Frequently Asked Questions

LG Sustainability Framework

General Questions:

Q1: What is the Sustainability Framework?

A: The Sustainability Framework is the department's new approach to working with Queensland councils on sustainability challenges.

It will provide a more holistic approach to monitoring council sustainability, and it covers both financial and non-financial indicators.

The Sustainability Framework comprises of:

- an overarching non-statutory guidance document that outlines the Department's view of what it means to be sustainable through the lens of 5 elements (i.e., Operating Environment, Finances, Asset Management, Governance and Compliance) broken down into key indicators.

- a statutory guideline (the *Financial Management (Sustainability) Guideline*), establishing the financial and asset management performance measures and targets. These support annual statutory financial reporting in council financial statements.

- a risk framework to support the statutory guideline required for auditing councils' financial performance.

Q2: How will the 5 elements of council sustainability and their non-financial (qualitative) indicators and financial measures (quantitative) be managed by the Department?

A: Council sustainability will be managed by the Department in the following ways:

- The **Non-financial indicators** – The Sustainability Framework guidance document outlines the key non-financial indicators (qualitative indicators) the Department currently observes when considering council sustainability. These indicators will not be reportable by councils to the Department under the Sustainability Framework. This is business as usual for councils.

- The **Financial measures** - The financial measures (quantitative measures) highlight the core council financial sustainability areas (i.e., Operating Performance, Liquidity, Asset Management and Debt Service Capacity) are detailed in the *Financial Management (Sustainability) Guideline 2023* and are required to be reported in councils' annual financial statements with the Queensland Audit Office (QAO) auditing the calculations of these measures as part of council's annual statutory financial reporting processes.

Q3: What non-financial (qualitative) indicators of a council's sustainability will the Department observe?

A: The non-financial indicators comprise matters the Department currently observes as they relate to the obligations of councils under legislation which is administered by the Department.

Queensland Government

The indicators listed in the Sustainability Framework are non-exhaustive and the Department will consider the following non-financial indicators when monitoring council sustainability:

Indicators	Measure
Council meeting management	» Monthly council meetings are occurring » Meeting agendas (including attachments) and minutes recording outcomes are published on council's website within 10 days » Declaration of interest process for council members is managed and recorded appropriately » Any closed council meetings held in accordance with legislation
Workforce Management	» Stability of CEO and Executive Staff tenures.
Complaints management/Media attention	» No identification of official Councillor conduct complaints received and/or upheld as identified by the Office of the Independent Assessor (OIA) » No adverse media regarding council activities or Councillor conduct
Key documents	» Key financial documents are produced and/or meet the legislative timeframes or extended deadlines granted by Department. » Key asset management documents are produced and/or meet the legislative timeframes or extended deadlines granted by Department. » Key governance documents are produced and/or meet the legislative timeframes or extended deadlines granted by Department. » Key operating environment documents are produced and/or meet the legislative timeframes or extended deadlines granted by Department.
Audit Functions	» Councils has an internal audit function. » Councils has an active audit committee and is meeting twice a year (Category 3 and above). » No significant audit deficiencies raised by the QAO following council's annual audit process. » No carry over of significant audit deficiencies which were not remedied in prior years.
Grant funding delivery (DSDILGP)	» Quarterly progress reports are consistently completed. » Number of grant project variations received: change of scope, withdrawn and new projects, or budget

	variations provided by their deadline or extended deadline. » Adequate project and grant management governance systems and control environment in place.

Q4: When considering the non-financial (qualitative) indicators of a council's sustainability, will the Department provide councils with a rating?

A: No, it is not the Department's intention to publicly report on a council sustainability risk against the non-financial indicators of the Framework.

However, these indicators have an important role to play in:

- contextualising the financial measures established through the *Financial Management (Sustainability) Guideline* and,
- informing the department about development of initiatives and tailored support to emerging sustainability challenges.

This information is already observed by the Department because of our role in administering the *Local Government Act 2009* and the *City of Brisbane Act 2010.* The Department will continue to gather information about the non-financial indicators of councils (as outlined in Q3 above) in a number of ways, including through our continued engagement between councils and departmental advisors, data collection, surveys, and reviews of council websites.

As the implementation and use of the new Sustainability Framework progresses, the Department will consider, in consultation with councils, how best to provide insights about this information back to councils.

Q5: When assessing the financial measures of a council's sustainability how will councils be rated?

A: To support the new Statutory Guideline, the QAO has recommended that the Department develop and own a Risk Framework for financial sustainability that helps the department, councils and other stakeholders understand the sustainability risk of councils.

The department's approach to developing the risk framework is founded on the following key principles:

- Sustainability is more than financial - financial sustainability risks need to be considered holistically in combination with other key elements of council sustainability.
- Sustainability is a long-term objective - achieving sustainability takes time and concerted effort and there will be times when councils may experience sustainability pressures that affect short-term results.
- Not all sustainability risks are created equal – some of the measures are of higher importance from a risk perspective relative to others and councils which do not meet the targets for these measures have a higher level of financial sustainability risk.
- It is important to compare councils on a 'like with like' basis – Queensland's local government sector is diverse, and councils have differing financial and non-financial circumstances and challenges.
- Incentivise positive behaviours and avoid perverse outcomes - the department is seeking to establish a sustainability reporting framework which encourages council leaders to understand the drivers of long-term sustainability and pursue positive outcomes.

For more information about the risk framework please visit the Department's website.

Q6: How will the Sustainability Framework inform the department's capability and capacity building programs for councils?

A: The Framework will allow for a more holistic and proactive monitoring of councils' sustainability challenges that will help inform the Department to develop tailored and targeted capacity and capability training programs. The intelligence gathered on both the indicators and measures (non-financial and financial) will help inform capability and capacity programs for councils as well as the other levers for the Department (i.e., governance or financial training, funding programs or tools and resources etc).

Q7: When will councils need to start calculating the financial sustainability measures?

A: The *Financial Management (Sustainability) Guideline* will come into effect on 1 July 2023.

Following implementation, councils are required to calculate the financial sustainability measures as part of the annual statutory financial reporting process for the 2023-24 financial year and the 2024-25 budget process.

Councils can choose to adopt/use the new financial measures outlined in the new Guideline for their 2023-24 budget process (in addition to the current 3 financial sustainability measures) however this is not required but may be helpful for councillors to become familiar with the new measures.

Q8: Will the Tier a council belongs to in the sustainability guideline change from year to year?

A: No. Once the *Financial Management (Sustainability) Guideline* is formally approved, councils are expected to remain in those tiers for the next three financial years (to 2025-26).

However, the Department recognises that council populations can fluctuate from year to year and change over time and may result in a movement across Tiers. For this reason, the allocation of councils to Tiers will be reviewed as part of updates to the Guideline every three years.

About the approach to grouping councils in Tiers

In recognition of the diversity across the sector, the Department has allocated each council to a Tier for sustainability reporting and monitoring purposes. Tiers are based on the remoteness of the local government area and population (as reported by the Australian Bureau of Statistics), with a separate category for Indigenous councils in recognition of their unique legislative and financial circumstances. These Tiers will determine the targets of the financial sustainability measures for councils within each group.

The *Financial Management (Sustainability) Guideline* will provide details of the Tiers that councils will belong to for the Framework reporting period (i.e., 2023-2026).

The next *Financial Management (Sustainability) Guideline* review will be completed in 2026.

Q9: Will QTC's Long-Term Financial Forecast Tool (FFT) be updated to reflect the additional financial ratios?

A: Yes. The Department is currently working with Queensland Treasury Corporation (QTC) to ensure the QTC model is ready for the commencement of the *Financial Management (Sustainability) Guideline*.

Q10: How will the new sustainability ratios be incorporated into the FFT?

A: There will be 2 new Sustainability Ratio tabs in the FFT, an input sheet and an output sheet.

The input sheet will provide users with the ability to enter information required for the new ratios (particularly the asset ratios) that isn't already captured or calculated in the FFT.

The Output sheet will show the sustainability ratios tables as per Appendix B & C of the Financial Management (Sustainability) Guideline.

These tables will be able to be downloaded or printed from the model.

Q11: Why are the department's financial sustainability ratios not the same as QTC's credit metrics/ratios?

QTC conducts credit reviews for the entities that borrow from the State Government. These reviews are not an assessment of council's financial performance and are not a part of the financial sustainability framework. The outcomes from the credit reviews are used to assist Queensland Treasury and the administering departments in making lending decisions and for prudential reasons.

The focus of QTC's credit reviews is to assess a council's ability to manage its current and future debt obligations, rather than provide a broader view regarding the council's financial sustainability (which the Department's new metrics are designed to evaluate). Therefore, the metrics considered are different.

When QTC conducts a credit review, it considers a range of qualitative and quantitative factors. This process has not changed. It is noted that some of the new metrics introduced by the Department are already broadly consistent with those considered by QTC (e.g., unrestricted cash expense cover and operating cash ratio/EBITDA margin, and leverage ratio).

While QTC's credit assessments have not changed, the additional metrics introduced by the Department (such as the new asset sustainability measures) provide additional context regarding the financial health of each council and will provide valuable context for QTC's analysis.

Q12: Why does QTC not use different targets for different sized councils as per the guideline?

QTC uses preferred benchmarks for key ratios that are the same for all local governments. This allows us to do qualitative adjustments to these benchmarks based on a council's individual circumstances.

Q13: When will the updated FFT, with the new sustainability ratios, be available to use?

QTC is continuing to work with the Department and QAO to confirm the sustainability ratio calculations and reporting to be included in the FFT. It is expected that the updated FFT to be available early in the new year.

Q14: Is it best to wait for the updated FFT to be provided before starting to enter the FY2025 budget and forecasts into the model?

Councils should continue populating the current FFT as per normal. QTC will convert/migrate the information already entered in the FFT across to the updated FFT. QTC will advise councils when the updated FFT is ready for use.

Councils will be able to submit the FFT they're working on (whether it's complete or not) into their QTC Teams site (i.e., the same place they usually submit their completed FFT) and QTC will begin the process of migration to the updated FFT.

Once the conversion process is complete, QTC will put the updated FFT back into the QTC Teams site for councils.

Q15: What if a council has never completed a FFT before, how can they access a blank copy of the updated FFT?

Councils can contact QTC to request a blank template of the new FFT if they don't already have an existing FFT.

Q16: Are councils required to calculate the ratios on both a standalone and consolidated basis (i.e., with controlled entities)?

A: Yes. The Department requires ratios to be calculated on a standalone and consolidated basis.

Q17: Why are councils required to calculate ratios as a single-year and 5-year average?

A: External events such as natural disasters can have material impacts on a council's operating performance year to year. To normalise the impacts of these one-off events, all ratios with the exception of the Unrestricted Cash Expense Cover Ratio and Asset Renewal Funding Ratio, will be required to report on a historical five-year average basis, as well as single-year results.

Appendix B of the Guideline provides an example of the Current-Year Sustainability Statement format.

Q18: Why does the Long-Term Sustainability Statement require councils to calculate ratios as a single-year result only?

A: It is difficult for councils to predict one-off events that may occur in the future; therefore, council is only required to forecast single-year results for the Long-Term Sustainability Statement.

Appendix C of the Guideline provides an example of the Long-Term Sustainability Statement format.

Technical Questions – Financial Management (Sustainability) Guideline

Q1: How does the *Guideline* define 'Council Controlled Revenue'?

A: Council controlled revenue is an indicator of a council's financial flexibility, the ability to influence operating income and capacity to respond to unexpected financial shocks.

Council controlled revenue typically refers to revenue that a council has direct control over, such as net rates, levies, and charges and fees and charges.

Items such as sales contracts and recoverable works, rental income, and operating grants and subsidies are not considered as council-controlled revenue as councils have limited influence over these revenue sources.

The Guideline defines council-controlled revenue as:

- **Net Rates, Levies and Charges:** rates, levies, and annual charges levied by a local government less discounts and concessions.
- **Fees and Charges:** charges for services provided by local governments, such as building application, development, town planning and property connection fees, licences, permits and parking fees, infringements, refuse fees, and other ad hoc fees and charges.

This ratio is a contextual measure only with no targets specified for any of the Tiers.

Q2: What is the source of the population data to be used for the Population Growth Ratio?

A: The Australian Bureau of Statistics (ABS) provides the most recent population estimates and will be the data source for the inputs for the 'Population Growth Ratio'.

The ABS has rebased the population estimates to the 2021 Census of Population (ABS category number 3235.0) (Population by Age and Sex, Regions of Australia).

This ratio is calculated for the previous financial year i.e., FY2022-23 and will report FY21-22 population growth. The Department will publish population figures to be use for this ratio following implementation, 1 July 2023.

Q3: How is externally restricted cash defined?

A: Externally restricted cash refers to the cash held by councils that is subject to restrictions or conditions by a third party which govern the use of these funds.

These funds are typically earmarked for a specific project (e.g., capital grant funding received from Government for designated infrastructure projects). Internally restricted reserves are not considered to be externally restricted cash (see Guideline definitions).

Q4: Why is the 'Unrestricted Cash Expense Cover Ratio (UCECR)' only reported on a single year basis and not on a five-year average basis?

A: The UCECR is a measure of the unconstrained liquidity available to a council to meet its ongoing and emergent financial demands, which is a key component to solvency. It is a short-term measure and therefore only required to be reported on a single year result.

Q5: Has the calculation of the 'Asset Renewal Funding Ratio' changed?

A: Yes. While the intent of the calculation itself has not changed for this ratio, the inputs to determine this measure have.

The discussion paper released in November 2021 proposed this ratio to use the Net Present Value of planned capital expenditure on asset renewals and the Net Present Value of required capital expenditure on asset renewals for the calculation. Using these inputs for this ratio would require all councils to have rigorous asset management planning and financial forecasting in place.

Following councils' feedback during the consultation period and taking into consideration the varying levels of asset maturity in the sector, this ratio will now require the Total of planned capital expenditure on infrastructure asset renewals and the Total of required capital expenditure on infrastructure asset renewals for this calculation.

This ratio is to be calculated on a single-year basis only.

Q6: How should councils calculate the three Asset Management Ratios if council's asset management plan is yet to be adopted?

A: The Department recognises that the asset management data of councils' may be at different levels of maturity and vary significantly. A phased transition for some councils for reporting the Asset Funding Renewal ratio will allow time for councils to improve the quality of asset information required to apply in the calculations of these ratios.

To support the Guideline implementation and improve asset management capabilities in the sector, the Department is responding to these challenges through the upcoming advancing asset management program.

The Department recognises the variation in council asset management data and considers recent available modelling to be an acceptable alternative to adopted long-term asset management plan.

To support interpretation of the council's results, councils are required to provide a narrative identifying key drivers and contributing factors which should include the use of budgetary figures.

The asset management ratios refer to infrastructure assets only. Please refer to definitions section of the Financial Management (Sustainability) Guideline for further information in what is included and excluded from ratio calculations.

Q7: Prior to the implementation of the Sustainability Framework, should councils complete a revaluation of their assets?

A: There is no requirement for councils to complete a revaluation of their assets prior to the implementation of the *Financial Management (Sustainability) Guideline.*

Councils should however continue to revalue their asset classes in line with their current revaluation schedule.

Q8: Does each Tier group have a different implementation timeframe for reporting the financial measures in the *Financial Management (Sustainability) Guideline*?

A: All councils will need to implement the Sustainability Framework and the financial measures in the *Financial Management (Sustainability) Guideline* from 1 July 2023. The annual statutory financial reporting process for the 2023-24 financial year and the 2024-25 budget process will require the calculation of the ratios.

The Department appreciates that councils will need to be provided sufficient time to work through any internal changes to data collection and reporting. The only measure that is dependent on which Tier group councils are in is the 'Asset Renewal Funding Ratio' (ARFR) with a phased transition timeframe.

- Tier 1 and 2 councils - reporting for the ARFR will commence from 2023-24
- Tier 3 councils - reporting for the ARFR will commence from 2024-25
- Tier 4 councils - reporting for the ARFR will commence from 2025-26
- Tier 5 and 6 councils - reporting for the ARFR will commence from 2026-27
- Tier 7 and 8 councils - reporting for the ARFR will commence from 2027-28

Councils are welcome to include the financial measures in their 2023-24 annual budgets, however this is not mandatory.

The 2022-23 annual statutory financial reporting process will be audited for the 3 existing current financial ratios (i.e., 'Operating Surplus Ratio', 'Asset Sustainability Ratio' and 'Net Financial Liability Ratio').

Q9: What action can councils take to align their internal policies and processes with the Sustainability Framework?

A: Implementing the new Framework will be a partnership between the State and councils. Importantly, the Framework is being designed to ensure minimal work for councils, while delivering an enhanced understanding of council sustainability for councils and the communities.

To assist councils, align the Framework to their organisational policies and processes, the Department provides additional guidance and support through LG Central.

The financial ratios and targets set by the Department within the *Financial Management (Sustainability) Guideline* can serve as indicator for measuring performance from a financial perspective. By regularly monitoring these ratios and comparing them against the set targets, the council can evaluate its financial performance over time and identify areas for improvement.