

# Local government **sustainability framework**

**Results of consultation**

March 2022

## **Background**

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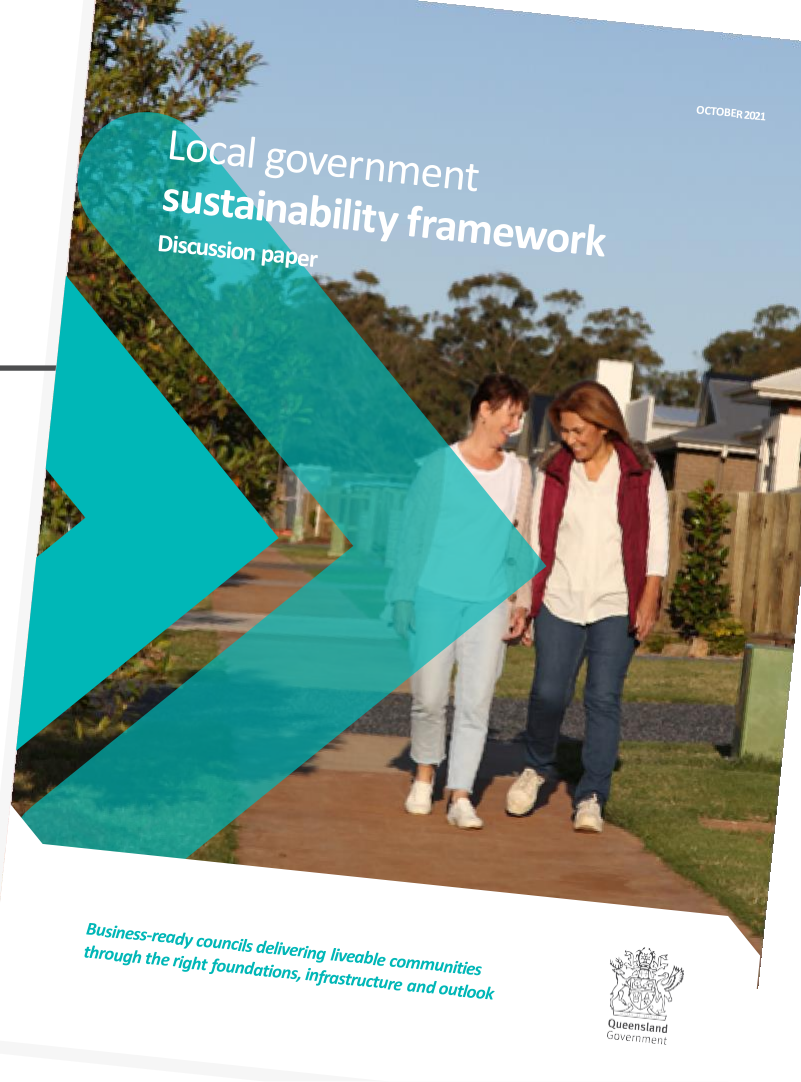
Queensland's local governments play a critical role in supporting the safety, liveability and prosperity of local communities right across the state.

All councils face unique financial, service delivery and community need circumstances, which are impacted by a range of factors that affect their long-term sustainability.

## Discussion paper

The department released a discussion paper to the sector on 7 October 2021 closing on 30 November 2021 seeking feedback on a new approach to monitoring local government sustainability and in particular the following key areas:

- > **Elements of the framework** – operating environment, financial performance, asset management, governance and compliance.
- > **Grouping of councils** – based on population, to enable a tailored approach for considering sustainability.
- > **Financial and asset sustainability ratios and benchmarks** – that councils will be required to report on.



## The reason for change

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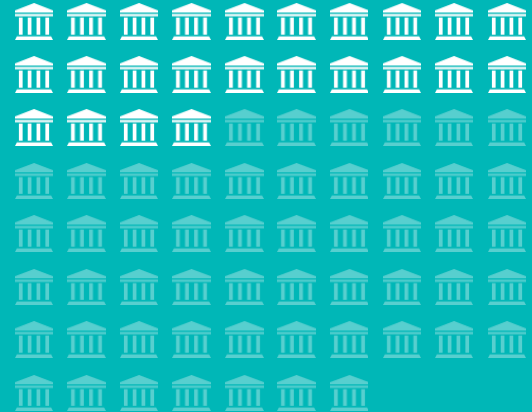
Council sustainability has been an increasing challenge. The Auditor-General's 2021 Report to Parliament 17: 2020-21, raised concerns about local government financial sustainability, rating 24 out of 77 councils as having a higher risk of sustainability issues in the short to medium-term.

The report recommended the department develops new financial sustainability ratios for councils, and that these ratios consider the different sizes, services, and circumstances of the various local governments. Previous reports to Parliament have included these recommendations made by the Auditor-General.

The diversity of the sector means that no single solution or approach will address the sustainability challenges faced by many local governments.

# 24/77

councils have a higher risk of sustainability issues  
in the short to medium-term



## The Sustainability Framework

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Establishing a new framework to monitor council sustainability will support better long-term planning from the State, provide a more informed basis for council decision-making and support improved outcomes for local communities.

The proposed approach to defining and measuring local government sustainability is driven by the vision of having business ready councils – today and into the future – that enable liveable communities to grow and prosper by focusing on the principles of:



**Foundations**



**Infrastructure**



**Outlook**

To achieve this, it is proposed that the new framework considers the broad range of elements impacting on council sustainability and has identified five elements:



**Operating environment**



**Finances**



**Assets**



**Governance**



**Compliance**

# 16

## stakeholder engagement sessions

- > **six** Regional Organisations of Councils meetings
- > **four** individual council engagements
- > **six** peak bodies or other stakeholder networks meetings (e.g. conferences, workshops and webinars)

# 49

## submissions received

- > **39** from councils
- > **nine** from other stakeholders
- > **one** from Western Qld Alliance of Councils covering an additional 22 local governments

## Results

There was broad support from stakeholders on the proposed sustainability framework, however a number of councils raised concerns about the approach to grouping councils as well as some proposed financial and asset sustainability measures and target benchmarks.

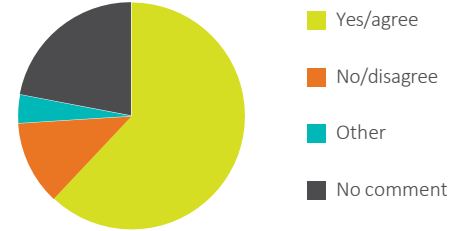
## Framework – The 5 Elements

- > councils agree with the proposed five elements of sustainability
- > suggestions to include environmental and community elements in the framework to better reflect the holistic circumstances councils face

## Question 1

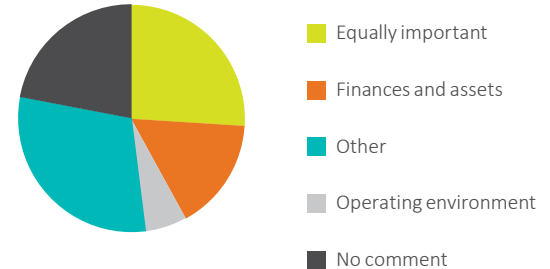
Do you consider the proposed elements of the framework:

- > capture the core areas that impact a council's sustainability?
- > appropriately reflect the varied nature and circumstances of Queensland's local governments?



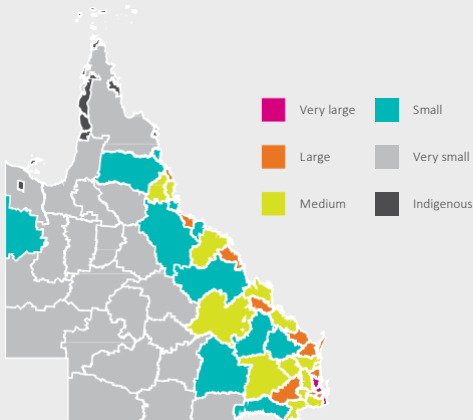
## Question 2

Are some of the proposed sustainability elements more important than others and therefore should be given a higher priority?



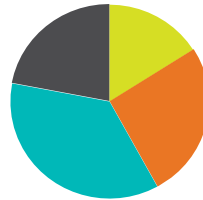
## Grouping of councils – based on population

- > limited support for population as the single method used for grouping councils
- > proposals to change the number/size of population categories (e.g. grouping for councils with < 2,000 – 3,000 population)
- > a number of alternative views on how councils should be grouped:
  - > the existing council groupings i.e., remuneration categories or LGAQ segments
  - > use of additional factors (e.g., population, remoteness, density, controlled revenue or growth rate)



## Question 3

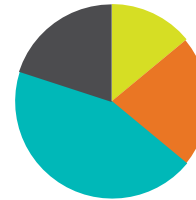
Do you support the proposed grouping of councils by population under the Sustainability Framework?



- Yes/agree
- No/disagree
- Other
- No comment

## Question 4

Is population a sound basis for grouping councils for sustainability monitoring and reporting?



- Yes/agree
- No/disagree
- Other
- No comment

## Question 5

Is there another way to group councils that you consider more appropriate for the purpose of sustainability monitoring and reporting that will stand the test of time and evolving nature of Queensland councils?

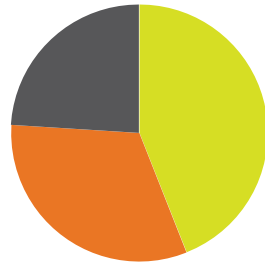
- > **Growth rates**
- > **Asset base**
- > **Rateable properties**
- > **LGAQ categories**
- > **Remuneration Commission categories**
- > **Australian classification of local government categories**
- > **Geography/remoteness**
- > **Socio-economic**
- > **Demographics**
- > **Council controlled revenue/grant reliance**
- > **Service levels**

## Financial and asset sustainability measures – what councils will report on:

- > broad support for the proposed measures, and support for the introduction of additional operating, liquidity, and asset management ratios to help better understand council sustainability
- > councils are broadly able to report the proposed measures except for the asset renewal ratio from the 2022-23 financial year
- > concerns raised about:
  - > the proposed debt per capita ratio and asset consumption ratio due to a perceived lack of usefulness in explaining council sustainability
  - > the complexity and administration burden of reporting the asset sustainability ratio by asset classes

### Question 6

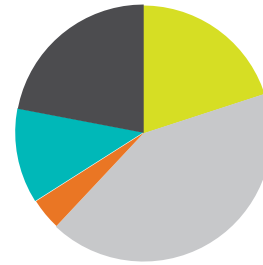
Are there other financial and asset sustainability measures that should be required to be reported on by councils?



■ No/nil      ■ Yes  
■ No comment

### Question 7

Do you support a five-year rolling average for the Operating Surplus Ratio and Operating Cash Ratio? Should this be expanded to other financial and asset sustainability measures?



■ OSR/OCR only    ■ All ratios  
■ No                    ■ Other  
■ No comment

### Question 8

Do you foresee any difficulties for your council reporting on the asset sustainability ratio by infrastructure asset class?



■ No/ nil issues    ■ Other  
■ Yes/not supported    ■ No comment

## Benchmarks

- > councils want to better understand how the various benchmarks were determined for all proposed measures
- > concerns with the proposal to allow negative targets for the operating surplus ratio for some councils as this could be seen as encouraging councils to remain unsustainable

### Question 9

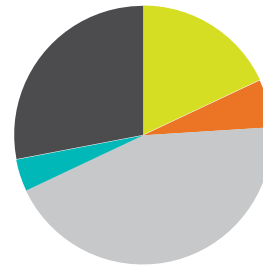
Do you have any feedback on the proposed transition timeframe to implement the asset renewal ratio?



- Agree
- Too long
- Too Short
- Other
- No comment

### Question 10

Do you think a debt per capita or debt per rateable property ratio provides insight into a council's financial sustainability?



- Per capita
- Rateable properties
- Not supported
- Other
- No comment

### Question 11

Do you agree with the proposed target benchmarks for the different groups of councils?



- Wholly yes
- Partly yes
- No/disagree
- Other
- No comment



## Implementation

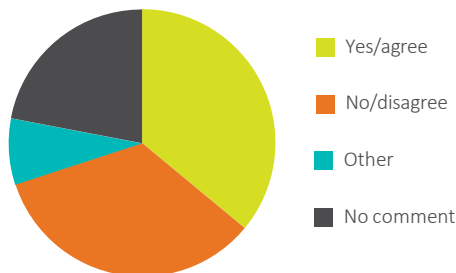
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- > strong support to defer the implementation of the proposed measures to allow councils time to prepare for the proposed changes, especially with the introduction of the asset renewal funding ratio as a sustainability measure due to the more rigorous asset planning systems required to produce it
- > strong focus on the importance of understanding how the QAO will use the proposed ratios to assess the sustainability risks of council
- > councils have requested assistance with the implementation of the framework with guidance materials and support i.e., clear definitions for ratios, practical training and explanatory material for councillors and the community

## Question 12

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Do you think implementing the new ratios for the 2022-2023 reporting is appropriate?



## Question 13

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What training and guidance material would assist your council to implement the proposed financial and asset ratios?

- > **Guideline documents**
- > **Ratio definitions and input guidance**
- > **QAO risk assessment advice**
- > **Training for councillors and council officers**
- > **Ratio calculator**
- > **Updates at Tropical workshops, Finance Officer Networks (FONs), Local Government Financial Professional (LGFP) forums**
- > **Funding to support**
- > **Updates to the QTC Financial Forecasting Tool (FFT) – 10 Year Forecasting model**
- > **Community education material**
- > **Reporting templates**