about are that this is a business, we have to live within our means, we might have to go without things and we might have to say no.

Again, I go back to the quarterly reviews. The third quarterly review showed us we had some money to play with so we were able to put in not necessarily playgrounds but things that people can see, feel and touch and say, 'That is part of our community'—the little towns and villages.' I had a phone call this morning from a large business owner in the Warwick area—because we are under a bit of fire at the moment over an issue with shopping locally—who said, 'You are doing a great job. You have made great changes and keep it up.' They are the things that we are about. We are making a decisive change.

Mr PERRETT: Thank you for being here today to pass on your thoughts in respect of the processes within local government and things that we may be able to recommend to the government which may improve that. We touched on the politics before and a lot of the challenges you have had—political decisions, informed or ill-informed; whatever they may have been. At council elections is Southern Downs council elected at large by the whole region, or do you have divisions?

Mr Keenan: No, there are no divisions or wards.

Mr PERRETT: That has been like that since the amalgamations in 2008?

Mr Keenan: Correct.

Mr PERRETT: I am just interested to hear a little more about this process of taking the budget to the community. I assume that was one of the mechanisms that you are using to gain public confidence in the budgeting process within council. I think this was touched on by Councillor Kelly earlier. Obviously the community, whether it is individuals or groups, can see what is happening and can make representations and there were some changes being made. If that is to be an ongoing process, how will you guard against the special interest groups that then try to hijack that process and say, 'This is what we want and if you do not deliver it in the budget we will take some sort of action against you in a broader sense'? How does that work? Is that something in the infancy of this process—and I assume it is something that has only just come in—that you will perhaps have to manage if that is to be the normal process of developing a budget?

Mr Keenan: I have worked in the New South Wales and Victorian systems. All budgets are put out for community consultation for 30 days. It is a matter of course. It was not brought in to deal with confidence in the community. I was a bit surprised when I saw that council were adopting the budget in the confidential part of the meeting. That did not send a message of transparency and everything else going through. No, it is a different way. It is just my warped sense of dealing with a budget. That is the easiest way to deal with a budget because people then get to see how much you have. Some people walk away from a budget consultation session and go, 'Boy oh boy, I did not realise you did not have that much money. I now understand the position that you are in.'

In relation to the question about special interest groups, you are damned either way on that anyway because they will argue to get it in or argue to get it in at another point in time. At least the transparency is there. When they present to a special council meeting, the media and everyone else is there to hear the Kelly horse breeders argue for a new horse stadium for great horse tricks or something like that. They actually know that that has been put on the agenda et cetera, rather than covertly put into a budget process. That level of transparency is there, and it allows the reporting to come through.

To the councillors' credit, they made some fairly major changes as a result of community consultation on the budget. We have a pedestal charge that goes through in relation to wastewater. There were some changes that were going to come through in that which were quite significant. The community had a lot to say about that. The council has turned around and decided not to proceed with those amended charges on the pedestal charges, for example. Additionally, there were issues with wastewater in Killarney and they have agreed to freeze the charges in relation to wastewater. There has been an impact on exactly what goes through. As the community becomes more aware of how to make a submission, how to put that forward and how to articulate that, and then they also have a look at our bottom line and go, 'I really need some more help from somewhere else,' they can see where that is coming in, if that makes sense.

Councillor Kelly: Included in the 2017-18 budget are items of submission from last year when we did the 2016-17 budget. We have included those. We do have interest groups. Of course, it is how you deal with those and negotiate with those people that is important. Just to provide one example. We have a mobile library that is a great asset for the region. It goes to the little places from where people ordinarily cannot get into the static library in Warwick or Stanthorpe. It is also there for the schoolchildren in those small locations. That truck is 21-years-old. How many businesses would have a piece of equipment that old? This particular piece of equipment has been held over for replacement for a number of years. We are going to replace it this year. We came under fire from one particular group on this. It is past its useful life. The safety of the drivers is important. The issue ended up in the newspaper the other day, but, to the credit of the CEO—and I got involved—we have explained to the community that we need to change this. It will still be a mobile library but a multipurpose piece of equipment which will do more for the community.

Mr Keenan: Disaster management will be incorporated into that as well as community consultation, so it will become a multi-use vehicle rather than a single-use vehicle.

Mr PERRETT: I would like to get down to the mechanics and operations of council. We talked a fair bit about the politics and the governance, and I note from the submission that you have a number of towns across your region: Warwick, Stanthorpe and surrounding towns such as Allora, Killarney, Yangan, Wallangarra and Leyburn. Presumably all those towns have water and sewerage systems?

Mr Keenan: No, not all of them have water and sewerage. Leyburn has predominantly septics going through there; Wallangarra has a mix of the two going through there as well. Some of the smaller towns such as Pratten and Karara have limited water systems going through which is not always potable water, so they are limited with what they have in that regard.

Mr PERRETT: My question goes to the multiple water and sewerage systems across your council area and your asset management. How do you factor that in with those multiple systems that are core responsibilities of local government for funding of depreciation on those assets—the useful life that is left in those—particularly when there are no subsidies left? You mentioned Works for Queensland before. That has been welcomed by quite a few local governments across Queensland and it is obviously something that is going to be carried forward into the next budget period. No doubt most of you would be aware that there used to be a 40 per cent subsidy from state government on that key infrastructure, especially in those small communities, the SCAT funding—the Small Communities Assistance Program funding—that used to provide the opportunity to get rid of septic systems and put in sewers. I would like your thoughts on that, because that obviously changed in 2009-10 and placed some significant financial pressure on some councils across Queensland that thought it was always going to be there and all of a sudden it was not. How do you put asset management, available subsidies and meeting other departmental goals, EPAs, into the mix and how do those requirements put pressure on your budgets?

Mr Keenan: That is a really good question. It would be good to have discrete funding streams for distinct activities. I know that Councillor Meiklejohn has raised the program you referred to and indicated it would be good if that program came back. That means that the council does not have to decide between upgrading a wastewater treatment plant versus doing significant roadwork versus doing the performing arts complex. That would be welcomed.

In relation to depreciation and how we deal with some of our assets, I will use a good example. At Killarney we have a CED scheme going. We recently paid off the loan for the CED scheme. The community immediately turned around and said, 'That means our charges drop because you have paid it off.' The answer is, 'No. That means we now start paying off the one that replaces this in the future.' That comprehension is not necessarily there.

One of our biggest risks is the wastewater treatment facility in Stanthorpe, which was built in a flood zone. That one has had a number of spills this year. The Department of Environment and Heritage Protection has gone in and undertaken investigations. This financial year council is spending money on looking at how we can mitigate the risks associated with that and how we put that up in the future, whether it be under Works for Queensland, Building our Regions or whatever new funds come up in the future.

Often our issue is we need to do the feasibility study first before we can do the work, and we often do not have that operational cash hanging about. One recent example is—and I am diverting a tiny bit here—the council is currently dealing with an overlay at Carnell Raceway out the back of Stanthorpe. Someone said, 'You should move the car racing facility.' No-one has any money to give them a feasibility study to then turn that around and work out where they should go in the future, so that gap with the feasibility study is an important one and one that applies across-the-board with any funding.

We have CEDs at Wallangarra, Killarney and Dalveen and major waste treatment facilities at Warwick and Stanthorpe. We have ageing equipment. One good thing is that at Warwick we still have plenty of capacity within that system at the moment. The Stanthorpe one is more problematic. Would we welcome discrete funding lines for that? Yes, we would. Would we welcome discrete funding lines for aerodromes? Oh, yes, we would. Sometimes it would be really good to have discrete funding because that would then line up with our asset management planning, and if we could do that it would be a really good outcome.

Mr PERRETT: Contestable funding is basically what you primarily apply for, so you do not know whether you are going to get it or not. I think you mentioned that earlier. Even with federal government assistance you really do not know whether you are going to get it, and that makes it difficult to put forward projections and put commitments in place.

Mr Keenan: Yes, and we do not know if he is going to support it. I guess this goes back to the chair's question earlier: how did the council get into this financial mess? The officers can give frank, fearless and honest advice to council, but in the end council makes the decision. I could put up a wastewater treatment plant upgrade, but the councillors might turn around and say, 'It's not very sexy and we're going into an election year next year.' It is not on the priority list that goes through unless it is adopted within the asset management plans, and that should be non-negotiable.

Mr PERRETT: Obviously you are not able to borrow currently given the challenges that you have, but intergenerational funding for projects that will benefit not just today's generation but generations perhaps over the next 40 or 50 years, is that something that council aspires to put in place to pay for those core assets?

Mr Keenan: We were talking about this in the car on the way down. The defining of the water resources or the water based industries of council that supply wastewater need to be completely separate and should be able to borrow against itself over and over again or even lend money to infrastructure in other parts of the council. I should be able to borrow from water and wastewater to build something that is going to give me a return to pay it off over a period of time. We are not up to that at this point in time. As one of my staff said, every time he took a shower he was paying for a bit of road to be built somewhere else in the municipality, because that is where our income was coming from. We are probably not at the level of financial maturity to consider intergenerational loans. We are way back at the beginning where we are still looking at the infrastructure gaps within the asset renewal. I think that would be fair, Councillor?

Councillor Kelly: Spot on.

CHAIR: In your submission you raise the question about the possible need for incentives or penalties for financial sustainability. Do you have any thoughts about what these could be or how they might work to benefit councils?

Mr Keenan: I guess this goes back to whether there is an incentive to perform. If there is an incentive to perform well, could that be in the form of increased funding to a point in time? I do not know. Let us leave that one for someone else far smarter than me to think about. There certainly should be disincentives for not performing well, because if you are not performing well and you continue to either borrow or put funding applications in to create new assets that is not going to contribute to your financial sustainability. Just as we have come from the position where we have been told not to borrow, it may be that the role of the department or someone else is to come in and say, ‘You’re not to put in a funding application.’

As Councillor Kelly knows, I recently made the comment that even though there is a round of bridge funding coming up, we do not necessarily have to apply for every piece of funding that is available. There may be times where you stop and say, ‘We’ll just stay where we are at the moment. Let’s use our day labour force to its full potential and everything else, but it may be in our best interests to wait.’ Whether that direction comes from another level of government that says, ‘Hold on. You’re performing that badly that we do not want you to dig a hole any further,’ or the other one turns around and says, ‘You’re doing really well. As a result of that we are going to make sure that QTC come in and show you how to do things even better.’ They could be the incentive, but again someone else is probably better placed than me to consider those.

Ms LEAHY: The council put the draft budget out for community consultation. Did the councillors have the opportunity to make submissions to the mayor in relation to what they wanted to see in the budget?

Mr Keenan: The councillors had a number of sessions where they worked in cooperation with the mayor. They spoke to the mayor and they gave advice to the mayor about what they wanted to see in the budget, and the mayor then communicated that to me. They were the parameters, and myself and the manager worked within the budget.

Ms LEAHY: You said earlier that funding programs require assets to be constructed rather than funding programs to renew old assets and replace and upgrade those. Has council done any retirement of assets?

Mr Keenan: Yes, we have retired a number of water and wastewater assets in relation to reservoirs and whatnot going through. Those assets have been retired. Albeit the properties were in a different class, we have certainly disposed of significant amounts of property in the last two years. In relation to other areas, we have taken down structures to reduce the risks associated with those assets as well and removed them from our asset liability as well. Have I missed any, Andrew?

Mr Page: No.

Mr Keenan: We have done that. We have also looked at the buildings we have. We are about to retire another depot because we will incorporate two into one in Stanthorpe. The separate one, which was water and wastewater and parks, will now be put back into the construction depot, so that will be centralised and those assets will go.

CHAIR: Time is about to expire. We appreciate you being here today. Thank you for your input. You have certainly got tough times ahead, but from listening to the evidence you have given here this morning it is good to see that you seem to be across it all and you know where you are going into the future. The best of luck with that, and once again thank you.

CHURCH, Mr Ian, Chief Executive Officer, Lockyer Valley Regional Council; Member, Local Government Managers Australia

de CHASTEL, Mr Brett, Chief Executive Officer, Noosa Shire Council; Director, Local Government Managers Australia

JARVIS, Ms Susan, General Manager, Blackall-Tambo Regional Council; Director, Local Government Managers Australia

PRATAP, Mr Arun, General Manager, Finance and Business Strategy, Toowoomba Regional Council; Member, Local Government Managers Australia

SMITH, Mr Bernard, Chief Executive Officer, Gympie Regional Council; Member, Local Government Managers Australia

CHAIR: I have to be frank with you: I have never heard of this organisation. How long has it existed? I was a councillor at one stage.

Mr de Chastel: It would have to go back over 50 years. It was originally the Institute of Municipal Management many, many years ago. It has had a couple of name changes over the years. It is currently Local Government Managers Australia. In Queensland we have over 400 members, essentially the CEOs and senior executives across all 77 councils, and a lot of councils are also members in their own right. It is essentially a membership based organisation looking at professional development, networking and making submissions to parliamentary inquiries. We are a non-political advocacy group. We do not deal with the policy side. It is more about applying practical experience in terms of what we have that can add some value. I suspect around this table there is over 100 years of local government experience at a senior executive level.

CHAIR: That is excellent. You have explained that and I appreciate it. Do you have an opening statement?

Mr de Chastel: Perhaps just a couple of brief comments. Susan and I are actually on the state executive of the LGMA and we talked about whether or not to put a submission in, but we thought we could provide the inquiry with some practical examples of some of the challenges that are being faced and perhaps some practical solutions as well. It is a really important topic. I talk to my colleagues, other CEOs at other councils, and I ask, 'What keeps you awake at night?' The answer normally is, 'The long-term financial sustainability of this industry.' I think it is good that you have an inquiry. We obviously have a written submission, and we can talk to that or answer questions on that later on.

I think some of the key messages we want to reinforce are that we urge the committee not to look at local government as one homogenous group. Local governments are so diverse. We have different councils sitting at this table who have different financial problems. We probably all have different issues, and I think it is sometimes a bit easy to make it too simplified and say, 'Here is a solution that is going to fix all the problems.' The problems are different at different councils. A western council that might be facing population decline is very different to the Gold Coast council which has infrastructure growth questions and debt. Looking at it as a homogenous group is probably not the right way to do it. You have to almost break it down into those categories. We certainly support the submission of the LGAQ in terms of the way they have gone about the categorisation in the report that they did a few years ago, which is good.

The other general comment we would make—and I guess we have to say this because we are CEOs and senior executives—is that there is probably a direct correlation between good governance in councils and good financial management. The councils that are well run, the ones that are open and transparent with good strategies, the ones that have consistent decision-making and a unified council, are probably dealing with their financial challenges better than those that do not have good governance. I think good governance is probably the lead indicator of good financial management. Sure, there are some underlying issues which we will talk about later in terms of vertical fiscal imbalance and the challenge to funding at different levels of government, but essentially a well-run council will eventually work out their financial problems. The councils that chop and change strategy or do not have good governance practices in place probably do not have good financial management either.

I do not want to take too much time just talking. The third one is the importance of asset management, because that is the nature of local government—which is quite different from the private sector or some of the other things you might compare it to—and the long-running nature of assets.

You are dealing with assets with a 40- or 50-year life and making decisions now that are going to affect what happens in 20 or 30 years time, and that is a very important thing. The big transition for local government was from a cash based accounting system back in the middle 1990s through to accrual through to asset management and ultimately trying to work out what services communities need. Do you want to go through the details or take questions? What is best for you?

CHAIR: Given all of your experience, I think there are a lot of things that we could learn from you individually but that will probably take us right out of time. We will see how we go with it. I might start off by asking: what does good governance mean to your organisation?

Mr de Chastel: It is a couple of things. It is about how councils go about decision-making, and a lot of that is about making decisions in the long-term, not just the short-term. It is about having a clear strategy that is connected with the community, so it is about the council and the community being as one about what is actually required in that region. That is about community engagement, development of corporate plans, community plans or whatever it might be, and getting on the same page about what the expectations are for the community and then running with it and not changing strategy every four years. When you get consistent decision-making that is where you get good decision-making.

The other thing is that—I have to be careful about how I say this because I do not want it to sound derogatory—councillors are obviously like a board of directors and they are thrust into a role where they have to make decisions about, in my council's case, a $100 million budget with $1 billion worth of assets, so how do we develop their skill set to be able to think like directors? In my case, I put them through the company director's course to get them to think strategically, and that has worked very successfully. When you have the council or the board making strategic, long-term decisions within a good governance framework with audit committees and things like that, then you tend to get better financial planning as well.

Mr Smith: Certainly a good understanding of roles and responsibilities is required. I have always said that particularly at the state and federal levels elected members normally come from the major parties with filtering systems and only the best and the right people get through. That is not the case at local government. We had 60 councillors in the last election. It is a bit like going to the shopping centre and saying, 'You, you, you and you, let's go to a council meeting and administer a $1 billion organisation.' That is democracy and that is an important principle, but the reality is that often those people need to be far better equipped.

We have certainly spoken to the department about the tricky issue of mandatory training. Certainly you cannot mandate who can stand, because people are elected. Does the ante need to be upped in terms of the training and the education of those elected members who now have enormous responsibilities? Ultimately, as Brett said, it is important. Both ourselves as officers and councillors understand the roles and responsibilities. It is not about tomorrow, it is about planning for the future and planning for their communities, understanding what the important decisions are. They need to have an organisation behind them which supports them, but certainly that is really important.

Mr Church: Good governance to me is about having a framework or frameworks in place across the organisation that assists everybody to make good, well-informed decisions and ensuring that the organisation has a culture whereby people make decisions on the basis of good data and they are informed. That would apply then to any financial issues that you might have. It would apply to any issues throughout the organisation. When those frameworks are in place and people are attuned to those frameworks, working within those frameworks and working towards achieving the strategic plans, then you get that consistency and you get decisions being made that are decisions based on data and science rather than anything else.

CHAIR: I think you said that all councils are members of the association?

Mr de Chastel: Pretty close to it, yes. I think it is 75 out of 77 or thereabouts. That includes the Indigenous councils, everything.

CHAIR: Excellent. You act as an advocate. What is the relationship between you and individual councils? Who initiates discussions if they are looking for guidance? Are you able to provide that guidance to start with?

Mr de Chastel: Often it is just done by way of network. If I have a question about governance I might ring up Ian or vice versa. We tend to have a network of CEOs and senior executives who are connected through our organisation that can assist with professional problems and problem-solving, sharing a lot of information, professional development opportunities and things like that.

CHAIR: If you were the CEO on the Southern Downs council, for example, and you were struggling a little bit and so were your councillors because they do not have a lot of experience, how do you know about the LGMA? It is all about making it the best we can, but you obviously have the experience and the knowledge and the willingness to make things happen. How would I know as a new CEO?

Mr de Chastel: You would normally ring your neighbour and find out what is going on. That is the way it often works.

Ms Jarvis: We also have a CEO of the organisation and we also have a mentoring program, so contact is normally made with the CEO of the LGMA, and then she will direct them to other senior members there and they will mentor that person as well. We also offer personal development training through LGMA trainers as well. There are professional—

CHAIR: This is all on top of what the local government department does?

Ms Jarvis: We work hand in hand a lot with the local government department and there is an open seat at each board meeting. We invite Greg Hallam or whoever to our board meetings and it is reciprocated to the policy executive. We attend as well.

Mr de Chastel: The main difference for us is that we focus on the CEO and senior executives, not councillors. That is the LGAQ's space.

Mr Smith: I think too it comes back to one of the most important decisions of council, and that is who employs the CEO. You have to make sure that you employ the right person, the one who has very current knowledge and is right for the organisation. Again that is a very difficult task because some councils try and go it alone, which may or may not work. Some engage professional assistance, but in the first instance you have to get the right person. Councils have to get the right person in that job, and hopefully they can fulfil the expectations of the council.

Ms LEAHY: The Queensland audit report and your submission state that councils should link their asset management plans to long-term forecasts, and that was not the case in 51 of the 77 councils in Queensland. I note in the submission you say that long-term financial plans are not relevant without a deep understanding of the council's asset management plan. Can you quantify for us exactly how those linkages should be made? What sorts of things are those linkages? I am trying to look for a quantity around those linkages between the long-term financial management plan and the asset management plan to try and explain exactly what that linkage is.

Mr Pratap: I think that asset management generally and depreciation as well are still the 'dark arts' within the local government sector and have been since 1993-95, when we went from cash based accounting to accrual based accounting. I think there are two reasons local government as a sector has not been so proactive and accomplished the linkage between asset management plans and long-term financial sustainability plans in the past.

First and foremost, there are two measures of success around sustainability. One is on the profit and loss statement, which is the depreciation expense. As I said, I think that is somewhat of a dark art and it is constrained by Australian accounting standards; that is, the depreciation expense is not necessarily reflective of the true degradation of infrastructure assets. Practitioners like myself would say that a long-life asset is depreciating in a certain way, but it is not reflective of what models or methodologies are made available to us under the accounting rules so there is a distancing of practitioners from using it. There is not that willingness to take it on because they do not 'get it'. They do not accept it. I think that is one of the reasons there has not been a strong drive within the local government sector to bring those two things together.

The other measure which is on the balance sheet of the equation, which is again constrained by Australian accounting standards, is this definition between new assets and renewal. I had the benefit of sitting here and listening to the previous speakers talk about 'shiny new things'. There is more reward and recognition in shiny and new rather than maintaining your existing infrastructure. In many cases new has a renewal component in it, but the accounting standards really only describe that as new. You have two measures that are being used on our financial sustainability that do not necessarily reflect the true picture. Practitioners, engineers and accountants within the local government sector can see that, so the drive is to want to use those—to stand in front of your council and communicate that this information means something—and effective decision-making under a governance model is part of that. It is hard for us to stand up and say that when we know that it is not necessarily the case. The linkage between the asset management plan and the long-term financial sustainability plan has that gap in it because there is this greyness in between and almost stopping it from being linked, if you like.

Ms LEAHY: How do we fix it?

Mr Pratap: I think we need a greater opportunity to use depreciation models or methodologies that accurately reflect the degradation curves of infrastructure assets. It is not a straight line; it is something else, but the standards do not allow that to occur. The Queensland Audit Office does a great job in ensuring that compliance with those standards or not is part of their remit and part of its reviews, but it should be provided with other options as should the local government sector. The same for new versus renewal, those definitions are very constrained and restricted and do not reflect the current state. Ultimately, I do not believe that the information that has been put forward in our financial statements, our annual reports, things of that nature and our general conversations with our elected members is truly reflective of what is happening. We earlier talked about good governance. Being the custodian of public moneys and maintaining that infrastructure network, that information is absolutely critical, and if we do not have the right tools to put it together then I think we are doing everybody a disservice.

Ms LEAHY: Mr Chair, with your permission, I would really like to explore what those other options and tools might be. Perhaps with the committee's permission, can I offer you the opportunity to come back on notice with maybe some of those options and tools to improve that? Obviously it is something that has been picked up in the audit report and it is a concerning issue. Rather than taking the time today, if you could come back on notice to us with that that would be wonderful.

Mr Pratap: Is that done in writing? I am not too sure of the process.

Ms LEAHY: Yes, it is.

CHAIR: It would be Wednesday, 5 July we would need that back if you could.

Ms LEAHY: It is about the solution to the problem?

Mr Smith: If I could add to that, in terms of the local government finance professionals' submission, I think everyone started to go to some of those points being made and it is a far more pragmatic, practical, orientated approach.

Mr CRAWFORD: My line of questioning is around the grants. I am looking at your submission at pages 5 and 6. I want to pick up on some of the comments and explore some of those. I am not sure who wants to answer—I will leave that up to you, Brett, but someone over there has to be an expert on grants.

Mr de Chastel: If it is an easy question, I will answer it.

Mr CRAWFORD: I note some comments in your submission where you talk about the department of local government refocussing their grants program using the best fit for community needs approach. Can someone give me a bit of background on that? What was it like before, how has it changed, why has it changed?

Mr de Chastel: Bernard, do you want to talk about Works for Queensland? That is probably a good example.

Mr Smith: Works for Queensland has provided a fair degree of flexibility. Certainly—and it goes to Brett's initial point about the diversity of local government—some councils' needs are very simple and basic in terms of their pressure points and where they need assistance. A program such as that has given them the opportunity to apply those funds where they see fit, whether it is a bit of a footpath or kerb and channel or a shade sail. Other councils may have applied for more strategic projects because they feel that that is the greater need. Also noted—and again it goes back to the diversity of local government and the varying needs—was the recent program around the budget support for Indigenous councils in terms of water and sewerage. That is a real issue and I think we all know that many of the Indigenous councils are financially challenged. That has given them the opportunities. It does reflect the varying and diverse needs of the councils rather than being bound very tight in a very specific grants program.

Mr CRAWFORD: I note you say in the same paragraph that each state department has a different grant acquittal return process with varying levels of complexity. Can we have some examples of that? Obviously we are talking about local government grants, sporting grants, different ones. Everyone is nodding, so someone can answer.

Mr de Chastel: I think every department has a different approach. Some of them are one page, some are 25 pages. The one page might be for $100,000 and the 25 pages might be for $10,000. It is all over the place.

Mr CRAWFORD: Consistency is what you are looking for, is that right?

Mr de Chastel: Credit to the DG, Frankie Carroll. He has taken this on as a project and is trying to do something about it. I really support him on that. Certainly the department of local government has been a lot better in the last year or two. If that can get rolled across the rest of the state agencies and get almost a risk based approach that would be useful. If it is a grant for $1 million, there should be a lot of detail. If it is a $25,000 grant for a library program that is going to run over a few weeks, you do not need a 50-page return. It is about horses for courses in terms of relativity.

Mr CRAWFORD: A consistent theme in a number of submissions is there not being a one-size-fits-all approach to governance of councils. Obviously we have spoken to Brisbane City Council and to smaller councils such as Aurukun. In relation to grants and how grants go out, as we have just discussed, is there the opportunity for a one-size-fits-all approach, or do we need to remodel it so that Brisbane does something different to Aurukun?

Mr Church: From my perspective, I do not think there is an opportunity for one size fits all, but I would be corrected by any in the group if they think otherwise. Grants are a double-edged sword in that they have traditionally been for new assets. That is something that needs to change. One of the issues we look at in our organisation is to say, 'Well, can we apply for a grant for something that is in our capital works program? Let us not stray outside of that because that capital works program is linked to our asset management plans et cetera. Let us ensure that we stay within that program, because we cannot afford something that is not in that program essentially.'

I cannot give you solutions in terms of how you might split them. It has to be around fit for purpose for the organisation depending on its needs in terms of where it is with its financial maturity. I think there has to be a lot more focus on providing grants for not operational expenditure but also, as Arun alluded to earlier, renewal of existing assets. We have a stock of assets, we know what the value of that stock of assets is, we know what we need to set aside each year to keep those assets in reasonable condition providing the services that they provide. Assistance with that is where the big gap is. Again, correct me if I am wrong, but I think that is where the infrastructure gap is. Focussing grants into that sort of side of our capital works would be quite helpful. I think that would particularly help smaller councils, because they do not have the rate base to ensure that their assets are kept up to any sort of reasonable stock. The smaller western councils survive on contracts with DTMR and other agencies. They do not have the rate money to keep their own asset base up to the standard that it should be kept up to in accordance with our asset management plan. Focusing grants in that area is important. For the larger councils or medium-size councils the focus should be on asset renewal, perhaps asset upgrade, but not necessarily new. If anyone else can jump in here, feel free.

Mr de Chastel: I will add one comment to that. Sometimes in local government and government we tend to complicate things a bit too much in terms of asset management and depreciation curves and all this sort of stuff. It is really no different to your own house. If your roof is leaking, are you going to build a new pool or fix the roof? Asset management is really about looking after what you have before you build something new. The grants programs have traditionally been to put the new pool in. It is very difficult for a council to say no to free money. I use the pool as an example. It probably costs $200,000 to $250,000 a year for a half decent pool in annual operating costs—and that is the cost to the community—so that free money is actually costing a couple of million dollars over 10 years. It is hard for councils to knock that back. At the same time, you are putting that $250,000 into the pool, but your roof is still leaking. Funding that meets the local community need, which may be about the renewal of the asset which is looking after the leaky roof, gives better solutions for the local community than the shiny new asset.

Mr Church: The case study in the financial sustainability paper, case study No. 5, is the Lockyer Valley Regional Council. It was before my time, I might add though. Council owned an old swimming pool and essentially decided they wanted to build a new one. They spent $12 million building a new one with no business case at all. They then essentially ended up leasing it out and paying all the costs. I can tell you it cost us a million dollars a year. That was a decision. There was no business case and there was no case saying, 'This is really needed by the community and it is something the community wants.' It was just done, essentially it seemed to be, at a whim. That is the sort of thing that we hope robust asset management plans and signing up to those plans will avoid in the future.

Mr CRAWFORD: Which brings me to my last question on the same issue. A number of councils have raised with us what we have just talked about where it is great to get grants to build new shiny things, but no-one takes into consideration the ongoing cost, whether it is a skate park that now has X amount of cost per annum to maintain it and so forth or something. During the grant application phase, is that teased out by any of the departments? Is there a process—I can see you shaking your heads—where government says to the council, 'How are you going to maintain this skate park or sewerage treatment plant? Show me the numbers.' Should that be there?

Mr Pratap: The answer is no. There is not proactive intervention by any of the funding bodies to look at the business case and the business benefits or the benefits behind these things. I applaud the Queensland Audit Office for taking more of a performance management mandate around ensuring that frameworks—again this issue of governance—in putting together business cases that are very thorough, have considered whole-of-life costs for the investment in any infrastructure, social infrastructure or hard infrastructure and is evidence of an awareness and an acceptance of the ongoing operational costs after the initial capital investment has been made. I applaud the Queensland Audit Office for doing that and for pushing that. I think the local government sector would benefit from that type of review and that type of oversight more so than just compliance with whether or not you have ticked off the right depreciation methodology or something like that. The sector has progressed past that. Contributing to the good governance and the good evidence based decisions of local authorities by taking a performance management approach to things of this nature would be of tremendous benefit. It is still a work in progress at the moment.

Mr PERRETT: In terms of grants and subsidies, they appear to me to be something that just come and go and councils hope they will get something out of it, particularly if it is contestable. There is no certainty around that, and that can particularly be at the whim of governments of the day, whether they are throwing money around or not. Of course local governments will say, 'Great, we will grab some of that.' It gets back to the vertical fiscal imbalance of funding within government and particularly for local government. You have clearly noted in your submission to this committee the imbalance that is there with the Commonwealth collecting 83 per cent of the tax revenue across this country, states 14 per cent and local government only three per cent. The last sentence of your submission says, 'The current revenue funding mix does not lead to long-term financially sustainable local government.'

That seems to be the crux of the problems that we deal with. We can talk about grants, subsidies and everything else that goes on, but it is the funding opportunities and mechanisms that are in place to fund local government and the legislative and community responsibilities that you have, and trying to do that without compromising the services that you offer, but, more particularly, it is the accounting processes and acquittals and the various things you have to go through—in other words, the box ticking—to get your green lights or your amber lights or whatever you are trying to achieve. I would really like your thoughts in and around that. I know this opens it up into a broad discussion about whether local government should be recognised in the Constitution to provide greater opportunities, but it really is becoming something that I think is a problem and, obviously, you have raised it here with this committee or within your submissions. I would like to hear about that.

Mr de Chastel: I will have a go. If you gave me a choice between constitutional recognition of local government or a change in the funding model, I would change the funding model any day of the week, because that is about the delivery of the service. That is why I said if you think about what keeps most CEOs awake at night, it is that 83, 14 and three percentage split. We cannot solve that. Local government cannot solve that and I think this state government on its own cannot solve that. It is really a COAG type discussion. If that is solved, a lot of our peripheral issues will probably be solved as well. I do not have the answer.

Coming back to your first point about the grants and subsidies, one thing that often happens is that councils chase grants because they do not have spare money. We might be going down this path and then say, 'Look, there is some money available over here because the state government has a grant program, let us go and do that.' That is where you need some real discipline. One of the previous speakers, David Keenan from Southern Downs, talked about not applying for grants if it is not what you are chasing. If you are actually chasing a program or a direction do not get distracted by chasing grants. If you have an answer as to how to solve the 83, 14 and three split, we would be delighted.

Mr PERRETT: I will throw this out there just as a point to maybe see if there is any response to it: a percentage of the GST revenue collected by the federal government should come back as a commitment directly to local government.

Mr de Chastel: That is what we put in our submission. The LGAQ policy position is a fixed percentage of GST. That is what we support as well. That would obviously break the cycle we are in at the moment.

Mr PERRETT: My next question deals with the ongoing devolution of responsibilities from high levels of government—be it federal, but mostly state government—back into local government and the associated costs. I note that you gave some examples within your submission in and around that. Is there any comment from your organisation about the concerns that you may have around that and how they should be highlighted to state or federal governments?

Ms Jarvis: Tony, as a member of a rural and remote council and also being on the board of the LGMA, I have done a lot research and have spoken to a lot of CEOs within Central Queensland and rural and remote Indigenous communities. The biggest impact on our budget is our commitment to the Land Protection Act where we have all those responsibilities as far as stock routes, wild dogs and noxious weeds. It impacts greatly on our general revenue. For example, Blackall-Tambo has a $3 million rate base. Out of that $3 million we dedicate $500,000 per year to our pest management commitment. Part of that is travelling stock where we employ three rangers who continually monitor the drovers making their 10 kilometres a day.

We receive funding for capital works for our water facilities to ensure the integrity of our routes are ready for travelling stock. As a local government we have to maintain those assets. That costs us money as well. In terms of any agistment that we get from the travelling stock or people agisting the stock routes for 28 days—they can re-apply for a further 28 days—50 per cent goes back to the Department of Natural Resources. We keep 50 and they get 50 back. We also are committed to wild dog control as far as we pay for scalps and for aerial baiting. These are huge costs associated with rural councils and we really just cannot afford it. It impacts greatly on the councils.

Mr Pratap: This is another example, as per our submission, where it is not necessarily one size fits all for local governments or for councils. The submission talks about us not having a problem per se with the devolution of responsibilities, but it is predicated on the subsequent devolution of the resources necessary to deliver those services. Speaking from Toowoomba's experience, we have been able to absorb that devolution of responsibility in years gone by, but every bit of room left in that sponge has been taken. We are in a position now where we are actively pushing back on various opportunities when it comes to devolution, simply because the resource is not there. From a principle point of view, if it were accompanied by resources I do not think local government would have an issue or a problem with it.

Ms Jarvis: The Biosecurity Act regulations were also reviewed last year. The responsibility to monitor pest control and also properties being compliant under the act was then placed on local government as well. I thought I would raise that as well.

Mr PERRETT: Just with that, do you think in your specific circumstance that you are getting ahead with respect to working in that land protection area or is it just trying to meet the minimum legislative obligations under those acts but really you are not making a real mark. I observe locally—and I fully understand what happens in our local council of Gympie—that they do their best, they are dealing with more and more problems and that it is a real challenge. New pests are coming in and there are additional responsibilities. What is required seems to be quite onerous without that necessary funding from the state. I am also mindful that currently the Agriculture and Environment Committee is conducting an inquiry into the roles and responsibilities around that across local government and departments.

Ms Jarvis: Yes, we receive no financial assistance at all. We also are responsible for crown land and for the spraying and upkeep of the town commons and our reserves in terms of wild dog control and noxious weeds. We have received no assistance. We are treading water at the moment. Most of our rural and remote councils do not have a rate base from which they can continually draw. It is a big imposition on our budget and we struggle.

Mr Church: From my experience of the Tablelands Regional Council and the Lockyer Valley Regional Council, no, we do not keep up with it all. It is core business for councils and it needs significantly more resourcing. Both animal and pest weeds are out of control, to be honest. We cannot keep up with it at all.

Mr PERRETT: My final question in this section is around council operating costs. I note some comments in and around industrial reforms and some of the pressures that places on you as managers. I would like your thoughts on whether there is anything that can be simplified around industrial reforms to make it less of a burden on your council operating?

Mr de Chastel: That is a tricky one to answer. What we are trying to say in our submission is that we are aware that within the state government there has been this to and fro between the previous government and the current government. That is what it is. For us that has created a sort of embargo period of not being able to negotiate locally. We have not been able to sit around the table and look at workplace reform because it has just been in a frozen environment. That has been pretty frustrating. I can probably use my own council's example. We are a start-up, we are only three years old. We are coming out of a de-amalgamation. In 3½ years we have not been able to sit around and get our own industrial agreement. We are still operating on the Sunshine Coast one. That has been frustrating and we are only at that point right now. I will not make comment about policy and whether the reform was good or bad. It is just the scenario that as councils one of our biggest operating costs is employee costs. We have not had the ability for a couple of years to negotiate at a local level in terms of what changes we want.

Mr PERRETT: I was interested to hear about whether there is any streamlining, what challenges you have around that and what certainties you would perhaps like. This committee will make recommendations to the parliament and that is why I was interested to hear that. I note within your submission that that is one of the challenges.

Mr de Chastel: I think the answer again comes back to one size does not fit all. What I would need for my employee agreement would be different to Blackall-Tambo, because we are a tourist town. We need to run 24/7, so our flexibility to manage swimming pools, lifeguards and things like that might be quite different to a rural area or whatever it might be. It is that flexibility at the local level to recognise that each council is different is probably the answer.

CHAIR: Why do you not have the ability to negotiate with regard to an EBA?

Mr de Chastel: We do now, but it is only the last three months. It has been a couple of years that we have been legislatively frozen out. We have not been able to negotiate for 2½ years.

CHAIR: I understand. I always have trouble with this, so bear with me. I am an old country boy. One of the biggest challenges facing local government is the vertical fiscal imbalance between the three levels of government. The current revenue funding mix does not lead to long-term financially sustainable local government. It is both the LGMA's and the LGAQ's policy position that local government should receive a fixed percentage of Commonwealth taxation revenue. Do you want to give us more detail on that?

Mr de Chastel: We have three per cent of the total taxation revenue, but we have a lot more responsibility than that in terms of maintaining asset bases, paying wages and things like that. As I said before in answer to the previous question, that has to be resolved—and that is not something that local can solve; it has to be a COAG level arrangement where the funding mix between the three levels of government is revisited.

CHAIR: You are acting as an advocacy group. Have you gone to anybody to raise this issue? Have you gone to the local government department in Queensland or spoken to the minister?

Mr de Chastel: We have talked to the LGAQ and we are on the same page as them as well. We do not lobby politicians; that is not our role. It is the LGAQ's role to lobby into the political arm, but we certainly support the notion that that funding mix is not right.

CHAIR: Is the LGAQ representing your concerns about this?

Mr de Chastel: Its submission says the same as ours and its policy position puts that forward as well.

CHAIR: Who are they talking to? Are they talking to anyone about their policy?

Mr de Chastel: You would have to ask the LGAQ that.

CHAIR: I knew I was trouble when I got halfway through that. I want to touch on disaster recovery and on the thresholds, which used to be about five per cent a few years back. Councils are now obliged to fund higher thresholds before funding kicks in. What can you tell us about that, and what sort of a problem is it to you?

Mr Church: From my perspective, are you talking about the trigger points that have to be achieved before funding kicks in?

CHAIR: Yes.

Mr Church: As with everything, it is a creep in that these sorts of things tend to go up but there is nothing to compensate you for that, so you have to absorb more and more of the expenditure being foisted upon you by a declared event. The whole natural disaster funding based on a declared event really has been subject to a whole ongoing discussion around the fact that it is both Commonwealth and state funding—I think it was 75-25—where the Commonwealth imposes certain conditions and the state essentially has to ensure that we comply with those conditions. One of the main things around that was the fact that the Commonwealth said, 'We want you to show value for money and the best way we believe you can show value for money is to use contractors to deliver the works.' That has been a major issue over the past few years. We feel we would much prefer to use our own labour force where and when we can—not cutting contractors out by any means—simply because they are there, on the ground and are available. They know the areas, we have the equipment mobilised and it is all there. That has been subject to a separate conversations with the Commonwealth, the QRA and the state. The QRA, in my experience anyway, has been very good and has backed us as much as they possibly could. I think the state has as well in that instance.

One of the other issues around that though is that the funding that is available for recovery from natural disasters is shrinking. For example, the NDRRA funding used to cover us for parks and gardens. If a park was flooded, washed out or cyclone damaged, you were covered for fixing that. That has gone now. You have to do your own. They used to cover pick-up of debris from certain areas. That has gone. Correct me if I am wrong—there are some discussions around this with plant and equipment—but they used to cover us going out with what we call emergent works such as the immediate clean-up after the event and they would pay us the rate for plant and equipment without really questioning it. Although now that has turned around to some extent, they went to the point of saying, 'We're not just going to pay you $50 an hour for use of that piece of equipment and that loader. Let's make it nice and easy and do that. No! We want to see how much you spent, how much fuel you've put in, how much oil you've put in, what the wages are for the driver for that time,' et cetera. They have backed off on that a little bit, so it is not just an increase in thresholds; it is a reduction of what fits into the criteria that you are able to claim and recover the money for.

CHAIR: Thank you; that was good. We have just come back from up in the gulf in the last couple of weeks and—from councils in my own area even—I get a bit of a feeling that local governments are overstating or overestimating the actual cost, because it is so important to them that they get that money to just keep their workforce on.

Mr Church: With regard to the two councils that I have been CEO of in the last few years, I have been very firm in saying, 'We will not do that. We will work with the QRA and we will make sure that we claim what is claimable,' to ensure that the relationship with the QRA is a good one and to ensure that we get funded for what we deserve to be funded for. I think that the ability to overclaim is probably relatively limited now in that the guidelines are quite strict around what you can and cannot claim. I think if local governments are doing that, they are wrong. It is ensuring that we all get a bad reputation. It does not help. There is only so much money to go around. It needs to be divvied up in a fair way, so I have always actively discouraged any of that sort of behaviour in our organisations.

CHAIR: I think we would all agree that it is wrong, but unfortunately the feeling I get—and I could be wrong—is that in some councils there is a dependence on that money to survive.

Mr Church: There has definitely been in the past because when day labour was allowed and events were getting declared, certainly in the north year on year, labour forces were increased, particularly up north. Cook shire is one example where the labour force was significantly increased to deal with those events and they just happened each year. When the new model came in saying that you could not use day labour, that created significant problems for them. Most have dealt with it by downsizing and understanding that we have to contract at this stage. Again, though, that is an argument that is still happening and I think there is now room for showing value for money for using your own labour.

Mr de Chastel: I will just share an anecdote. I often ask people the question of what keeps them awake at night. I remember having this discussion with a CEO from one of the gulf councils. I said, 'What keeps you wake at night?' He said, 'When I'm lying in bed at night during summer and I can't hear rain on the roof,' because that means they have not got a flood and he is not going to get his funding to keep his staff going that year. That is how dependent that council was on disaster funding.

CHAIR: That is a true story? You are not making that up?

Mr de Chastel: That is a true story. I do not want to name the council and the CEO, but that was a genuine thing that they could not survive without the annual flood.

CHAIR: Because you have come back with so many examples of that, I thought you might have been making it up.

Mr de Chastel: No.

CHAIR: No, I am just kidding with you.

Mr de Chastel: It was in the gulf.

Ms LEAHY: I want to explore the issue that you have raised in the submission about supporting the LGAQ policy position that local governments should be receiving a fixed share of the Commonwealth taxation revenue—namely, GST funds. How has that GST pool of funding been going? Has that been increasing or decreasing in recent times?

Mr de Chastel: I do not know the answer to that.

Ms LEAHY: I think there has been a bit of chatter about it decreasing. When the GST was introduced there was certainly that policy position from local government in Queensland, but I wonder whether that has changed given that I am not sure if it is the wisest thing to seek a share of a reduced funding pool or a pool that is reducing.

Mr de Chastel: I was very fortunate a few years ago to do an exchange to the USA for a local government exchange and the funding model over there is that local governments—and I am not advocating this by the way, but it is an interesting model—are set a local type of GST and then they get a percentage of that, and there is obviously competition to keep it low so you attract business and things like that. That same model applies that if you have a lot of economic activity the economy is going well so there is more GST paid and therefore the council becomes more financially sustainable. It is almost like an economic development model that applies in California in terms of how they get their funding sources through local government. As to how that needs to work in the Commonwealth level here, as I said, that is not really something that we as local government practitioners can give advice on because that is really between the states and the Commonwealth, and that is where that has to be resolved. The principle is that we need a stronger revenue base because the current revenue base with dependence on rates and charges is not sufficient to be able to cover the asset base.

Ms LEAHY: I might liven things up a bit now with cost shifting and devolution. You made a very strong statement in your submission that—

... the problem is that that the State doesn't have the resources—

and I will take that as state and federal—

... so the temptation is to offload their particular problem to local government.

I think that demonises devolution a bit. Devolution in some ways to allow local people to manage local services and local issues is a good thing in many ways. However, you usually find out about devolution to local government after it is done. There is no early warning trigger to say, 'This is the amount of money that it's going to cost local government.' I want to know why there has not been any work done to work out how to identify those early warning triggers. I also want to know if there are ways and means to quantify that. The state and federal governments have been around for a long time. There should be ways that local government can say, 'That's going to be the cost if that comes our direction,' because I think that would help probably slow down some of the cost shifting. It also gives the opportunity to state and local government to say, 'Okay, maybe it is better that the resources do go to local government and they do actually get to operate those particular services locally and have that local control.'

Mr de Chastel: Who wants to take that hand grenade?

Ms LEAHY: I thought it would liven things up a bit before lunch.

Ms Jarvis: Ann, I will give you an example. With regard to what you are saying, yes, I accept the fact that we have a passion obviously for our local community and we have a very good working relationship with most of the landholders and we do our best especially with the reserves that we are responsible for, the Crown land and our stock routes to really share that responsibility with them. Obviously under the act it is their responsibility to maintain a stock route and a stock-proof fence bordering a reserve, but we do our best to keep that relationship going and we carry the costs of that, and that is fine and you are talking about the devolution of cost shifting.

We had an incident where we had a rogue. In their defence, the drovers do the best for their stock. I have a passion for drovers. I think they are wonderful. They do a great job, but they pushed the boundaries. We withdrew a permit from them and said, 'No, we don't want you on our stock routes. You're doing the wrong thing.' They appealed to DNR and they got our decision overturned. We are getting all of the responsibility of maintaining the integrity of these routes and doing all of that with no financial assistance, except for the capital works that we have to then maintain and employ rangers to patrol these things, but then when we are challenged when we are enforcing these responsibilities we have been given we get overridden by the department and it leaves a little bit of a bad taste in our mouths. I do not know if that answers your question or not, but we do not get the financial assistance. That would be an ideal model—that is, the responsibility that we are given to police these things with revenue as well would be an ideal model, but at the moment it is not.

Ms LEAHY: Does anyone else want to answer? Part of the problem is that decisions are often made by state and federal governments. The issue is the cost shifts that come across that are unfunded. How are we going to get local government to quantify what those cost shifts are before they get there? I will come back to stock routes. There was a change in that legislation in terms of the methodology, but there was no regulatory impact statement. The worst cost shift you have is an uncosted cost shift. How do you get mechanisms in place to make sure that the state and federal governments can look at those changes in the legislative and the regulatory profile and work out what is the cost shift to local government? It happens in a really ad hoc manner, and you have even outlined that here in your submission. The stock routes are one example. There are some other examples you have given around asbestos and a few issues such as ECQ administrative costs. I bet there was no regulatory impact statement done about that. How do we do that? How do we fix it?

Mr de Chastel: Stop doing it.

Mr Pratap: Apart from stopping, as I mentioned before—and I think I might repeat a couple of things that have already been said—there are many local governments that I am aware of that would be willing to accept greater levels of responsibility that would improve services, activities and functions that are being delivered by other levels of government if there was a framework in understanding when and how that will be done, so some sort of formalised approach or understood structured approach to doing so. What we are frustrated about is that we tend to learn about these things right at the last minute with little or no engagement from wherever the function was being provided for, whether by the state or by the feds, for example. It is more like it has landed in our laps rather than it being done in a planned and transitioned way, which I think would add a great deal of value. If there was some sort of framework for saying, 'Here's an activity that's previously been delivered by the state government, but we think it'd be better delivered locally by local people', I think you would get a lot of buy-in from many local governments or many councils to do that, and that is where the determination of resource implications and costs could be done so everyone was doing so fully informed. With regard to how that is done—I know that is your question—I would think that that is a conversation to be started by LGAQ in the first instance, but there would be a lot of support for it I would think.

Mr Smith: It is a good question. Sometimes it is very subtle in that you see something and then you think, 'I know where this is heading,' and then it happens one or two years down the track. Another one is that—and the details are evading me—I think there are regulations coming in soon around on-site treatment plants and backflow prevention valves and all sorts of exciting things, but I think local government is going to be the responsible entity. Of course we either have to wear the cost or introduce a charge, so either way an impost comes back on to local government which is why now some councils are putting a new line in their rates notice—'state government imposed charges'—to try and distance themselves from the responsibilities they are assuming and which they then have to charge for.

Mr Church: Can I be frank? I think it is a discipline that has to be incorporated into the state's own mechanisms and workings, because different departments do it differently and often we end up with something that might be a grant funded position for 12 months or whatever and then suddenly community expectations are quite high so council decides to keep going with that. I think the elections are a classic example. When we are running the elections as returning officers the costs are halved. I understand the issues with ECQ and around why you might want ECQ to do them, but there was no discussion entered into with local government or even the LGAQ essentially; it was just done. My election costs went from $60,000 to about $130,000 or $140,000 per election and also suddenly we got this $10,000 or $12,000 a year contribution we make towards the administration of the local government electoral unit for the three years when there is no election. If there were discipline in the state government and a framework and a consistent approach to that between departments, I think that would help.

Ms LEAHY: What do you think that discipline and that framework might look like? Do you have any ideas what that might look like?

Mr Church: No, not off the top of my head. I think it is a discipline, firstly, in recognising that if you are going to shift the costs on to local government for something then there is a consequence. The consequence might be that if you are not shifting the resources with it local government has to pay for it somehow, so the discipline is enter into a dialogue with local government before that is going to happen so that we can talk. We are often happy to work in partnership. We are happy to work in partnership with state and federal governments to deliver services and we are often better placed to deliver services on the ground, as you have rightly said, because we have facilities and offices and we are there. I think the discipline is recognising there is a cost, entering into a dialogue with local government and then working through a partnership MOU type situation outcome.

Mr de Chastel: You mentioned before the term 'impact statement' or 'impact assessment'. I think that has hit the nail on the head. The other issue is that there is a really good model already out there about how the state and local councils can work together in terms of service provision, and that is the Regional Roads and Transport Group because that is where the state and local governments come together. The mums and dads out there do not know whether it is a local road or a state road. They do not care. They just want the road fixed, so it is how those regional roads and local roads intersect and how that decision is made together with the state agency and councils sitting around the table. That is a really good model in terms of how decisions can be made and get the best use of funds, whether it is ratepayers' funds or taxpayers' funds. It is a great governance model.

Ms LEAHY: Just following on from that, is it something that needs to evolve? I do not think there is any legislative or regulatory requirement on those particular roads groups, or is there something that needs to be done, say, in the *Cabinet Handbook*? I am aware that the *Cabinet Handbook* will say things like, 'There has to be consultation with rural and remote communities or the office of regional development for every cabinet submission.' Is there something that should be in there that says, 'Is there any cost shifting from this particular piece of legislation that is going through?' so every piece of legislation is checked by the local government department or something? Does it need to be prescribed or does it need to evolve?

Mr de Chastel: Personally, I think it needs to be prescribed or otherwise the discipline is not there.

Mr CRAWFORD: The previous council—Southern Downs—that was here made a comment that they believe that the department of local government should have additional responsibilities that allow them to intervene when the financial sustainability of a local government is at risk. One example they posted was that, when each of you prepare a budget, before that budget goes to your respective councillors for the vote it should be run past government in some way, shape or form and have some kind of tick off. I am interested in comments about that recommendation from them.

Mr de Chastel: We have not talked about that as a group, but I suspect we will have similar views.

Mr Church: My view is that I think if you are going to treat local government with a level of maturity, which I think we should, we should not be subject to that type of prescription and prescriptive sort of intervention. I think it goes deeper than that. It is really about educating both staff and councillors in terms of the importance of financial sustainability and working with them and us working with the state in a cooperative and partnership type way to achieve that. If you get too prescriptive then you defeat the purpose to an extent and I think people then find ways around that and the way they present things and it becomes another layer of bureaucracy on all of this sort of thing. I would love local government to be treated as a mature body, but it is really up to us in partnership with the state to get our house in order in terms of how we deal with these sorts of issues. There are fundamental principles to—feel free to jump in—good, long-term sustainability, whether it is financial sustainability or sustainability of your community and your organisation, but financial robust asset management is a must. Getting those asset management plans in place and then having the political will to follow them is an absolute must.

In terms of the good governance that was mentioned before and prudent financial management, considering intergenerational equity in the decisions that we make is absolutely important and how we deal with developers is important in ensuring long-term sustainability and the good governance of our regions. If we can just push those fundamental principles and work with the state, work with our councillors and work with our organisations to embed those things almost in terms of what we do, I think we can then—this is longer term obviously—move away from prescriptive type of solutions. They are my comments.

Mr Pratap: Just to add to that, from my perspective the unsustainability of a local government does not happen because of one annual budget. It is a sustained series of faux pas and there are already, in my view, the tools in place from the state government's point of view, whether it be the Queensland Audit Office or the department, to look at that, as well as the Queensland Treasury Corporation, I might add, that has not got a mention previously. Their 10-year models, which we are all encouraged to use and are very good, will demonstrate what is going to happen if the council maintains its operations within certain parameters or starts taking actions to address its financial sustainability circumstance. I think it is already there. The information is already there and it is already under tools that are being used by a lot of those oversight and regulatory agencies at the state level. I would not see any value in having an annual budget ticked off by the department or reviewed by the department.

Mr CRAWFORD: I want to pick up on one thing. You mentioned Queensland Treasury Corporation. When we heard from the last council they said to us that when they go to QTC for advice they have to pay for that advice. Is that right?

Mr Pratap: The Queensland Treasury Corporation in my most recent experience have changed their operating model. I think Philip Noble, the CEO, has been building a completely different organisation that now does not charge. In the past it has. For example, just to support my view, we just went through a full cost recovery model for our water and wastewater business and it cost nothing, and that would be several months of work on the part of our staff and their staff. The business benefit or the return on their investment is about greater levels of business value opportunities for other local authorities, so the learnings from our experience are then used under a consulting model which they then pass on to other local authorities. From my most recent experience, there is no charging anymore, or at least we have not been charged.

Mr CRAWFORD: Thank you.

Mr de Chastel: And I think we would all speak very highly of Queensland Treasury Corporation's support and assistance for local government and the tools and models they use. They are very good.

Mr PERRETT: I have a few more questions in the time we have left. Own source revenue has been identified in your submission. One of those is the removal of the capping on developer contributions. I want to hear a little bit more about that and the restrictions that places on your own source revenue.

Mr de Chastel: Just not recovering the true cost of development is the bottom line. It is not complicated. You can work out the cost of development of a subdivision or what an impact would be and there is a mandated cap on that and there is a shortfall, so effectively what that means is the general ratepayers are subsidising the cost of development.

Mr PERRETT: So the centralised rate capping is just simply not working and not advantageous to the ongoing financial sustainability of councils?

Mr Smith: Arguably it is not fair. I think that is the bottom line. At the end of the day, there is a cost to that development. If the little old lady who has owned a house for 50 years is in effect contributing to that, is that fair?

Mr PERRETT: I have another question about own source revenue about local governments being able to operate in a more commercial environment such as revenue-raising ventures and the like. I ask for some thoughts in and around that and some examples of where there may be commercial ventures that local government may be able to move into to improve their revenue.

Mr de Chastel: I will give an example from Noosa. We own a shopping centre. We own the Sunrise Beach shopping centre and have done for 25 years. We filled a community need. There was not a shopping centre in the area, so we moved in and built it and we hold that now 20-something years later and it provides a commercial return. The money we earn from that we do not have to get from our ratepayers, and we just treat it like a normal business. Most of the community would not know we own it; it is just there to provide an alternative revenue source and, as I said, it takes pressure off the rates. I am sure everyone else has similar stories in that they own commercial activities with caravan parks and things like that. The challenge is you cannot let that distract from your core business, and how you get that balance between trying to do too much of that, distorting the market so to speak, but at the same time having a revenue source that allows you to take pressure off the ratepayers?

Mr Church: Another challenge with some of this is for the community not to see you as providing unfair competition to other businesses by way of subsidising that business with ratepayers' money. I think you really need to be very careful with that, because I have experienced that in the past on a number of occasions.

Mr PERRETT: Yes, and I note in your submission that you have some caveats around that with respect to sound business principles and competitive neutral principles that would be involved in that.

Mr Church: Very important.

Mr de Chastel: There are two things that councils are rich in: one is land generally—for historical reasons we tend to own a lot of good land—and the second is information. I think both of those are where the opportunities are about trying to gather more revenue. As I said, the purpose of that revenue is simply to take pressure off the rates notice.

Ms Jarvis: As another side to that, we own and operate the Blackall Sale Yards where we have cattle and sheep sales and we have just got another grading. Where it does impact providing services as a regional and remote or rural and remote council is that we supply the services of a bank, a day care centre, health services, a funeral director and we own and operate the airport. They are all costs associated with rural councils where the bigger councils—and no disrespect to the bigger councils; good on them—have commercial businesses that come in which own, operate and provide those services. They are contrary to our core business, but as a community expectation we provide these services or otherwise we would not have them out in rural and remote councils. That is another impost on our budgets as well. The saleyards are about the only commercial business that we own that actually makes money. The day care centre and that do not.

CHAIR: What about the funeral service? You would have to make money on that, would you not?

Ms Jarvis: No actually.

CHAIR: Everybody is dying to get there!

Ms Jarvis: To be quite honest, it is a council decision to keep it local and to provide that service. We were looking at going to Longreach and maybe getting the undertaker there or in Emerald, which is about 500 kilometres away, to provide that service, but because it is so expensive it has been a decision of council that the council provide that service to keep costs low so that local people who are born and contributed to the community can be buried with a bit of dignity by their families and at a cheaper rate.

CHAIR: I just cannot understand why it is not user pays. If it costs $1,000 to do it, people have to pay for it. They do everywhere else.

Ms Jarvis: Yes, they do. It is a decision of council.

CHAIR: Fair enough. Sorry.

Mr de Chastel: If I can just follow on from Susan's comment, before I came back as CEO of Noosa shire 3½ years ago I was on the dark side for a few years doing some consulting and I ended up doing a fair bit of work with the Indigenous councils across Queensland on behalf of the department of local government. For me they are the most pure form of local government in Queensland because what they are doing is what Susan is doing but to the nth degree. Everything in town is the Indigenous council, so that is the ability to run the ATM machine, the Centrelink agency, the airport—you name it, everything in town. There is no state government agency; there is no Commonwealth government agency. Local government is the only government in town. How do they get a financial model that works for that when you do not have a rate base? The challenges that we are talking about are really nothing compared to the challenges the Indigenous councils face. That is a separate issue.

Mr PERRETT: I have a question in relation to your observations towards the end of the report. I will quote directly from the first dot point—

As professional local government officers, we are often surprised at the lack of understanding of local government's role by many public servants and the challenges faced at the frontline of service delivery to communities.

Then you go on to suggest that there needs to be a program of secondment of these departmental officers who do not understand what local government do out into the field to get a greater understanding. Presumably you have frustrations with departmental officers saying one thing but not knowing what it means to put it into practice on the ground. Maybe you could expand a little bit more on that and how that may work.

Mr Smith: I will start off with an anecdote. We have a chief financial officer now who worked with the Queensland Audit Office for 30 years—a very long time—and he made the comment recently that he caught up with a few of his former workmates and told them they all needed to get out into local government. I think the moral of that story was it is a totally different world. Having worked in other states, the relationship between the bureaucracy and the state government, whatever its flavour, generally is far better in Queensland than it is in other states. I was in one of those other states last week and they were bemoaning the attitude of the state government bureaucracy towards local government very much looking down their nose. At the end of the day, there is still nothing like standing in the middle of the paddock and looking around and getting a real feel for what is going on. I have not given any thought as to how it would work, but I think it would not take very long for there to be a, I will not say an awakening, but certainly a much better awareness. I am sure it goes both ways as well.

Mr de Chastel: I think local government is gritty. It is right at the coalface and some of the state bureaucrats probably deal in the abstract or the theoretical. That probably sums it up.

Mr PERRETT: You have given an example of a process between state and local government that does work. It centres around the Department of Transport and Main Roads and regional roads groups where there is a collective effort to understand the broader issues of road funding within the region. You are suggesting that that should be expanded further, particularly in the service delivery areas within communities where there is a common interest between state and local government. Do you have any comment in and around that and the successes that you see through the regional roads groups and other areas within government where it may apply?

Mr de Chastel: It is just a great model because it gets people round the table talking about the same issue from two different perspectives. I think there is actually a lack of what I call integrated government solutions. The three levels of government should come into it. I will pick Gympie and say what the issues are in that town. It is much like place making but at a different level. What are the issues that Gympie is facing, how can the Commonwealth deal with that, how can the state deal with that, how can the local government deal with that and have an integrated solution that cuts across all three levels of government. What tends to happen is you get one department look at it in a piecemeal fashion and the council is working on projects and there is not that integration in terms of service delivery for local communities between the three levels of government. The regional roads group is a very good example of where that works well on the roads issue and that model, where you get people working towards the same thing across different levels of government, is one I think could be explored across a whole range of departments.

Mr Smith: I suppose another angle of that is the role of ROCs, in particular in terms of smaller councils and supporting the smaller councils. You look at our instance of WBBROC incorporating Bundaberg, the Fraser Coast, ourselves and South Burnett. We are probably all big enough to look after ourselves, but I know North Burnett gets significant advantage. They particularly interact with Bundaberg. It goes back to the much earlier discussion about the ability—it was not a discussion, it was alluded to—to attract the right staff, have the right key people et cetera. I have often wondered whether the ROC structure should be formalised in some way. It can be a bit problematic. Some ROCs are very active and very good—I think RAPAD is one of them that seems to come up a lot—whereas others, and certainly WBBROC, were not doing too much until recent times. One of the real challenges in local government in Queensland is the smaller councils. Life is very tough on a number of fronts—it is just the way the world is.

Mr PERRETT: With the ROCs, and I ask this of the managers, there appears to be benefit in a collective effort rather than all beating a path down here to George Street to raise various local issues. Is that something that perhaps this committee could make recommendations around: about the importance of those ROCs and an elevated status of those or are you satisfied that they are working well at the moment?

Mr Smith: I think at the moment the successful ones are successful through having the right mayors and executive officer. Certainly in the WBBROC instance there is a picture in today's *Gympie Times* where they were all in Canberra at eight o'clock yesterday morning meeting the roads minister about the Bruce Highway. That is classic advocacy—representing 400,000 people on an issue which is important to Queensland, not just that group. I think it is something worth pursuing. Again, I go back to the smaller councils as well and how they stand the most to gain in terms of the ROC structure. Certainly in our particular area it is an important part, and an important part is that advocacy. We come down to this building twice a year and meet ministers and parliamentarians and so forth and it has worked well. In terms of local government, in terms of sustainability, forget about the advocacy side, in terms of supporting those smaller councils, I think there is enormous benefit.

CHAIR: You might have heard the Southern Downs council earlier talk about increasing their budget transparency by going out into the community and talking to people, telling them about the amount of money that is available, how it is all spent. Would you be able to give us some idea of what other practices are used amongst the councils that you guys represent, because transparency to me is a very important issue?

Mr Pratap: Just for clarity, are you talking about after the draft budget is prepared and the consultation thereafter or even in advance, from the very beginning?

CHAIR: Where we got the idea from is that for the past two years the draft budget has been placed on exhibition for feedback from the community. I guess it gets back to whatever stage you feel as though you should get the community on board. The old saying is take the community with you and you are going to have success.

Mr Pratap: In Toowoomba's experience, we invest all of our energies after the budget has been adopted in terms of selling it to the community or the awareness, the education around why the budget is what it looks like. What we do in advance is we sell the longer-term financial sustainability plan to the community. The annual budget is just that one point in time. We talk about the larger picture. We have a structured approach to engaging with our community which we call community conversation evenings, CCEs. We do this on a structured rotational basis around the 13,000 square kilometres that is the Toowoomba Regional Council area and we talk about that rather than the individual budget on any particular year. The question has not been raised or the notion has not been put to our council to say, well, let us actually use any part of the annual budget process to consult with the community, but there would be nothing to stop us from doing it. We feel as though that broader understanding of where the Toowoomba Regional Council is going and why, what the drivers are, and seeking community feedback then gives us lead time to adjust future budgets accordingly.

Mr Smith: Certainly in most other states local government has that requirement. New South Wales does. One of the challenges is always getting that true engagement. It is one thing to adopt a draft budget and stick it on the website and do all those things, but in terms of getting some true engagement with the broader community, apart from the people who want to engage with you all the time, that is the challenge. The state does not do it, the feds do not do it. One side of the argument is the council is there as the elected members, representatives of the people, to make those decisions. If you have got a good strategy in place, whether it is for your services or for your capital works, that has probably been through a public consultation process already and then the budget should fall out relatively easily. There are a few key settings the councillors need to think about, such as how much the rates will go up, but ultimately with good strategy, understanding of services, really there is a step before that which goes to how you go about reviewing your services and that is when you have the engagement with the community. Then it just flows into the budget process.

Ms Jarvis: I agree with Bernard. Ours is very much the same. We have seven councillors and we only have about 2,000 ratepayers in our whole community so a lot of times it is very much one-on-one with them so they have very clear ideas about community expectations. Most of that consultation is done via councillors. They come to us as bureaucrats. We discuss, like Bernard was saying, things like your rate rise, just telling them the practicalities of whether we can really afford this. We do a bit of a business case and say ideally that sounds wonderful, but in the long run that is going to cost X amount. They are happy then to go back to their constituents and say, 'No, look, that is not going to work and this is the reason.' That is the way we do our budget. Like I say, we only have a very small community.

CHAIR: You are quite happy that the transparency is there?

Ms Jarvis: Absolutely, yes. They make them very accountable, the councillors, if they are not.

Mr de Chastel: In our submission we also highlight the Southern Downs approach. The other one was what Noosa Shire Council did in relation to community juries, which is a bit left field. They are the only ones run in Queensland, where the council, politically more than legislatively, actually handed over the decision-making on where to spend money to the community. It was a big process in terms of how to set up a community jury, with 25 people working over six months. We have run through two juries now where the community has actually decided on a major initiative and that is going to cost the ratepayers. That was a prelude then into what goes into the budget.

CHAIR: Yes, but they understand that it is the community that is going to have to pay for it?

Mr de Chastel: Correct.

CHAIR: It is a lot easier for them to accept that.

Mr de Chastel: Correct. In one of the cases it has a $50-a-year increase on the rates notice which goes out in July this year.

Ms LEAHY: Does that have a line item saying 'decided by community jury'?

Mr de Chastel: No, it does not. That is just a blame thing. The council has taken the recommendation and run with it. It is to do with a third waste bin, a green bin.

Mr Church: Thanks for the question. I cannot really add any value because we do not take our budget out for any sort of consultation at all. That is something that we have just started a conversation about maybe doing. You have obviously got to decide how far the consultation goes, what type of consultation and how you are going to deal with the issues that are raised, whether you are able to accommodate some of the requests et cetera. There has to be a bit of a framework around it. Actually, our council is quite big on community consultation so we will take issues and we will go out and consult the community in an informed way. This is just another one that I think is probably a discussion worth having with our group, but, at this stage, and this is my first budget so I really have not got around the process much with this organisation, I do like Toowoomba's and I like the juries as well, although I do not know how they would fly in a regional agricultural area. I like Toowoomba's idea about the conversation because let us not just focus on one year, let us focus on the bigger picture. I will take some ideas from this group to mine.

CHAIR: I am glad we have been of help to you.

Mr Church: It has been very helpful, thank you.

CHAIR: Unfortunately, our time is up. I thank you for your input. It has been very informative. I think you do play an important role and you take that role seriously. You can deliver benefits to other local governments so keep going with it. I like the idea. I will say thanks again. We will probably have you back in the future. We will now have a break until 1.45 pm.

Proceedings suspended from 12.44 pm to 1.45 pm

SHAVE, Mr Michael, Director of Corporate Services, Noosa Council; Member, Local Government Finance Professionals

SPEARRITT, Mr David, Project Coordinator and Business Partner, Local Government Finance Professionals

CHAIR: Good afternoon, gentlemen, and thank you for being here to talk to us today. I am Jim Pearce, the member for Mirani and chair of the committee. Other committee members with me here today are: Ms Ann Leahy, the deputy chair and member for Warrego; Mr Craig Crawford, the member for Barron River; Mrs Brittany Lauga, the member for Keppel; and Mr Tony Perrett, the member for Gympie. The other member of the committee cannot be with us today. I now welcome representatives from Local Government Finance Professionals. Do you have an opening statement?

Mr Spearritt: I am not a committee member, but I am a technical adviser to the committee. Next January I will have had 40 years involvement in local government, starting with 15 years with the Brisbane City Council rising to the position of treasury director. I was director, financial review during the 1990s amalgamation and deputy local government commissioner for four years. I have been the chief finance director at the Ipswich City Council. Since 2001 I have been consulting to local governments and trying to help them out with their financial sustainability. I was the adviser to the Local Government Association on their business management assistance program, bringing in the National Competition Policy. I have been a government monitor for councils and a business coach appointed by government to councils to help them deal with financial stress. Basically, my patch is trying to help local governments become more sustainable.

The association itself was created in 1980. It started with about 20 members and now we have conferences of about 200 people. They run an annual conference dealing with issues like this. I ran a master class there on topics like depreciation and asset management. Last year it was on sustainable service levels and things like that. We are trying to be very much in the space that you are looking at. In July every year we have run a CFO forum for the chief finance officers of councils, so we get about 60 together to discuss the hot issues and see how they are going and how they are improving.

Michael used to be a competing consultant with AEC Group, and in 2011-12 my firm and AEC were given the job by the Local Government Association of preparing a report on factors affecting local government financial sustainability—a segment approach. That is the first time we think anyone has ever looked at local government sustainability by the different types of councils there are rather than one-size-fits-all. I understand that the committee has read the report so I will not go through it in detail. I also saw the Local Government Association's submission, which outlined the key issues that came out of that report.

If I may, I will outline what I think some of the challenges are. One of the things we highlighted in our submission is that there is a big imbalance between the relatively small revenue base of local government and the very large asset base with the number of assets they have to look after. It has one of the lowest ratios of any entity around. It is around eight to nine per cent revenue compared to assets. A private company dealing with infrastructure, like Origin, would have 20 per cent or something like that. We think about 10 to 12 per cent is sustainable, so it is a real pinch between the level of revenue and the number of assets that they have to look after.

On the revenue side there are big constraints. Governments of all persuasions have been gradually eroding parts of the revenue base, with caps on developer contribution fees and caps environmental fees and other fees. Grants from both levels of government have been reducing. That has put the pinch on and councils have had to put rates up. In 2006 the Productivity Commission did a review of rating capacity on local government. It said that councils across Australia were not using their capacity. They said that the average amount of rates generated by local government was 0.89 per cent of gross domestic product and the international average was one per cent; therefore, there was capacity to increase up towards one per cent. At that time Queensland local government rates were already at one per cent. I checked recently and they have gone up to about 1.15 per cent. In other words, that is a 15 per cent increase as a proportion of the economy.

My observation is that there is rating pain out there. Ratepayers are feeling it. You have a number of submissions from major stakeholders like property groups, shopping centres and resource councils all saying, 'Rates are high. Rates are going up.' That is an accurate comment: they are going up. That is because the other revenue sources are being crunched and the only leeway councils have, if you like, is to put the rates up. They are now getting to the point where ratepayers are getting hostile. They are electing councillors who are promising to keep rates down. The trouble is that if you keep the rates down you can pay for your services and payroll but you end up having to defer asset management and asset maintenance. They are in a real pinch trying to get enough revenue to maintain the very large asset base they are required to.

The other complexity in this is that the main source of revenue they have for services they cannot charge fees for, yet the main service they provide out of that is roads. Basically, we have a property tax primarily used to fund roads. The fuel levies go to the federal government, some of that is distributed back to the states on a per capita basis, and then the Grants Commission looks at roads and that. Queensland has a lot more roads per capita so, therefore, the Grants Commission here is not getting their share needed to adequately fund, so the cycle is broken. Whatever we say in the recommendations, as we did in 2012, and whatever the Audit Office is recommending, it is not able to address that core problem, which is that you have a real imbalance in the funding. You have massive asset responsibilities and an inability to raise the revenue to adequately look after those assets.

When I joined local government back in 1978 I was told that in our Federation we have three levels of government: the federal government has all the money; the state government has all the power; and the local governments have all the problems. That has increased. I have seen the transcripts and the submissions. A lot of councillors are talking about cost shifting and that sort of thing. 'Oh, there is a problem? Who looks after it?' 'Local government. Let's give it to local government.' In many ways I support that personally, because I think that is close to the people and they can deliver services that are tailored to the people. The trouble is that it comes without the revenue. We have been exacerbating that revenue and asset imbalance. I guess they are the large issues.

I want to put in context what 'sustainability' is. There is a lot of talk about financial sustainability at all levels of government. In our 2012 report we said that there are three levels of sustainability, or lack thereof. The first level is liquidity: can you pay the bills? That is what kills companies. That is what Greece is going through. They do not have the money to pay bills. The next level is solvency: do you have too much debt? Are you likely to get into trouble in the future? We see companies in trouble and they go broke eventually because they cannot pay the bills because the debt gets too high. The longer term is sustainability: if you defer maintenance. If you have a motor car and you never service it, it will not last as long as it will if you look after it well. It is the same with council assets. Sustainability is a long-term issue. It is really saying that you are paying your bills and you do not have too much debt. Frankly, local governments in Queensland do not have liquidity problems generally; they do not have solvency problems. What we have is a four-year electoral cycle with ratepayer pressure to keep the rates low or get them down. With 60-, 80- and 100-year assets it is so easy just to defer a year, but that accumulates and accumulates until it becomes an unsustainable situation.

We have some pretty wicked problems in amongst all this. This is not an easy task that you are undertaking. I must say, we do appreciate that you are taking it so seriously, having so many hearings and meetings and having a good, fresh look at it.

Mr Shave: From my perspective, being in local government and talking to my peers in our association and also through networking, assets filter through to everything. They filter through to your long-term financial planning. The majority of that is your 10-year capital program. How accurately are you forecasting? If you are a growth council, how good are your forecasts for growth and trunk infrastructure requirements, renewals and asset management as a whole? Can councils capture the condition of their assets? That is a challenge for Noosa. We are three years old now and we are still basically starting, because it is not easy. You have to get experts in and you have to build your own workforce capacity to do that. I think we flagged in our report that if a council like Noosa, and even some South-East Queensland councils, is struggling with that, how are the smaller rural, regional and remote Indigenous councils going to deal with this from a long-term perspective?

We mention that there is some sort of capacity-building support needed at some level to make it sustainable for them, otherwise it is going to be a year-on-year proposition to basically wait until certain things fail and then possibly come with our hand out, which happens. A lot of councils say, 'My sewage treatment plant has failed. Can I have some money?' Then the state has to come in and provide some support. In the long term that is not sustainable for anybody, especially when revenues are tight across-the-board. For me, asset management is the No. 1 issue facing councils for the foreseeable future, and that feeds into everything in terms of sustainability.

CHAIR: David, given the work that you have been doing, is there anything that really stands out with regard to how government might be able to fix these issues or at least make them a little bit easier for some local governments?

Mr Spearritt: We tried to address that in the 2012 report. We did make some recommendations—some aimed at local government, some aimed at the association and some aimed at the state government. It is not one single thing. I think there are a variety of things. Given that when we wrote that the state's finances were not much better than local governments', we tried to identify things where the state could use its powers—which it has a lot of as opposed to its dollars, which it was short of at the time—and they were things like strengthening council powers. Councils had been through court challenges with their rates and things like that. In the reviews that I do, and I know Michael used to do, sometimes data is hard to get on the mining capacity of a lease and that sort of thing. Government information availability would assist councils, also knowing that they had the power to levy various rates and things rather than face Supreme Court challenges.

In the 1990s, immediately after local government lost a court case on its rates, a minister said, 'We'll stand behind councils that are genuinely doing the right thing and defend councils' powers.' In other words, 'Don't try it on.' No minister of either political persuasion has said that in the last 20-odd years and court challenges are happening. The only time it did happen was with the Mackay case. There was midnight legislation put in to deal with that, largely because it affected a huge proportion of councils and I think something like $200 million worth of revenue was at stake, so it was a crisis.

Generally, it would help councils with their rating powers to tighten up some of the legislation. The planning legislation requires infrastructure plans and development charges. They are being constrained, but council's separate rating powers and special rating powers are not linked across the two acts. Legal advice received by some councils is that they cannot really use those powers easily to make that work. There are some powers that work in the legislative framework which could be improved. We have been talking to the director-general and the department and it has been very refreshing. He has been very open to a number of these ideas, so this is not meant as a criticism of the current management of the department. They have a lot of work to try and get on top of things, but there are some issues we have been raising with them where we think those powers could be improved.

Personally, there are other things but pigs might fly first. The state government uses council roads and does not pay anything for them. Councils have to pay car registration to use the state roads. There is a mismatch there. There is a principle that levels of government do not tax each other, but in many ways a fair amount of local government rates goes towards paying for the roads, and if the state is not paying for them and the feds are not paying for them it means that the other ratepayers are paying for them. When they look at what they get, they are paying for the state and federal government to use their roads—but, as I say, pigs might fly first.

The other area is grants. We tracked back to 1930 and found that there has always been some form of capital works subsidy, particularly for water and sewerage. There have been substantial subsidies of 20 to 40 per cent in most years—all years since 1930, except for the last two years of World War II until they were scrapped in recent years—so it has been a tradition and a funding base for local government to have water and sewerage fairly heavily subsidised. We would rather go away—if I can speak for the committee—from capital grants, which just increase the problem if you do not have revenue sources. A lot of the problems we see are in some of the smaller rural towns, where they were never really able to afford to put in a water treatment plant or sewage treatment plant. They had things like SCAP funding, the Small Community Assistance Program, with subsidies of 80 per cent or more. Now those subsidies are gone, things are due for replacement and they are wondering what is going to happen. As Michael said, they have the begging bowl out. I would prefer to see revenue come in which can be used for maintenance of those assets or for council purposes, so if government did find itself in a better financial situation, maybe through royalties and things—a revenue stream, particularly if it is paying for the services, paying a proportion of the road costs—then councils would have the income to pay for that rather than use the subsidy scheme.

CHAIR: In relation to asset management, my understanding is that local governments should be putting dollars aside to put themselves in a position to replace that piece of infrastructure when the time comes.

Mr Spearritt: You have just basically clearly articulated what the essence of asset management is and financial sustainability. It is the ability to fund the replacement at the optimal time.

CHAIR: How many local governments would be doing that?

Mr Spearritt: I guess the short answer is whether they are running an operating deficit or a surplus, but that is measuring against depreciation, which is how much an asset is being consumed, not what needs to be replaced. When you have 60-year assets you are consuming a bit all the time but you do not need to replace it for 60 years.

Probably the minority of councils have funds put aside in the longer term. Sometimes you may not want that. Should you really be rating your community now? I will use Rockhampton Barrage as an example. It has a 150-year life or something like that, which is beyond all our lifetimes, and when you get there you might find that technology means they can change it. What my firm does—and what I know Michael used to do—is look at the cash flows and look over the next 10 to 20 years and say, 'Are they generating enough to replace what is on the immediate horizon?' Then investigate it in the years coming up and ask, 'Can we tweak this?' In my time technology has changed. You mostly do not need to replace sewer pipes now. They can reline them much more cheaply. When you look at the life of it, on paper this asset is due to fall over in three years time but it is actually going quite well—or, 'We can do this to extend it, but it is broken now and we need to fix it.' It is a real guesstimate as to how long those assets will last.

Mr Shave: The high-growth councils might say, 'We want to use that cash to invest in growth assets rather than have it in the bank and borrow.' Rather than borrowing, they say, 'We will use some of that cash for new assets,' but then, as David said, in terms of their overall juggling they make sure how things look with their ratios and their modelling. Some of the bigger councils argue that they do not need to spend their depreciation amount, but they collect it in cash. They say that their assets are young and they do not need to spend that every year, so they are pumping that into the growth assets and saying that they will get some revenue from that. They do not want to particularly put that cash in the bank because the bean counters might say that is not efficient. It might be a cheaper way of funding the infrastructure than borrowing, so it is a bit of a juggling act.

I know that the Gympie council were a bit of a benchmark and still are. They were really disciplined with their financial management. They did have separate reserves for unspent depreciation, as it was called, but effectively they were putting cash in the bank. Gympie was spot on in terms of saying, 'We know we are going to have a problem in the next 10 or 20 years,' so they started building their cash up. I think now in Gympie they are starting to say that they have to start spending some of that. The cycle is turning a bit for Gympie, but they were a model example of a council that had its asset management and financials together. That is not the case for a lot of councils, and it is just the reality of where it is at.

Mr Spearritt: The other aspect is that it is not a finite thing. It is not 'this is the exact amount of money you need'. A lot depends on how well you know your assets and experimenting and trying different things. We used the Moreton Bay Regional Council as a case study at a conference in master class last year. They have done a lot of research on their roads, into what they can do as a first line of defence. They monitor their roads to make sure there are no cracks so that the water cannot get in and cause damage. That dramatically increases the length of a seal, and that means the length of the pavement and everything else goes out. Asset management is very much 'a stitch in time saves nine'. If you look after that first line of defence, like getting your car serviced, painting the house or crack sealing the roads, you can increase the life beyond what its design life might be.

CHAIR: I understand that the Gympie council has had some good councillors in the past.

Ms LEAHY: One of them is sitting at the end.

CHAIR: Oh, were you with Gympie?

Mr PERRETT: I might have looked after finance and admin for a period of time.

Mr Spearritt: Michael may have been a consultant to the council at the time.

CHAIR: I could be way off the mark, but we clearly recognise that local governments have the ability to raise revenue to either put in new infrastructure or maintain the infrastructure they have, and there are some councils that just cannot do it at all. They are in a very difficult situation. Is it time to start looking at putting those councils into two or three different categories—'You have the ability'; 'You have not'; 'We need to look after you more'—or is that just going to increase the pain for us in the future?

Mr Spearritt: No. In fact, in a lot of other states those sorts of areas are often regarded as unincorporated, so they become state administered areas because they do not have a rate base, if you like. In many ways, a lot of the Indigenous councils do not have a rate base. There is some talk about having limited rate bases there, but it probably still will not ever get to that point. In my discussions with QTC and others there are councils—particularly the more remote ones and many of the Indigenous ones—that will never have enough grants and external revenue to not be dependent on their own-source revenue. It is largely a fact of life.

Mr Shave: Some of them rely just on Main Roads work to keep the people employed. Their workforce does roadworks. Local government is a little bit unsure on a year-to-year basis, so they are going to get that work done and continue. I think there was a bit of discussion around whether that can be looked at from a state point of view in terms of firming up and providing some security to those councils.

Mr Spearritt: That is one of the areas we put in our submission where the state can assist. Councils have full-time staff, and they are buying plant which might last eight to 10 years to do Main Roads work. They are fairly dependent on it, but it is often annual work. We have been talking to the director-general about longer term contracts. They could maybe have a five-year program or five-year contract with TMR and those sorts of things. It is a bit like the funding agreements on education and health between state and federal. We cannot really see why that cannot also be on a more consistent basis. It is similarly the case with financial assistance grants. Why can they not be on a longer term to allow for a greater planning horizon? Councils are taking big risks with having plant tied up. I know that one council has two or three reclaimers which are about $500,000 each or more. They are mainly used for Main Roads work, and that could dry up next year if the work does not come through. There are financial risks out there in the mismatch between those assets used for providing government services and the length of the contracts.

Ms LEAHY: Thank you very much for coming in, gentlemen. The Queensland Audit Office has a proposal to introduce the ratio based on the proportion of the asset renewal which is being funded. You suggest that is a step in the right direction, but there is an interesting comment in your submission that ‘other ratios need to be changed’. Can you advise the committee which ratios they are and the reasoning behind the change for each of those?

Mr Spearritt: It goes back to the core difference between depreciation and the amount that needs to be spent on asset renewal. Two of the three ratios now effectively use depreciation. The operating surplus is basically the operating revenue less your operating expenses as a proportion of your revenue, but those expenses include depreciation. It does not really tell you if you are putting enough money aside to replace your assets. In the LGAQ report that we did, we recommended that it would be a better ratio to put in a 10-year average renewals need to calculate the operating surplus rather than the depreciation. That was the main other ratio. We were basically saying that you use a 10-year average renewals requirement rather than depreciation.

Depreciation is just really an accounting estimate of the amount of asset that has been consumed in a year. If you buy a brand-new car, when you press the brake you have used up some of that brake pad in a year, but you probably do not need to replace it for 10 years so it is depreciated that year. At the moment, the ratio for your brand-new car is unsustainable because you have not spent any renewals on it this year. Well, of course that is the case, but you need to put money aside so you can replace it when it is needed, if it is in the next 10- to 20-year horizon.

Mr Shave: The reality with that ratio in particular is that there would be some councils out there that have to spend double the depreciation they are collecting each year on renewals, just through the fact that their assets are in such a state that they would have to, but they do not have the capacity. Depreciation is not a bad proxy for determining where you sit in terms of renewing your assets but, as David said, it depends on the life cycle of your assets. If a council has newer assets, they do not have to replace them to that level. They would argue that that is not a good indicator for them. They might be 50 per cent—and that is fine for them—not 90 per cent, which is the benchmark in the regulation. Queensland Audit Office gives them a cross, and it is all about the numbers for the councils. From their perspective, they do not see that is a fair measure, and that is where you are getting a bit of push-back from some of those councils.

Mr Spearritt: Michael is right. I remember looking at Mount Morgan council many years ago before the amalgamation days and their renewals need was over double the amount of depreciation because things had collapsed pretty well. Johnstone shire was in the same sort of boat. That is when they became unsustainable because they were nowhere within cooee of being able to fund those renewals. As Michael said, measuring against depreciation was probably the right thing to do in the nineties when we did not know about our assets. Now is the time really, and I think QAO is very much on the right track, to flip that and say now let us look at how you are going against funding the renewals that you need. An old city, an old town with older assets might need a much higher ratio than, say, the Gold Coast or a new growth council such as Livingstone in Keppel.

Mr Shave: The effect of that is that some of those councils would be in a worse position. Depreciation does not actually reflect what they need to be doing. Their numbers would be even worse and there would probably be more alarm bells, which is probably not a bad thing. More alarm bells would be ringing for those councils and then you would have to have a serious look at them and say, 'Guys, what are you doing with asset management over the next 10 years?' There would be some discussion on how you are going to fund that replacement if they are not collecting the cash. That is a fundamental issue, is it not, in terms of those assets are just going to get worse and worse, they are not going to get replaced. That is the challenge with those ratios, I think. They are only approximate and at the moment the Audit Office is trying to basically give you a cross or a tick based on whether you are achieving those or not, but I think it is not that simple and that is the issue. The point earlier about maybe having different types of segments for councils is a way to start, maybe looking at basing it on what we are advocating, what you actually need to spend in the next 10 years on average or the next 20 years as part of your surplus ratio and your renewal ratio.

Mr Spearritt: Some of the ratios too, like the net financial liabilities ratio, is a bit one size fits all where they are set, I think, at a 60 per cent target. For a growth council like Livingstone shire that would mean they just cannot invest in any growth to stay within that ratio. They are providing assets for a future population not the current population and not the current revenue, but it is creating revenue for the future. Whereas a council in many of the rural shires, which have declining populations, they probably should have a lower ratio than that. That is why we have suggested moving to more financial market industry standard ratios like interest cover which is basically can you pay the debt, can you pay the interest, regardless of how big or small and what percentage it is in terms of debt.

One thing I often say about benchmarking ratios is it does not give you answers it gives you questions. It actually says this looks high or low or whatever, why is it so, and causes you to go and look at and see if there is something wrong or can we manage it. I think there is a bit of a mistake in some of the agencies where they look at these things and they say there is the answer, bang, your debt is too high when, in fact, it might be quite reasonable and able to be funded by growth or it could be under 60 per cent and still be a problem because it is the wrong assets. They might be building sports halls and things like that with a declining rate base and not have the ability to pay for it.

Mrs LAUGA: In your submission you say that you would support councils being encouraged to undertake high-level consultation over its budget decisions but that this should not be prescribed in legislation. Could you explain why you do not think something like that, which is so important, should not be prescribed in legislation?

Mr Shave: I think the general consensus was that your councillors are elected representatives of the community and from our perspective they make decisions on behalf of the community so rather than say you have to go out for consultation we would encourage it in terms of good transparency and community engagement. The councillors are there to do the job and that job is to make good decisions, especially in terms of budgeting and the allocation of resources, which is effectively your rates and fees. That is where we were heading there in terms of not mandating that in legislation.

Mrs LAUGA: You could still do that, still respect the fact that they are elected by the people and are community representatives and still have it enshrined in legislation.

Mr Shave: Yes. I suppose the only thing to consider is anything that is then legislated is resource hungry so it is an additional resource and if it is legislated then you have to do it and then that puts more pressure on a council to deliver that additional requirement. We thought a softer approach might be more appropriate.

Mr Spearritt: A bit depends on the nature of the council and how cohesive the community is, how cohesive the elected councillors are between each other where you have got different dynamics. As we have said in the submission, if it is done poorly you will simply raise expectations and raise demand for more services at lower rates and just increase the problem. Clearly councils have to consult with their communities on what their priorities are and try to find out the best mix of doing that within the budget each year.

Mr Chair, I believe you were once a councillor with Broadsound shire which was one of the few that still kept doing what used to be called divisional budgeting. They had three divisions and your budget was done in each division. That tends to constrain demand. That was largely banned in most other councils so it is the whole of quite big council areas now. You get the problem that a French economist in the 1700s, Bastiat, said, 'The state is an elaborate fiction where everyone tries to live at the expense of everyone else.' Consultation will often just raise that, if you do not have some self-reinforcing mechanism. If you go to buy a car, to use the car analogy again, and say, 'Look, I only want to pay $20,000, but my specs are Rolls Royce standards', you either pay for the Rolls Royce or you get a $20,000 car. In local government you can go, 'I want more, more, more and someone else should pay.' You do not have that direct cause and effect which you actually did. Dysart rates stayed in Dysart. If you asked for more you knew your rates were going up and that did temper demand. It does not happen now under the system.

Take Southern Downs as an example. I have done a rate review for them this year. They are out for community consultation. There are very different communities between Stanthorpe and Warwick and those other areas. Warwick people should pay, not Stanthorpe people, that sort of thing. We want better services than we have because they have better services. It makes it very complex. I am not saying it should not be done, but it is a difficult exercise and it can blow up if it is not done well. It is probably better to encourage experimentation in that area rather than mandating a one-size-fits-all approach.

Mr PERRETT: Thank you for being here today and giving us the opportunity to quiz and question you on your thoughts. The area that I would like to talk about is the ability of local governments to be able to raise revenue. We had Local Government Managers Australia representatives in earlier. They made specific reference in their submission to the vertical fiscal imbalance between federal, state and local governments: 83 per cent of the taxes in this country go to the federal government, 14 per cent is collected by state and three per cent by local government. David mentioned earlier rates being the primary way that local governments raise revenue, essentially through a property tax. I have always had the belief that it is probably one of the most unfair methods to be able to raise revenue because it is based on someone's perceived ability to pay rather than their actual ability.

I use the analogy of a pensioner that has a fixed amount of income who may be living next to someone in a similar sort of property that has a double income and has a greater ability to pay, or even in the rural sector where you get drought areas where properties have negative incomes for year after year after year yet they are still expected to pay. I would like to hear from you about that vertical fiscal imbalance and whether there is a broader issue here. We are talking about the smaller issues such as funding depreciation, but is there a real structural problem that is emerging in this state and in this country in and around the funding of local government?

Mr Spearritt: That reinforces, I guess, what I was saying in my introduction. There is that imbalance. The figures that are quoted are national averages. It is probably more extreme in Queensland because local governments do more of the water and sewerage and other infrastructure services whereas many of the Sydney and Melbourne councils get more into the human services, which are not asset driven. The imbalance is greater in Queensland and that is exacerbated by the problem I mentioned with the financial assistance grants distributed between the states on a per capita basis rather than road lengths or something.

I think the Commonwealth Grants Commission looked at that in the nineties, but it would have meant New South Wales council grants would have been about a quarter of what they were and Queensland's would have doubled. It was just such a big change it was like, 'Let's leave it alone.' There is that imbalance. That VFI has been around since Federation. As I say, there are not many solutions. I would like to see the way roads are funded shaken up and the financial assistance grant replaced with a roads based grant like the R2R—that is, there is an identified road component in there. As I say, that would mean that New South Wales councils would get a lot less than they are now and Queensland's councils would get more. Then you would get that nexus.

The other thing you mentioned was the ability and capacity to pay. I actually did my master's thesis on local government revenue services. It is a bit like what Churchill said about democracy, 'It is the worst ever system except for everything else that has been tried.' Generally, because people try to avoid taxes, a property that cannot be moved is the base on which local government is best taxing. It is pretty well regarded that one on land value like we have is the least economically distortional and Ken Henry in his review actually recommended moving away from things like stamp duties and more to land taxes which is pretty well what rates are.

The other thing about council rates is there are two principles in public finance about a good tax, it is either ability to pay or benefit related service, user-pays or whatever. Local government rates are about right in the middle of that. If you get more council services, you get better roads, if you have buses in Brisbane, that sort of thing, your property value goes up so fair enough your rates go up, but if you have got a view of the Brisbane River or something like that or you are a low-lying area and you get flooded your value goes up or down. That has nothing to do with council services. It is a bit benefit related and it is a bit ability to pay, and just enough to confuse everybody. It makes it very hard for councillors to explain why rates are so high.

The other thing about it is it is the most visible level of tax of any level of government. Most of the federal taxes are stealth taxes. You probably find out when you do your tax return how much income tax you pay, but you do not see it. It is gone before you get it in your pay. GST, if you really wanted to add up every payment you made, you could work it out, but you really do not know. You do not know how much fuel tax you are paying. All the other taxes are pretty well hidden.

Local government is the only one that has got one, bang, in your face—I have to save up for this, and the services are also visible: what do I get. People really want to see something for their money because it is so in their face. It really means you do need to have a good explanation and a good story. An example where that was given is this. I helped Toowoomba Regional Council, seven shires into one plus Toowoomba City, and rating fear was the No. 1 issue in their first election. We said let us make it based on level of service and intensity of farming. If you they do broad hectare farming, they all paid the same rates whereas if they have feedlots well then that is more intensive, they use the roads more et cetera. Council had a story and could say, 'You will pay more rates because you have more trucks using the roads, and that sort of thing.' That is very hard to do. It requires a lot of work by councils—a lot of explanation. It is a very complex area. You have the submission saying rates are going up too high. That is just the tip of the iceberg. I would say that residential ratepayers and other ratepayers are feeling the same thing which is why they are electing councillors who are promising to keep rates down.

Mr PERRETT: I have one further question—and I think it was touched on before—relating to the capital works subsidies that you mentioned dating back to 1930 but which were removed in 2009-10. They were a steady stream and a reliable source of subsidy into key infrastructure that is required within small and large communities. Is that something that should be reconsidered by government rather than the processes now? Funding streams come out at the drop of a hat from state governments that seem appealing at the time but in a lot of cases are contestable, or you get this amount of money and you have to deliver this project within this period of time so everyone rushes around to try and do what they can do but at the end of the day it might not be the best use of taxpayers' money but, more importantly, important to those communities. I ask for your thoughts in and around those capital works subsidies—and you touched on the SCAP funding—and whether that is something that this committee may recommend back to government.

Mr Shave: We have started talking to the DILGP—it is very early stages yet—potentially saying that we think asset management is the biggest issue, so having some grant funding programs but starting to divert funds for asset renewal or even operational asset management in terms of maintenance. There are a lot of councils with community halls. We are no different in Noosa. We are starting to have to spend a lot of money on fixing up stairs that are rotted and repainting. We are spending $50,000 fixing the Pomona school of arts roof at the moment. It is full of asbestos, so you can double anything with asbestos, and there would be a lot of that out there.

Instead of a competitive funding pool that is released ad hoc, is there some sort of allocation or an ongoing program—and this will help sustainability with councils—that they can rely upon? Even if there is criteria around having asset management plans in place or in development, there should be some funding for renewals because you are not building new things, and that is half the problem. Councils build new things. They do not do proper costing, and I think one of them was a project decision framework.

We all know that if council gets a nice bucket of money from the state for a new pool, what is the total cost of that pool over the next 20 years? That is the cost that councils have to fund—the maintenance, the staff and so on. We need to pull it back and say, 'What have we got at the moment—what do councils have on the ground—and how do we maintain that?' Our direction is that funding should be directed towards fixing up what we have rather than building new. I think in the past it has all been directed at the ribbon-cutting type projects rather than the bland things like fixing a building roof or a water treatment plant renewal and things like that. That ties back into those capital programs previously where they were funding things like sewerage treatment plant renewals and upgrades.

Mr Spearritt: I think if you were to take a survey or ask all of the councils—and I know you have met with a lot of councils—they would all say to bring back all of that capital funding because it hurt when they lost it. The big imbalance I outlined at the beginning—and it was outlined in the LGAQ's evidence initially—is low revenue for a lot of assets. If you are providing a subsidy for assets, you are really providing an incentive to provide more assets than you need necessarily or where there is a revenue business case. I would prefer to see incentives to get that balance a bit better and, as I outlined, it would be nice if the state paid rates to council or at least for the roads because then they would have the revenue. If it were related just to road use, say, or use of council services, then it is not seen as a tax. Rather, it would be that this is what it costs per capita or whatever or the number of staff needed versus how much other businesses are paying for rates on an equivalent basis. It is then giving them revenue and they can then make a business case decision on what assets to invest in and it would help get that balance right but, as I say, pigs might fly in my time before it happens.

The state's finances are getting into better shape. I understand there is some short-term pain to do with cyclone costs and loss of royalties and that, but structurally it is back in balance, unlike most local governments where a lot of them are not able to get in that situation. I think it is arguable that the tide has turned from that time in 2009-10 when it is acknowledged there was a crisis and councils had been amalgamated. I think 'stronger councils' was the term used. I think they are stronger, but they have not got that much money still to deal with these problems. Strength is often in the professionalism and the ability to analyse things and get information, but it has not doubled their revenue. It has not created that extra ability there and other impositions—better governance and things like that and having to do more asset management and those things—have really chewed up the resources from the duplication in terms of economies of scale. Staffing levels overall are around about the same, if not slightly higher on a per capita basis, so when the finances suit I would prefer to see it more into long-term funding agreements and on the revenue side as opposed to encouraging more assets to be built that may not necessarily be the best investment decisions.

The old schemes like SCAP funding were really creating an accident waiting to happen because it was only for new assets. Eventually after 60 years or whatever, those treatment plants would have to be replaced. If they could not afford more than, say, 20 per cent in the first instance, how are they going to afford 100 per cent of the replacement, and many of those communities are in decline? The rates base is not growing. Their economy is not growing. The population is getting older. They are in a world of pain and either government is going to have to bail them out or ideally get some structural solution where you rebalance the revenue, particularly if the state gets something for it as in access to roads, just like councils pay car registration.

Mr CRAWFORD: I have a question relating to the consultation issue we were on before. In your submission in the first paragraph you say that poorly planned community engagement will only raise expectations for higher unaffordable service levels, and you also talk about elected officials feeling pressure to deliver. You also talk about a risk that the people who attend the consultation sessions have a vested interest in additional services to benefit themselves and may not reflect the wishes of the silent majority. How does a council, if they do want to take their budget on the road to the people, try and balance that up? Obviously being elected officials ourselves we know what it is like. We want the shiny new things—that is a normal sort of thing—but how do they work out what the silent majority really want? Do you have any ideas?

Mr Spearritt: It was happening in my time in both Brisbane and Ipswich city councils where they did extensive community surveys, so you are trying to get to the broader community and not just those who have a vested interest or whatever. One of the problems—and I am sure that all elected people such as yourselves are familiar with this—is that there is a big, silent majority out there and they do not come to you. You have to somehow find them and tap into them. The ones who will tend to come to you will be a mixture of those who want to live at someone else's expense or those who complain about everything. It is the silent majority who sit back, which is probably about 80 per cent of the population, and somehow you have to reach out to them.

In Brisbane Jim Soorley and mayors like that used to go to fetes and talk to people. They would go out to the community—get out to community groups—rather than have a public meeting and then those who feel the need to have their input, which is usually a vested interest or habitual complainers, come in. It is more tapping into the broader community through surveys, through meetings or going to existing community meetings and those sorts of things and just getting a feel of broader communities as opposed to those who come into a special meeting or something like that. As I say, at Ipswich we did extensive community surveys on priorities. For Livingstone shire prior to amalgamation we did surveys of forced choice. One problem with a lot of surveys is that they are like a free ice-cream survey: would you like a free ice-cream? Of course! We asked, 'What's more important to you—parks or roads? What's more important—roads or customer service centres? What's more important?' You go around the circle and find out the ranking of the real priorities that we need to put our money into. We have to find out the forced choice, if you like, of what the highest priorities are.

The other problem is that sometimes communities are not even aware of what services are provided. I remember in the first survey we did at Ipswich on community priorities one question—it was an open question—was, 'What's the best service provided by council?', and it was the trains! We were very appreciative we got credit for it, but if they do not know who runs the trains are they likely to know which is a state road versus a council road and that type of thing? Local governments provide 150-odd services. It is very hard to expect the community to know all of those services and what is the priority. I remember looking at boundary changes. You would have some ratepayers come along and go, 'We don't use the libraries.' You would go and look and the ratepayer may not, but their wives and children were. Even the awareness of what services they use can often be distorted. It is very complex given that there are such a huge range of services provided.

Mr Shave: The challenge that I see with engaging with the community on service levels is—and Noosa is just starting down this track in the next financial year—documenting our service levels. We inherently know what our service levels are in terms of, 'This is what we're doing at the moment. We're mowing the parks on this cycle. We're fixing X number of potholes per year. We're running two libraries, three community centres,' but we do not actually have them documented and we cannot specifically go to the community and say, 'All right. If you want the parks mowed fortnightly instead of monthly, this is how much it's going to cost. Are you happy to pay that in your rates next year?' I think that is where you would get your buy-in from the community because then they would make a decision pretty quickly in that they would say, 'I'm not paying another $20 a year. I'm happy with the parks to be mowed monthly.' We want to open the libraries on weekends. How much is that going to cost? It is going to cost an extra X dollars per year, and that is where we need to get to as a council.

I think a lot of councils are in the same boat where you do not have a service catalogue where you can just put it in front of your councillors as well and say, 'This is what it's costing us to run business as usual,' let alone a new service. New services are a whole new kettle of fish where you would have to go to your community. Rather than just implementing a new service, you would actually ask them, 'Generally everything costs money. Are you guys happy to pay this extra $20 a year?' I think that is where you would get your buy-in from the community in terms of rates.

Mr Spearritt: To give an example, I mentioned that survey done for Livingstone, I think, in 2006 and at the time Livingstone had recycling drop-off points around the shire. They did not have kerbside. We had some people coming to councillors and saying, 'We should have kerbside collection.' Others would say, 'It's a waste of money. We shouldn't do it at all.' The survey question posed three options: drop the service and you will save $1 a week in your rates, stay with the status quo with no change in rates, or start kerbside collection for an extra $2 a week in your rates. The answer was almost like 30/30/40. Forty per cent wanted the status quo, but it was less than the majority, but you got a sensible answer back because we asked, 'Are you prepared to pay? How much do you really want to save?' It helped inform the community. Someone came in and said that they had recently asked for kerbside collection. We said, 'You're one of the 30 per cent. Yes, there's a lot of you, but what are we going to do? Most of the community said they didn't want to pay another $2 a week.' They now have kerbside collection after the amalgamation. That is the sort of more informed decision-making which you can often get through surveys, but if you just have public meetings you probably will not get that sort of insight. I hope that helps.

The other thing in terms of focusing on consultation on a budget, a budget being only for one year, I know some of the earlier submissions—LGAQ and I think perhaps even ours—mentioned that local government assets' value—the written down value—is about 11 times the annual operating expenses. When I am talking with financial management councillors I often say, 'So does that mean you spend 11 times more of your time on asset management than you do on looking at your budget?' They usually laugh—fall off their chairs, in fact—because it is the other way around, but really the consultation ought to be about the assets and the facilities that are being provided, because that is what drives your costs and often the revenues too. The question ought to be: what level of service do you want in terms of your assets—bigger roads or do you want community facilities or town halls or community halls and those sorts of things? Where are the community priorities in terms of the facilities they need? Then you get better guidance on what people are prepared to pay for, because a lot of councils are shocked.

New councillors come in and think, 'Big budget. Right. We should be able to save lots of money,' and they find that 90 per cent is fixed costs locked in and you cannot do anything about it. There is very little discretion, largely because the local government assets are what drives the cost structure of councils. The real question ought to be, 'Can you get better decisions on what assets to provide, whether you contract manage them well, avoid variations, you maintain them well.' All those things drive the council's cost structure, so they should be focussing on asset management, not the budget. The budget is too late. That is just putting together the numbers, if you like, of the decisions that have been taken in relation to assets.

CHAIR: Thank you, gentlemen. Our time has expired. I appreciate your very valuable input.

MOUNTFORD, Mr Chris, Queensland Executive Director, Property Council of Australia

CHAIR: Welcome to our hearing this afternoon. Do you have an opening statement?

Mr Mountford: Firstly, thank you for the opportunity to be here and to speak today. From our perspective, the financial sustainability of local government should not just be a question of whether a council's revenue can meet its expenditure. As you would have read in our submission, it is equally as important to consider how that revenue is raised when thinking about the financial practices of local government. The Property Council represents large owners of property across Queensland across all property asset classes—commercial, industrial, retail, retirement, residential, tourism, assets et cetera. Our members regularly report volatile, unpredictable and unfair rating practices by local governments right across the state.

It is certainly not uncommon to see a council increase its residential rates by CPI or below, but for a commercial property owner in the same local government area to experience extreme rate increases in the same year. As you would have read in our submission, we saw one example where a commercial property owner saw their rates increase by 470 per cent in one year. You can imagine what that level of increase would do to a business's ability to budget and to meet its financial obligations, particularly when you consider the fact that there is nothing stopping a local government from doing exactly the same thing again the following financial year. There is a huge lack of certainty for property owners in that space.

We contend that no other level of government would be able to get away with such extreme taxation variations in a given year. We think this is an abuse of the powers under the Local Government Act to set differential and minimum rates. Rather than being used to ensure rates are paid by a landholder that reflect the resources that they are consuming from council, they are being used to target specific landholders who councils believe can rather than should pay more to the council. There are currently no legislative restrictions or even guidance for councils about how to use minimum and differential rating. Previous changes to the legislation took away some protections around targeting owners on their capacity to pay. I also note that submissions of the Shopping Centre Council, the Queensland Farmers' Federation and Queensland Resources Council raise similar issues to those we have raised.

In our view, many of the rating practices of councils are tactical and political, which we believe reinforces the Auditor-General's view that local governments are not properly undertaking long-term financial forecasting. There is also no transparency into how differential rating categories are established or minimum rates set. It is for these reasons that we believe the committee should recommend statutory guidance on how local governments can apply minimum and differential rating in Queensland. This should include the ability of property owners to appeal their rates if they believe this is not being applied properly. This would be consistent with approaches in other jurisdictions, such as Victoria, which have had a ministerial guideline in place since around 2013 on the use of differential rating.

To be quite clear about that, we do not believe that rate capping should be introduced in Queensland as it is in some other jurisdictions. Councils should continue to have the ability to set their rates, but there should be some parameters under which that occurs that ensures it is done fairly and equitably across ratepayers within the community. This would obviously be of benefit to property owners who would hopefully experience more predictable tax increases, but we believe it also would be fundamentally more beneficial to local government as well because needing to apply that level of discipline would undoubtedly support the objectives in the Auditor-General's report about improving the long-term financial sustainability and practices of local government in managing their tax base.

CHAIR: With the application of rates across a council, is it fair to ask people who use fewer services than another group of people to pay the same rate?

Mr Mountford: Our view is that the rates should reflect in some way the services provided by council and how much they are consumed by that ratepayer. When we think about differential rating, there is a solid rationale for having different rating categories. A home owner consumes council services differently to an industrial property owner, and the rates should reflect those differences. We think there is a rationale for broader categorisation that way, but not necessarily narrowing down as we quite often see is the case into individual property owners and their capacity to pay. There is quite a number of examples around the state where there are rating categories that only have one property in them. Those rating categories specifically target a particular owner to pay more. We do not think that is fair.

I will provide an example of how in some ways it is confusing for us to interpret as well. If you look at the Brisbane City Council budget that was handed down last week, there are 23 different rating categories just for the CBD, and that does not include retail properties. That is just for commercial buildings in the CBD. There is a commercial tower on 120 Edward Street—so a couple of hundred metres from here—that is in category 5b, while one about 50 metres down the road at 60 Edward Street is in category 5c. They are both the same land size, approximately 1,800 square metres, and the Valuer-General has valued both of those blocks at about the same value of $26 million yet the property in category 5b has a rate in the dollar of 1.0632 cents while the property in category 5c has a rate in the dollar of 0.9574 cents. However, the property that is in the rating category that has the lower rate in the dollar actually has a higher minimum rate set, so it has a minimum rate of $242,000, while the other property has a minimum rate of $222,000. Effectively, we have two like properties nearby each other, same land size, same value by the Valuer-General but different rate in the dollar and different minimum rating applied to each.

There is nothing in the council budget that explains why that is the case. There may well be a very good reason. There might be an easement or something else that they believe affects the rates that should be paid, but there is simply no explanation as to why two like properties in the same area are fundamentally rated differently. That is the sort of challenge we see right across the state.

CHAIR: A lot of people are following what is happening with this inquiry. Can you give a simple explanation of differential rating because it is very hard for most people to understand?

Mr Mountford: No problem. From our perspective, the way differential rating should be applied is basically to identify large categories of land users in a local government area so you can set a rate for that land user. You should potentially have a rating category for residential property owners who all will pay a certain rate in the dollar because they are residential property owners, and you have made that assessment based on what you believe is a fair contribution of that landholder category in your local government area towards the total rates cost of that council. That would be distinct from a retail property owner who you believe should sit in a separate differential rating category and should have a separate rate in the dollar applied to the value of their land. That would be different to industrial property land users and potentially to retirement village operators and the like. You could certainly see and understand a scenario where different land users consume council services slightly differently and therefore should pay a slightly different amount, but we do not see the rationale for hundreds of different rating categories in local governments whereby it is very hard to work out why some fall into some categories.

Ms LEAHY: I want to pick up on your comment about not understanding the reasoning behind why some councils have a significant number of differential rating categories. Some councils also have lots of different land uses and significant areas across their council areas. This might be a situation where we have a one size fits all that might be contributing to that. Can you outline how the suggestions in your submission would contribute to the long-term financial sustainability of local government?

Mr Mountford: Certainly. We have particularly drawn our recommendations around the Victorian example of a ministerial guideline that provides greater levels of guidance to local governments on how they should set the minimum differential rating. The guideline states:

The intention of the Guidelines is to provide clarity, consistency and transparency for Councils in their decision making for or with respect to:

- the objectives of differential rating;
- suitable uses of differential rating powers;
- the types or classes of land that are appropriate for differential rating.

In our view, if there is a greater level of structure and, I guess, transparency around how rates and charges should be set and how land categories can be identified, that should support local government's long-term planning and thinking about how they can set rates into the future. From our perspective, what we typically see is constantly changing and moving categories with constantly changing and moving rates in the dollar and minimum rates which seem to be responding to very short-term needs and, we would probably argue, political needs—that is, trying to keep residential rates as low as possible and targeting commercial landholders in particular to pay more in a given year to be able to keep those residential rates as low as possible. If there were greater levels of guidance around that, we believe that councils would have to set a longer term plan or thinking around their rating strategy without necessarily the current level of flexibility that exists to target people in a particular year.

Ms LEAHY: I would be a little bit cautious with that because looking at valuations, when valuations change then council needs to be able to adjust their rates in the dollar. They do not always necessarily end up with more income. Hopefully, the Valuer-General has the relativities correct and councils need to adjust whether the valuation has gone up or down or not. I do not know whether that would be advantageous to the Property Council if there was a restriction around their being able to adjust their rates in the dollar.

Mr Mountford: We argue that we would see a lot more consistency. If you had commercial properties all in a commercial property category with a rate in the dollar associated with it, the tax paid by that property owner would fluctuate based on the Valuer-General's valuation rather than by the rate in the dollar. Typically, we would see that tax paid more closely aligned to the person who had a valuation increase in that year and for that tax to align in such a way. Again, what the Victorian example talks about is the huge danger in having a small number of properties or a single property in a rating category because there is no relativity in that circumstance. Whereas there is relativity across commercial buildings. There is relativity across retail buildings in that they are transacted in the same market and their valuations are typically reflective of that.

Ms LEAHY: I am sorry, I probably disagree with you on the valuations side of always being correct because I know in my area they are not. A huge amount of work has been done to correct that, particularly in commercial areas actually.

Mr Mountford: Sorry, the valuation is not always correct and a number of years ago we fought very hard to get the objection of bills process into the valuation system that is there, but, at the end of the day, if you effectively have a scenario whereby the council is trying to determine someone's capacity to pay and it in itself is adjusted based on someone's valuation, there is nothing there for the property owner to be able to object and appeal to as there is in the valuations system. If the council decides to go the other way and tax that individual more because they believe that the valuation is incorrect, there is no safety net for that property owner, whereas under the valuations system as it relates to the valuation there is absolutely a legislative process that that property owner can go through.

Ms LEAHY: Would you be suggesting some sort of mediation process rather than a statutory process for somebody who might feel they are unfairly rated, or an Ombudsman type process? People can go to the Ombudsman with those sorts of issues. There is a process there at the moment. If they believe they are unfairly rated and they have the evidence of that they can go to the Ombudsman for a determination.

Mr Mountford: Our understanding is that by and large there is no recourse for property owners under the act to determine that they have been unfairly rated. There is nothing to suggest that a council cannot differentially rate you or set a rate in the dollar as they see fit. Our experience with our members is that there is no legal recourse.

Ms LEAHY: None of your members have actually taken any cases to the Queensland Ombudsman?

Mr Mountford: A number of our members have explored that. They have also explored legal opportunities and appeals, but, as I have said earlier, previously under the act before it was amended in 2009, I believe, there was a reference in there that effectively suggested that councils could not necessarily rate on someone's capacity to pay, that they needed to be related to the land use and the services consumed. That was taken away when the act changed. Under that old act Xstrata actually successfully prosecuted a case against Bowen Shire Council at the time on that issue. Since that time that case is no longer relevant and there have been no successful challenges since then is my understanding.

Ms LEAHY: None of your members have actually been to the Queensland Ombudsman?

Mr Mountford: I cannot state categorically today that none of them have, no. I cannot say that, but I am unaware at this point of specific circumstances where they have.

Ms LEAHY: You are welcome to take that on notice.

Mr Mountford: I will take that on notice. I am certainly aware of a number that have explored and sought quite detailed legal advice on the matter and the legal advice is always consistently that the Local Government Act does not afford them a legal avenue to have their rates reviewed.

Ms LEAHY: I am very happy for you to take that on notice.

Mr Mountford: I will take that on notice and provide further details on that, if you like.

Ms LEAHY: There is an Ombudsman there for local government matters, that is covered by the Queensland Ombudsman, and they regularly do review local government matters. It would be interesting if any of your members have actually been through that process and what the outcome might be.

Mr Mountford: I am happy to take that on notice. My instinct around that is that you would have little recourse as a property owner if council has followed due process and in this circumstance the due process is the legislation affords them to largely differentially minimum rate as they please.

Mr PERRETT: You talk about the minimum and differential rating. Is what you are talking about a benefited rate? I think the benefited rate is the one that specifically targets a property. Is that your understanding?

Mr Mountford: No. Certainly there are environmental services levies and other things that occur, but our base concern is with what is called minimum rating which is your ability to set a minimum rate for an asset class and for differential rating categories to be set and for those to be unpoliced.

Mr PERRETT: I am not aware that there is any legal recourse. I spent a good number of years in local government as an elected representative and I am not aware that there is any legal recourse in respect of a local government making a decision to set rates at a certain level, be it minimum, be it within a differential category or a benefited rate targeting a single property based on an issue that has been identified by the local government. I mentioned with a group that was here earlier the process of raising revenue within local government—it is quite restricted obviously through property tax, or rates as we know it—and whether that is the best mechanism. I wonder whether your association and the group you represent have had thoughts around this. Obviously you deal directly with property and that is the area that you represent on behalf of your members, but have you advocated to other levels of government for consideration of a different method as opposed to property taxes or rates as being the primary source of revenue or ability to raise revenue for local government?

Mr Mountford: I think there is a lot in that and certainly from our perspective, and again if you look at a lot of the tax reviews that have gone on federally over the last number of years, they talk about a broad base land tax being a very efficient form of tax. In many ways, for all its faults, local government rates are an efficient form of tax assuming you have a valuation system that is fair, efficient and transparent. It is relatively easy to identify the property owner, the location and all those sorts of things that you need to move forward with the tax. Certainly from our perspective, I think there are a lot of elements in terms of local government funding that are broader than just the rating issues. We have previously made representations to government about the vast array of grants and services or grants funds that are available to local government that just seem incredibly inefficient.

Some of the anecdotal information that we have seen is that 20 to 25 per cent of those grant funding programs are chewed up in administrative costs. If you take a road as an example, you could theoretically have the same road project funded under about eight different buckets of funding from the feds or the state. We think there are huge amounts of efficiency to be gained by not necessarily changing the amount of money, but consolidating the programs, making them easier to access, more efficient and effective and more targeted. If you could reduce that 20 to 25 per cent to 10 per cent you have actually not spent any more money but you have identified a whole heap of new money that can flow into the sector. I think from our perspective there are a number of other elements that should be looked at to ensure that there is a greater level of financial capacity and sustainability in local government in the way that grants and other systems work between the levels of government, but obviously that is less of our focus than necessarily some of the issues that we have raised today.

Mr PERRETT: I will give you another example, and obviously this is dealing directly with property and probably comes back home directly to state government. I came from the former Gympie regional council, and only half that land area was able to be rated. The rest of it was owned by the state or federal governments—defence land, state forests, national parks—where there are no rates paid. The ability for council to raise revenue was just simply extinguished on that land. Is that something that perhaps could come into the mix in respect of rating opportunities for local government?

Mr Mountford: It is not my area of expertise, but it is certainly our view that if you have landholders in a local government area there should be relativity and, I guess, equity in terms of how they are treated for taxation purposes. There are probably better people than me to talk about the value of that level of transaction between two levels of government and whether some of the other funding and financing arrangements are effectively there to offset those sorts of transactions. From our perspective, it is a reasonable question to ask for it to be looked at, particularly in some local government areas where state and federal land holdings are significant and those land holdings do draw on council services in terms of the need for roads and other things, and for that conversation to be had.

CHAIR: I notice in your executive summary you state that to ensure that local government revenue is collected in a fair and equitable manner, a state government rating practice guideline similar to that one used by the Victorian government should be implemented in Queensland. Would you like to expand on that?

Mr Mountford: The Victorian example we think is quite fair because it is basically saying that councils should have the opportunity to set differential rates because of those issues that we talked about earlier—that is, there are different land uses that will consume council services differently, but the councils should really think through how those categories are set up and how they are applied and it sets some parameters around that. There are a few elements of that that I think might be worth speaking to or noting.

One example which they use to ensure some degree of equity across their rating categories in this guideline in Victoria is that your highest rate in the dollar cannot be more than four times your lowest rate in the dollar. It effectively sets a band through which councils can set their differential rating categories and the rates in the dollar and that is obviously to ensure that there is not a significant land category that is out of step with everybody else—that is, there is one large shopping centre in the council area, we are going to get them to pay 25 times more than everybody else as a way of minimising general rates. It talks a bit about the need to ensure that you do not end up with rating categories with a small number of properties in them because that obviously does lead to the risk of what I was talking about earlier which is really about targeting individuals as opposed to necessarily setting rating categories based on use.

I recognise some smaller local government areas in Queensland are obviously different to, say, those in Victoria. In some of our rural councils there are not necessarily 12 shopping centres, there are a couple. The guideline deals with that as well. It says it is not something that is prohibited, but it is something that should be thoroughly thought through and explained in your rating strategy when you produce it as part of your budget.

I think the other thing that is in there that is important to us is the example I gave you before about the Brisbane City Council commercial towers and there being no justification or rationale in the council documents around that. What the Victorian guideline provides for is effectively that councils should provide some level of justification for those decisions. If you have three different categories for retail properties in your local government area, there should be some explanation as to why there are three different rating categories for retail properties in your local government area. At the moment what we would typically see is a council would set rates for shopping centres below 5,000 square metres, between 5,000 and 15,000 square metres and then 15,000 square metres and above. That is not really a rationale as to why those shopping centres have been separated out and we do certainly see challenges in that in that someone might have a shopping centre that is 4,990 square metres, they go to put a cafe on the front of it and all of a sudden they tip into a completely different rating category and therefore they decide not to do the extension on their shopping centre because effectively the additional tax would nullify the benefit that would have been delivered through increasing the size of the centre.

It is effectively a guideline that is trying to ensure that there is a degree of uniformity in approach from councils and a degree of transparency around how categories and systems are set up. Councils still have the flexibility to go ahead and do what they feel is right, but they need to be able to stand beside it because under the Victorian legislation people can challenge their rates based on this guideline and other aspects that are in the legislation.

CHAIR: You used the word ‘challenge’. That is a formal right of appeal?

Mr Mountford: Yes.

CHAIR: Can you give an example as to when that might be required and can be used?

Mr Mountford: I think if you look at the valuation system it is probably as good a parallel as anything as to when that might be the case. The Valuer-General is required to value 1.6 million properties across Queensland each year. He is not going to get 1.6 million valuations right and that is recognised and understood so there is a transparent and legislated process around how you can object and then potentially appeal that valuation after it is issued. There is a statutory period by which you are notified of your valuation. We all get our letter in the mail to tell us what our new valuation is. There is a period of time in which to object.

There are different processes for different sized properties, ensuring that it is accessible to a mum and dad landholder to object to their valuation as much as it is to a major shopping centre owner. They have slightly different pathways based on those properties, but, at the end of the day, the system is about trying to get to the right valuation in those circumstances in as low a cost mechanism as possible. We would see potentially a similar sort of thing in terms of rates. The state government introduces a statutory guideline that gives councils a greater level of guidance and some parameters around minimum differential rating. That then sets the framework. You are issued your rates. You feel that the council has not been consistent with that rating guideline in the way that your property has been categorised—it could be a simple thing like they have said that you are a 6,000 square metre shopping centre when, in fact, you are a 4,000 square metre shopping centre—there is a process by which you lodge that complaint and it is addressed in a consistent and reasonable fashion.

CHAIR: In your submission you say the Property Council has recently worked with the Department of Infrastructure, Local Government and Planning on the development of a guideline on equity and fairness in rating for Queensland local governments. Where are you at with that?

Mr Mountford: I think it is probably fair to say that this is genuinely recognised as an issue by the department, that they have seen local governments using minimum differential rating very differently across the state and for different purposes. We have had numerous conversations with them and they had developed up what was going to be not a statutory guideline but effectively a note from the department out to councils to give them advice on what appropriate rating practices would be. We were involved in some consultation on that going back probably 12 months, but to the best of our knowledge it has not seen the light of day beyond that consultation.

CHAIR: Would a note be good enough?

Mr Mountford: As I say, we would prefer there to be a statutory process that gives a landholder an appeal right because we think that is fair and reasonable and it is not placing an onerous requirement on council to undertake their rating practices fairly. You can appeal your land tax, you can appeal your valuation and a whole raft of other things in relation to taxation and other fees and charges. There are safeguards for people there which there are not necessarily under rates. In our view, a voluntary note from government probably will not achieve a huge amount. Hopefully it would raise the level of understanding of the issue and potentially down the track would lead to greater levels of statutory guidance if we could continually identify practices that were not in accordance with a voluntary guideline, but that would be the best it would be able to do.

CHAIR: You also state that the Property Council strongly encourages the committee to recommend that the Queensland government develop a mechanism that will compel local government to report on how their rating schedule reflects a state government fairness guideline. Can you explain that a little more?

Mr Mountford: Effectively, we would like to see something like the Victorian example introduced where the legislation points to the guideline, the guideline sets out what fair and reasonable practices are and you can appeal if you do not believe that those fair and reasonable practices have been applied. As I said, we are not calling for rate capping or for huge oversight on how councils are setting their individual rates. We recognise that differential rating is a reasonable thing, that different land users use council services differently, but currently it is just a free for all and there is no rhyme, reason or fairness being applied across those rating categories to provide landholders with any surety at all. We are aware of one property owner who saw a 90 per cent increase in their rates in one year and the following year a 120 per cent increase. You are sitting there for the third year wondering what is about to happen to you. In the circumstance where it is a shopping centre, a commercial building or the like, ultimately those costs get passed on to tenants. If you think about regional Queensland at the moment, it might appear attractive to slug a national owner of shopping centres or commercial buildings but, ultimately, it is the local businesses to whom those costs are passed onto, because they have to be. That is the nature of those sort of structures.

CHAIR: That is why you get increased rents and businesses shutting their doors.

Mr Mountford: That is right. It is probably important to note that commercial property in particular is valued and structured very differently to residential property. Commercial properties are in a market sense valued off their rental return. If you increase the costs of operating a commercial building—that is, increase statutory charges such as rates—you will significantly reduce the value of that asset. The owner will obviously be concerned about that because they may have loans issued against that or other things. If the value of the asset drops, that could cause them concern. Obviously there is a need then to ensure that those costs are passed through and paid for by tenants and others in order to ensure that the valuation is not hit as significantly as it might be otherwise. It is important to recognise that, at the end of the day, it is local tenants, businesses and others that ultimately end up bearing a lot of the cost of those increases. It may not be in the first year but, over time, it certainly has to get passed through.

Ms LEAHY: Are your members happy with the degree of transparency in relation to how the state government assesses land taxation and land tax?

Mr Mountford: The categories in relation to land tax are based purely on the value of the property as determined by the Valuer-General. For example, the state government does not differentiate out by asset class necessarily—a shopping centre would not pay a different land tax amount to a commercial building, because it is to do with the value of the land—whereas council rates have that distinction. The ease of understanding land tax relates to the fact that it is just to do with the value of the land and the ownership structure.

Ms LEAHY: I might just correct the record a little bit here. The Office of State Revenue's website says that there is only a reassessment of land tax, not a right of appeal. People have a right of appeal to their valuation, but there are only five categories where their land tax can be reassessed. Is that significantly different to what you are suggesting in relation to local government rating?

Mr Mountford: It is a combination of a number of factors. Effectively, both the land tax system and the council rate system use the state government's valuations as their basis for setting the tax, but the land tax assessment is very transparent. The land tax assessment relates to the value of the land as identified by the Valuer-General, regardless of asset class and other things. The Valuer-General effectively does not have the differential rating capacity that local government has. We would not need the same level of appeal right against a land tax assessment as we would against a differential rating scenario where a council can carve up, as we said before, potentially into hundreds of different categories of landholders.

What we typically see from our members is the following concern. Both forms of tax start with the valuation, so you want to ensure that you believe your valuation is fair and correct in relation to your asset because that will affect obviously the potential tax paid both in terms of land tax and council rates. As I said, when you move through the land tax system you are effectively paying a rate in the dollar that is transparent, published on the website and has not changed for, as far as I am aware, about a decade. It was about 2009 that the land tax rates last changed. Most of the elements that you would appeal against are non-existent in a land tax scenario; they are just in the valuation system. Whereas the council rate system opens up a whole new raft of opportunities and changes that may or may not be fair if you understand the distinction between the two.

Ms LEAHY: I understand it very well. I am assuming though from what you were telling me that most of your members are in council areas that are revalued annually?

Mr Mountford: No.

Ms LEAHY: So your members have no right of appeal to move out of the averaging system that is supplied with land tax, whereas in a situation with a rating policy that can be reset on an annual basis. I would think that there is probably a little bit of an issue there for those who cannot move out of the averaging situation with land tax until such time as there is a revaluation. Not all council areas in the state are revalued every year—that rarely happens; I think it is about once every 10 years. There are a few little inconsistencies that we need to be aware of.

Mr Mountford: We take as a policy position that all land should be valued every year because fundamentally you do not have that disparity in terms of the three-year averaging. Effectively it is a legislative issue as opposed to necessarily a rights issue in our view around how land tax is applied through the averaging. As a policy position, we absolutely agree that all land should be valued properly each year so that it can reflect more wholesomely or realistically its taxation capacity.

For the purposes of what we are talking about here in terms of local government financial sustainability, the ratings system is fundamentally a very different beast to the land tax system although they both come off that same base. There is a multitude of different, more complicated and treacherous issues associated with local government rates because of the use of minimum differential rating. I will give you an example of what I am talking about. If I have a property that is valued at $10 million, under the land tax system I will be required to pay X amount of dollars based on that land value. Under a local government rating situation, I might have a rate in the dollar that says I am supposed to pay X but council decides that they want to set a minimum rate that is four times that. Therefore, you have no certainty or expectation around the level of tax you will pay in a given year, whereas under a land tax structure you have that certainty and ability to plan your business forward knowing that, if the valuation is where it should be, that is the level of tax you will end up paying.

Ms LEAHY: I can probably give you a different scenario, too, where council areas are not revalued on an annual basis and a lot of regional ones are not revalued on an annual base. There is a determination through the market survey that the Valuer-General uses to determine who is revalued and who is not. You see a situation where in resource communities all of a sudden the industry stops, things change and people are paying peak land tax bills but at least their council rates can come back in because they are not locked in on that three-year averaging system, and you cannot get out of that averaging system on the land tax until such time as there is a revaluation because of the way the two acts work together.

Mr Mountford: I agree with that. We have actually advocated to the state government that the Valuer-General should have a release valve in that circumstance to be able to reset. The example you are providing there is not the norm, so it is more likely that we would see councils ratchet up rates on landholders above their valuation increase than circumstances where they are effectively providing a hardship provision and being able to wind down. I do accept that that is the case and that in that circumstance it is potentially related to the Valuation Act and the valuation practice as opposed to the Land Tax Act for that to be taken into account in terms of land tax, but that is in my view a fundamentally separate scenario to what is occurring in local government minimum differential rating.

CHAIR: Thank you, Chris, for your input. I appreciate the way you articulated the responses as you obviously know your work. Thank you very much.

Mr Mountford: I appreciate the opportunity, thank you.

Proceedings suspended from 3.26 pm to 3.58 pm

MACFARLANE, Hon. Ian, Chief Executive, Queensland Resources Council

MULDER, Ms Katie-Anne, Director, Resources Policy, Queensland Resources Council

HASSALL, Mr Toby, Resources Policy Adviser, Queensland Resources Council

CHAIR: I now welcome representatives from the Queensland Resources Council. Do you have an opening statement?

Mr Macfarlane: Firstly, I again thank you and the committee for being able to fit the QRC in this afternoon. I have a meeting in the morning in Toowoomba about ensuring that we get rural doctors into regional areas and I am going home tonight to attend that. It would have meant a trip back. I greatly appreciate the convenience you have granted us. I also would like to acknowledge the additional funding of $111 million in the Building our Regions program in the 2017-18 budget. Certainly the QRC is very committed to our regions, and that will go a long way to help the regions.

For the record, the QRC is the peak representative organisation for Queensland resource sector companies. Our membership encompasses gas and minerals businesses—including coal—which operate in the state’s regional and remote communities as well as a wide range of businesses that provide services to our sector. In 2015-16, Queensland’s natural resources industry was responsible directly and indirectly for $55.7 billion and one in seven jobs in Queensland’s economy. Queensland resources companies purchased supplies from more than 20,000 businesses in Queensland, and more than 13,000 of those businesses are based outside the south-east corner. The sector employs close to 34,000 people directly and more than 275,000 indirectly. Its financial contribution extends to all corners of the state. In Gladstone alone the sector contributed $2.2 billion, or 49 per cent, of the gross regional product. Further north $1.4 billion was injected into the Isaac economy, and more than half a billion dollars is invested into the Western Downs. Despite the ups and downs of the commodity cycle, the resources sector continues to be a major contributor to Queensland’s Treasury through the royalties that we pay, adding $2.1 billion each year in royalties to the state’s budget to help fund our health system, our doctors and nurses as well as our teachers and police.

None of these contributions would be possible unless we maintain a sharp focus on competitiveness and continuous productivity improvements across the natural resources sector. Therefore, the QRC would like to express its deep concern about the lack of transparency around local government budgets and the unpredictability in determining how rates are charged to resources companies. In this opening statement I will provide an overview of our members’ key concerns in relation to the financial practices of local governments.

The QRC is deeply concerned about the unfettered ability of local governments to determine rate amounts. No ratepayer or business, big or small, can operate in an environment where costs can escalate in 12 months by 250 per cent with zero services being provided by local government—that means rates, roads and rubbish—not a thing. These rapid and unpredictable increases in recent years directly impact the international competitiveness of the Queensland resources sector. There are also unconfirmed instances of increases of 1,000 per cent a year and examples of where resources sector land is re-rated at 28 times higher than other industrial land, including land where resources are being processed in the same local government area. As you know, Queensland producers compete in international markets where commodity prices are set at a global level but the costs of production are determined at a local level. If the resources sector is to be a significant driver of prosperity, employment and development for the state of Queensland, it cannot be expected to absorb rate increases of 250 per cent or more per annum.

I would like to add that the QRC is also conscious of large rate hikes in other sectors, including commercial property and farming. It is disappointing that there are still a number of local governments in resource regions which incorporate in practice a capacity-to-pay system as an acceptable approach to determining their rates and rating categories. This is an unacceptable mechanism for calculating rates which cannot continue. Levying rates in this fashion generates uncertainty for resource companies and is not suitable, particularly when the sector experiences declines in commodity prices. Examples of this include re-rating of agricultural land when the ownership changes to a resource company but the land remains agricultural. Like all ratepayers, the resources industry seeks transparency in relation to the level of rates payable and the level of services provided by local government. There is no other industry in Queensland, or indeed Australia, that adheres to the strictest set of rules and regulation more than the resources industry. Greater transparency is necessary to ensure that the level of rates paid is comparable to the level of services provided by the council, taking into account the compensation paid to local government for maintenance of roads separate to this used by the sector.

To support increased transparency, the QRC strongly recommends that the committee examine the exemptions of local governments from right to information laws in Queensland. Under the Right to Information Act, information relating to local government budgets is exempt from being released under right to information laws. It is unclear why information on local government budgets would be exempt from the right to information process, and it is difficult to determine how governments have justified this. There has been no explanation to QRC members as to why local government budgets are excluded from the right to information process.

In addition, the QRC backs the finding of the state Auditor-General's report regarding the long-term financial stability of local government. The report found serious concerns about the short- and long-term financial stability of the majority of local governments in Queensland. While the QRC sympathises with local governments after several years of both federal and state government funding cuts, the QRC supports the recommendations made by the Auditor-General relating to transparency of revenue raising and expenditure in their budgets.

The QRC understands there is work being done by the Queensland government to develop a guideline on equity and fairness in calculating ratings for local governments. We are fully supportive of a guideline which should be a regulatory instrument to ensure rating practices meet the expectations of stakeholders on what is fair and equitable. It is our position that the Queensland government has a role to play in ensuring the sustainability of local governments and the industry that operates in those regions. The QRC seeks the urgent introduction of a mandatory guideline for fair and equitable ratings in Queensland.

In closing, the resources industry echoes the calls of the Property Council of Australia, the Queensland Farmers' Federation and the Shopping Centre Council of Australia for urgent reform to local government and financial practices. I should also add that the QRC has submitted to your committee two confidential submissions that we have made to previous inquiries which are more specific with regard to some of the rates being charged by particular local governments on particular industries.

CHAIR: We respect that. When a mining company is given a licence to operate, a mining lease, they have obligations to local government. I am going back before your time and you may not understand—

Mr Macfarlane: No, I do understand it.

CHAIR: What were the conditions that applied with regard to the paying of rates to local government?

Mr Macfarlane: I will ask Katie-Anne to add to this answer. In terms of various permits and licences to operate, any associated costs in relation to those permits, including the use of roads and the maintenance of those roads, are paid separate to any local government rates; that is, they are defined in the permits.

Ms Mulder: One of the key assessment processes for resources projects is the environmental impact statement that the Coordinator-General assesses when he hands down conditions. In the guidelines for the Coordinator-General there are some arrangements for user agreements. The Department of Transport and Main Roads could be a party as well. With regard to roads specifically, companies have a responsibility to assess the impacts on those roads with local government and compensate them for any impacts. That could include upgrades if there is to be an increase in traffic, if a set of lights needs to be put in in terms of safety, roundabouts or a general upgrade to the road to handle a certain capacity of vehicle that can be used. The rates themselves are separate. The Local Government Act requires all ratepayers to pay their rates bill, and rates will generally include services such as rubbish, sewerage and possibly water.

The resources industry is governed by the Local Government Act as well with respect to paying rates. There are some instances when our companies do not require those local government services, and Curtis Island is one of those. They manage it all themselves but they are still required to pay that general rate. Typically there is a differential rate which is applied on top of that, and that is a large portion of what we have talked about in our submission, the increase in differential rating categories over the years, which has been up to 250 per cent annually. Does that answer your question?

CHAIR: Yes, and it is heading in the right direction. In the past some mining companies have done a good job in the establishment of communities. One of the things that is coming through to us very clearly concerns the replacement of infrastructure. The local governments we have spoken to do not have the ability to replace that infrastructure in a lot of cases. Do mining companies still play a significant role in contributing to the replacement of things like sewerage, water treatment plants and water infrastructure? They have also contributed to the provision of local halls, where the cost is covered but the ongoing costs have to be met by council. How big a role are mining companies now playing with regard to the ongoing liveability of those communities, the cost of infrastructure and the ongoing replacement of that infrastructure?

Mr Macfarlane: Where the resource companies are using infrastructure that belongs to the local government authority, whether it is roads or water systems or sewerage, when the company uses that infrastructure the company is charged appropriately. That charge is negotiated and includes the cost of repairs, maintenance and replacement over time. There may be instances where resources companies have provided community infrastructure like swimming pools, playgrounds and halls and the company no longer supports the maintenance of those. In some cases they do, so it is just a case-by-case negotiation. It should be remembered also that when people who work for that company have a residence in that regional council area they are also paying rates, which by their nature should be covering the cost of repairs, maintenance and replacement of infrastructure which every ratepayer in that local government authority area is responsible for.

Having said that, we do understand the cost pressures that are being placed on regional councils but, without citing specific examples, there are very clear examples of where councils have decided to use an increased rate base on resources industries to build cultural centres which have very poor utilisation rates and are certainly not a viable operation in terms of the cost of operating, let alone the cost of construction and repayment. The resources industry is more than happy to pay its share of costs in terms of infrastructure where it is a direct user of that infrastructure, but we can see examples where, because of an extraordinarily differential rate base that the resources companies are using, that money is being collected and spent outside what would normally be local government responsibilities of water, rates and roads.

CHAIR: You probably will not be able to answer this question, but if you could take it on notice for us that would be great. I would like to get an understanding of the percentage of annual revenue—which is rates collected, maybe on a three- to five-year basis gap line—in terms of rates being paid by mining companies in these communities.

Mr Macfarlane: I am happy, Mr Chairman, to give you some examples now and if you require further examples I am more than happy to provide that. In the Central Highlands Regional Council 28 per cent of the rates and levies revenue to the Central Highlands council comes from QRC members. In the Isaac Regional Council 30 per cent of the Isaac Regional Council revenue or 36 per cent of the IRC rates and utility charges come from QRC members. In the Gladstone Regional Council the contribution—I do not have a percentage; I have a figure—shows that it is predicted that QRC members in the year 2016-17 will contribute almost $30 million or about $29 million, but I do not have the total figure for regional council rates in Gladstone. I will come back to you, Mr Chairman, with that percentage figure for Gladstone. In Mount Isa City Council QRC members contribute 17 per cent of the council rate revenue and in the Western Downs Regional Council QRC members provided 28 per cent of the total council revenue or 35 per cent of the general rate revenue. In Whitsunday the QRC member data provided showed that the resources industry was paying 12 per cent of the rate revenue in 2014-15, and I apologise that that number is a little out of date. There are some examples, but I could provide more detail if the committee requests.

CHAIR: I appreciate the information you just gave us, but I am really trying to get an understanding of what you might have paid three years ago, six years ago and nine years ago. I want to see if there is a lot of difference in the amount of money being paid to local government by a mining company.

Mr Macfarlane: Again I can provide greater detail, bearing in mind there was some expansion in the industry, but in the Whitsunday Regional Council area alone in 2012 the industry was paying a little under $1 million and in 2014-15 that had jumped to over $5 million. In the Western Downs regional area in 2012-13 the resources industry was paying $10 million and in 2014-15—so only two years later—it was paying just under $20 million. In Mount Isa in 2012-13 it was paying about $1.2 million and by 2014-15 it was paying in excess of $2 million. In the Gladstone regional area in 2012-13 it was paying about a little over $8 million and in 2016-17 was predicted to pay about $28 million, so that is in the space of four years. In the Central Highlands in 2012-13 it was paying about $18½ million and in 2014-15 that figure had risen to about $21½ million.

Ms Mulder: Just a clarification on the Western Downs regional area, that particular case that we have outlined in our submission is largely due to the activity in the area. It is not an annual increase per se for that particular area, although Ian mentioned earlier that some agricultural land uses, because of their being owned by resources companies, are being charged at either a petroleum rate or a mining rate regardless of the activity.

CHAIR: Would an example of that be Acland coal at Toowoomba?

Ms Mulder: I could not say actually. I do not know about Acland.

Mr Macfarlane: That would not be Acland. That would be further west, so it is Western Downs. Acland lies in the Toowoomba Regional Council.

CHAIR: Yes, but I understand that it owns all of that land around the mine.

Mr Macfarlane: It does own a very large portion of land.

CHAIR: I am not going to keep going on about this because we are looking at the long-term financial sustainability of local government but, because you are a significant contributor to the rate base, I just wanted to get a few of things straight in my mind.

Ms LEAHY: The submission from the Resources Council says that you are looking for things like transparency to ratepayers, appeal processes and those sorts of things, and I suppose I speak from experience here as well. Company after company prior to gas really taking off—and the gas industry in the Surat Basin—were asked for exactly that transparency because we wanted to know how many staff they would have and how many contractors they would have and they could not give us that information, so it made it very hard. We ended up with sewerage treatment works that were 300 per cent operating over capacity and things like that. I ask the Resources Council: how can we get a better social impact plan prior to resource industries happening? You were talking about the Western Downs Regional Council. They are becoming a significant hub for the solar industry as well, which probably does not quite fit. I do not think the solar companies are members of the Resources Council, but maybe they should be.

Ms Mulder: Some companies do do solar, yes.

Ms LEAHY: Some resources companies do do solar as well and in the Western Downs region we could go through more solar driven activity in that region. How do we get the social impact statement and assessment right? I refer to Maranoa and Western Downs. I had 26,000 people on the roll; I had an extra 30,000 construction people in my electorate. We did not have the roads, we did not have the sewerage, we did not have the water and we did not have the waste receival centres to deal with that. How do we get it better, and I think there is a bit of legacy going on here from the resources peak activity? How do we get it right up-front and make it better so that there is better value for money then? How do we get that right?

Mr Macfarlane: Again, although it is a process separate to local government rates, it is a process which is controlled by the state government. Certainly from the resources industry perspective, we would be fully cooperative with any process that could be designed that gave you a better idea of that. I am not privy to the difficulties in terms of resource companies stating what their intended numbers were. I guess it is a little bit of history now, but certainly going forward were there any major constructions that were going to happen as part of that permitting process by local government I would expect them to demand those figures because I am certainly sympathetic to the difficulties local government would have in a process where they were not aware or were not able to be aware of a sudden jump in the population of a town like Miles or Wallumbilla or Condamine or whatever. If there is a way in which the QRC can cooperate with local government authorities on that, we would be more than happy to.

Our problem in terms of transparency is that the resource industry cannot get a look inside how the local government is framing its rates and why, for example, the gas industry in a local government authority area is rated at 28 times the rate at which an alumina-processing facility is rated. We need to be able to see why that is, especially when the alumina facility is on the mainland and the gas facility is on an island with no services. We need to see that. We need to have some framework around this. We need to have an understanding of why, for instance, again in Central Queensland, an LNG facility is levied at between 86.97 and 173.94 times the lowest differential rate in that local government area whereas an identical gas plant, give or take the gas going into it, in Karratha is levied at 1.5 times the lowest differential rate category.

It appears to us that there are anomalies in the way local government are rating the resources industry and, as I say, it appears to the resource industry that there is something of a practice of an ability of the industry to pay without access to right to information and an ability to look through the process of local government setting rates. As another example, we do not know why a property in Western Queensland would be rated at one rate if it was agricultural and owned by you or me but an entirely different rate if it is agricultural and owned by an international resources company and the land use has not changed. We need that transparency, quite frankly, for fairness.

Ms LEAHY: I understand that. There is another side to that, and I will give an example. I refer to the Roma Airport which the council built to the best of their knowledge for 90,000 people per year to go through but 300,000 turned up. I think we have a transparency issue and problem on both sides. How do we get our heads around that with resources developments? Resources companies in my area are not only resources companies; they are also pastoral companies as well, so they have varying different businesses which they transact. How do we get a better handle on that before projects start? Mining booms are cyclical, and that is what industry people tell me. How do we improve that? What we are seeing here in particularly some of the charges is maybe some legacy type issues because there are still a few things to fix around the place, particularly in that area. I am just wondering how we can do that better because it would be a much better situation if we were not having the discussion and people were much happier and the resources companies were happier and also the local governments were happier in the beginning of some of these projects.

Mr Macfarlane: I take your point and certainly, as I say, the resource industry would endeavour to work better with local government. I do not have an explanation for why those numbers were so out of skew for Roma other than perhaps they expected more local labour than transpired and some of those projects cost a lot more than they were originally budgeted for, so I would suspect there are a lot more person hours involved in the construction. Yes, I guess that is, in the life of the project, a short-term issue. In terms of the issue with regard to rates, perhaps in the western shire there are some legacy issues but we would rather understand what they were and pay for what it costs rather than be given a rate that has no relevance to anything. If there is a cost that the local government authority has incurred, then we would like to see that local government authority engage in a discussion with the resources companies and seek the recoupment of costs. That is only fair, but applying rates at the rates which are inconsistent with other industries, let alone other resource industries, is not and with no transparency and no right to information gives us no confidence in the process as it stands at the moment.

Ms Mulder: I think there are some improvements happening at the moment. The Coordinator-General's office tabled in parliament late last year the Social Impact Assessment Guideline which included some updates to that from the initial version. That was tabled with the introduction of the Strong and Sustainable Resource Communities Bill. Some of those improvements in the Social Impact Assessment Guideline did strengthen the role of local governments in that social impact assessment process up-front. I think it is a really good initiative to bring back regular meetings through that process that include the local governments as well as other key stakeholders. I think that the up-front setting of expectations and understanding of what the project will deliver and what are the impacts will be go a long way.

Ms LEAHY: I think what we are seeing now and what you are expressing is the high rating that resources companies have in some of these areas. I am wondering if there is a bit of a flow-on effect there, and I am interested in your comments on this. The previous Royalties for the Regions program under the LNP government worked very much in partnership with the resources companies to deliver some of those infrastructure things which were important for the community and also important for the resources companies to conduct their business. Are you seeing that that is continuing on or is there not that partnership now between resources companies and other funding programs that work in conjunction with local government?

Ms Mulder: We have commented on the evolution of the Royalties to Regions to the Building our Regions initiative. One of the comments that we did make in our submission is that we do prefer an initiative that is focused on those regions that are royalty generating. In terms of feedback on whether certain companies have been consulted through that process or part of that process, we would have to take that on notice.

Mr Macfarlane: Certainly in terms of Royalties to Regions there was a consultative process with the resource companies which the resource companies were appreciative of.

Ms LEAHY: Does that still continue now?

Mr Macfarlane: I would have to have a discussion with them. The current scheme is a broader scheme. It is not quite as targeted in terms of returning the royalties to the regions which it came from.

Ms LEAHY: From the Resources Council's perspective, are they happy to contribute, because obviously the community acceptance is the road is fixed before the road is used and it is fit for purpose? Are resources companies generally happy to do that partnering in infrastructure investment prior to or in the beginning?

Mr Macfarlane: Yes, they are. We would encourage local government to do that, to actually address the situation before the road comes under pressure from added traffic.

Mrs LAUGA: I am wondering about what mines and what mining companies pay outside of rates to local government. For example, do mines pay infrastructure charges when they are first established? Do mining camps pay infrastructure charges when they are first established? Rates are about charging people for the use of local government facilities. Mines and mining camps I would imagine use a lot of those facilities, whether it be roads or other things. I assume that there are waste facilities that are also accessed by mining companies. I just wondered if you could talk to me about the things that mining companies do not pay for, but also about the things that mining companies do use with respect to local government services.

Mr Macfarlane: In terms of things that resources companies do not pay for, I would be hard pressed to find an example. In terms of what they do pay for in regard to infrastructure, there are clear local government charges specifically for certain pieces of infrastructure outside the rating system. As I think the member for Warrego and I were discussing, there needs to be a negotiation that takes place between the resources companies and the local government authority prior to the project starting to ensure that the local infrastructure is able to cope, whether that infrastructure is roads, water, sewerage or waste disposal, and in instances where there is a required capital injection plus an ongoing payment then those charges should be negotiated and in most cases are. I accept the member for Warrego's point that in the case of the CSG industry the estimations of the headcounts were way out in a number of areas, but I would expect local government to go back and charge for those infrastructure charges separate to rates. But then on top of that they are being rated in many cases for services which they do not utilise.

Ms Mulder: To add to that, in a number of the regions the councils do apply a differential rate for mining camps. It is particularly based depending on how many people those camps house. Western Downs, for instance, does have I think three or four different accommodation village categories for those ongoing costs.

Mrs LAUGA: Is your issue specifically only related to the site of the mine, the mining lease area, or also associated with mining camps as well that are rated?

Mr Macfarlane: More so associated infrastructure. Again to give the example that we have seen in the Western Downs area, where a company bought a grazing block potentially to mine in the future and their rates should have been about $214,000, the rates were increased sixfold. The use of the land did not change, there was no activity on the land so there was no pressure on any infrastructure, the paddock was still running cattle, and there was a sixfold increase. It is the mine associated infrastructure and processing areas.

Mrs LAUGA: Through the approval process for a new mine you would either go through EHP for a mining lease or you would go through the Coordinator-General, either process with an EIS, you would get your approval that more often than not does not require you then to have a DA at council, so you are not going through the DA process and therefore not having specific infrastructure charges notices issued on your site. When then do you expect to pay for the impact that mines have on infrastructure like trunk infrastructure when a new mine is proposed?

Mr Macfarlane: We would expect that the Coordinator-General would take into consideration the appropriate charges to be charged in relation to local government infrastructure and that local government would be consulted through that process.

Mrs LAUGA: Do you have, in your conditions of approval from the Coordinator-General, requirements to pay local government for that trunk infrastructure impact?

Mr Macfarlane: Or build infrastructure, yes.

Ms Mulder: It is usually a condition to meet with the local government and have an agreement in place for any impacts. In regard to the workers camps and those sorts of things, if it is off a mining lease they need to go through the planning legislation and go through that separate process which is then rated appropriately. Even under the Environmental Protection Act there is still a requirement there to assess social impacts.

Mrs LAUGA: We are not just talking about social impacts, we are talking about impacts on trunk infrastructure.

Mr Macfarlane: Can you clarify what you mean by trunk infrastructure?

Mrs LAUGA: The sewerage, the water. When you build a mine, the water pipes might not necessarily be able to get all the water to your mine so council then over time has to upgrade it or take into consideration the capacity that you will be using and upgrade that infrastructure and maintain it at a higher level because of the impact of the mine on that infrastructure. For example, if you were to get a DA for a set of units, the developer would get the DA and it would have an infrastructure charges notice in it that the developer has to pay, similar to what you do with your camps, but you do not have to do that with your mines. I am just trying to understand what you do then to actually negotiate with council to have that agreement in place. You have a condition in the Coordinator-General's approval that requires you to negotiate, but there is no specific amount specified in there and you are just required to negotiate. Is there actually a requirement to pay anything?

Ms Mulder: There is no amount set in there because it is a discussion to have between the local government and the party impacting on those local government services. I do not have the details of the specific payments, but I am happy to take that on notice and give you a more comprehensive response.

Mrs LAUGA: It would be great to understand exactly how much you are paying with respect to those agreements and that it is not just a discussion and you end up paying something.

Ms Mulder: Sure. Happy to take that on notice.

Mr Macfarlane: In many of those cases the resource company would build the infrastructure to increase the availability of water supply.

Mr PERRETT: I am getting the feeling, particularly from the Resources Council, that local governments, particularly in these areas where the resource companies operate, are seeing these resources companies as cash cows for local governments. I know that those are fairly strong words, but given that you have concern about the transparency of the process, that there does not seem to be an exact science that local governments adopt with respect to their rating policies, are you aware of whether there are any other industries that are deliberately targeted like the resource industry appears to be, particularly with regard to the submission that you made today?

Mr Macfarlane: We are aware of concerns that the Property Council has, particularly in relation to shopping centres. We would not use the terms you have used, but certainly the lack of transparency and our inability to understand why we are rated, without sounding like a broken record, at 28 times higher than the alumina facility down the road. Without the transparency to understand why, the industry does feel as though it is having charges imposed which are difficult to understand.

Mr PERRETT: The resource industry operates across many regional council areas across the state. A process where there was some consistency in that and some verification would, no doubt, ease the mind of resources companies that they were not being deliberately targeted for their perceived ability or actual ability to be able to pay as opposed to just playing a normal role. I take the point about the areas of land that are purchased for future use but carry on with grazing and all of a sudden a local government sees the opportunity to say, right, we do decide and they have decided to slip into the resource company because of their perceived ability to be able to pay rather than it being based on the actual land use.

Mr Macfarlane: Firstly, between councils there is a lack of consistency in the way different councils rate different resource activities or the same resource activities. Secondly, is the way that the resources industry is rated in Queensland compared to how it is rated in New South Wales, Victoria and Western Australia where there are far clearer guidelines, where there are far clearer systems, where there is better transparency. As I said, why would one local government authority in Queensland rate an LNG plant at 173 times the lowest differential rate when in Western Australia the same plant is at 1½ times. It is that lack of consistency and lack of consistency with what is done in other states that concerns the resource industry here.

Ms Mulder: Some of the other states apply almost like a formula. In the differential rate, the increase cannot be any more than four times the lowest differential rate. Even though differential rates are supposed to take into account different ratepayers and what they should pay, and absolutely that is appropriate, it is about having that certainty of how much your increases are going to be each year and making sure they are still proportionate as well to the valuation of the land.

Mr PERRETT: Has the Resource Council raised this issue directly with the LGAQ and, if they have, did the LGAQ make a response with respect to the variabilities between local governments across Queensland?

Ms Mulder: Yes, we did raise this issue with the Local Government Association of Queensland early last year. It probably would have been February 2016. Our position has been that we would like to move to the Victorian model. They have a mandatory guideline on fair and equitable rating. The Queensland government has now developed a draft of that guideline, but it is voluntary. It is not mandatory. We have spoken to the Local Government Association of Queensland about having a mandatory guideline. What we would like to see are things like ruling out capacity to pay, which is a mechanism that has been ruled by the courts in previous cases as inappropriate for rating. It is about making sure that everyone knows the rules. When we have so many local governments in Queensland, it is about making sure that we can get some form of standardisation in some way when it comes to certainty of rate increases. The Local Government Association of Queensland's response was that it should remain a voluntary guideline.

Mr PERRETT: In other words, it has gone nowhere.

Mr Macfarlane: Pretty much.

Mr CRAWFORD: Did you just say that the LGAQ thought it should still remain voluntary?

Mr Macfarlane: That is correct.

Ms Mulder: Yes. It has not been finalised. As I understand it, it is still in draft form.

Mr CRAWFORD: For most of the day we have been talking about how councils determine their rates. I have read your submission, which is quite a good one. The Victorian situation aside, are we better off to have consultation between resource companies and councils at the front end of working out rates, or are we better off having appeal rights at the back end? Which do you think is the better way? Councils have been talking to us today about wanting to go out there and consult with ratepayers—and ratepayers obviously include resource companies, not just residents—about what they want to charge and what they want to do et cetera. We have heard your argument about appeal rights. We heard the same sort of thing from the Property Council. If you had to pick one, which do you think would be the better one?

Mr Macfarlane: Obviously you would like to think that consultation would work, but in the end you have to acknowledge that under the current system without a mandatory guideline the council can do whatever it likes. The resources industry has always been prepared to pay its costs, and then some, and then contribute to the community as well as part of its community obligation or community licence. We have seen that some councils basically charge almost whatever they see fit, and I think that really you would hope that in a balanced system where there was equity and transparency the ability to negotiate up-front is a much better way to go. Without a mandatory code if negotiations do not yield the number that the local government authority thinks is appropriate, then there is no recourse to the local government charging whatever it feels is appropriate, which at times is entirely inconsistent.

Mr CRAWFORD: Within the inconsistency is there any pattern with councils or are there variances? Do you have two resource companies in the same resource area where one is getting a huge increase and one is not, or do you have the same company spread across two councils that is being treated differently by two councils?

Mr Macfarlane: Yes, to the second and no to the first. To be fair to councils, they do charge industries based on the industry. On Curtis Island they charge each of the separate trains at the same rate but at an extraordinary rate, and there is a different rate if you have one train or two trains. When they have the first train they get one rate, and then when the second train comes along the rate for each train is lifted. I could go on for some time about that. All companies seem to be treated equitably, if that is the word, in terms of their activity. There are examples where companies operating in one local government area are charged a completely different rate for a coalmining operation to what they have been charged in another local government authority area.

Ms Mulder: Within the same local government area it can vary depending on commodity. For instance, in the Whitsunday Regional Council area last year we saw an increase of 100 per cent for gold mining and a 10 per cent increase for coal, so there was a huge variance.

Mr CRAWFORD: That is interesting. Is there any indication that that goes with the commodity price? If we see big coal price increases do they try to pass that on?

Ms Mulder: That would be capacity to pay. No, it does not seem to follow that pattern.

Mr CRAWFORD: The next obvious question is when the price of the commodity goes down, do councils drop their prices?

Ms Mulder: When you own a property you receive rates, and they are based on valuations. It is the same for a mining lease or a petroleum lease; it is based on your valuation. A lot of the time when your evaluation has decreased you would expect your rate bill to decrease and vice versa. There are some councils, for instance, Central Highlands, where last year there was a decrease overall for the mining rate and that was reflective of the valuations decreasing in that same area. There are some good practices and there are some others that need improvement.

Mr CRAWFORD: It is not consistent across the state?

Ms Mulder: No.

Mr Macfarlane: It is not consistent. For example, in Gladstone when the international price for LNG fell substantially by about 30 per cent there was no reduction in the rates for the LNG plants.

CHAIR: I want to read from your submission under 'Unfettered powers to rate', which states—

In recent years, QRC member organisations have reported a range of concerns relating to local government rates which all stem from an unfettered ability of local governments to determine rate amounts.

I put it to you that, given that population determines the liveability of local communities and the rates that are collected, why should companies have an unfettered right to continually alter or influence the rate take by having a decrease in the population by, in some cases, 66 per cent at least. It is the policies of the mining companies that are changing that, and that has an impact on the local government's ability to maintain a sustainable rate base.

Mr Macfarlane: Chairman, I would have thought the rates that the local government authority collected related to the land, not the population. Variations in population should not affect the rate base if the rate base is being applied consistently. Obviously, where populations go up they place pressure on infrastructure in the local government area, and we covered that issue extensively earlier. Where you see a decrease in population, it should not affect the rateable value of the area unless the actual property value of the land goes down. I accept that in some situations that is the case. We have seen house prices in Moranbah, for instance, fall substantially since the peak of the construction boom. I think your point adds to the need for a consistent approach to the way in which the resource industry is rated, and that should be on the value of the land, not on some perception that the industry can pay more.

CHAIR: What about the population? If we have empty houses and nobody is paying rates for those—

Mr Macfarlane: Someone is paying rates. My understanding of local government is that there is always an owner of that property, and if rates are not being paid then a debt is being accrued, and at a point a local government authority has the right to sell that property to recover the rates.

CHAIR: Yes, but we still have vacant houses, and rates are not being paid for those reasons. You are right that somebody owns the house. Sometimes it is the mining companies. On top of that, a lot of small businesses are not able to function anymore and simply close down and go into bankruptcy because they do not have the population in the town. You know where I am coming from.

Mr Macfarlane: I am guessing that we should have been discussing this in another inquiry that you were involved in, Mr Chair.

CHAIR: I am talking about the financial sustainability of local governments. If you do not have people paying rates and you do not have people living the lifestyle that we have been used to in decades gone by, we have to start asking why the community is not functioning the way that it was.

Mr Macfarlane: Let me answer your question this way. Regardless of whether the house has someone living in it, someone does own it. The council at any point has the right to sell that property to collect rates and arrears. Secondly, in terms of your and my—and probably everyone in this room's—desire to see a stable, locally employed workforce that supports the community and resource companies that buy their services and goods locally, that is a point I raised with you in another inquiry and a point which, true to my word, we have worked very hard on in the QRC in the last six months. I have to congratulate Adani in particular for the way they have gone about improving local supplier services in the build-up of their mine.

I would also say that, in terms of resource companies' involvement in the Queensland Minerals and Energy Academy's push to get local schoolchildren interested in being part of the resource industry and providing a local workforce, we have had quite astounding success in the last six months. We have just signed up our 49th school and we are getting support from companies right across the resources area now. What that means, along with an increase in the number of apprentices, is that three years ago BMA employed eight apprentices and I think they are now talking about 40 or 50. It is a number I could clarify for the committee. I think we are addressing this issue of trying to keep people in local communities.

CHAIR: That is good to hear, but it is not apparent as yet.

Mr Macfarlane: It is coming. I think they call it 'green shoots'.

CHAIR: That is a positive move and I do not disbelieve you. We have run out of time. Once again I thank you for your attendance and for your input. There are some questions you took on notice.

Mr Macfarlane: Yes, and I will clarify those apprenticeship numbers for you as well, because they are quite positive.

CHAIR: We need a response to that by Wednesday, 5 July. I declare this hearing of the Infrastructure, Planning and Natural Resources Committee closed.

Subcommittee adjourned at 4.58 pm