Frequently Asked Questions

Local Government Sustainability Framework

General Questions:

Q1: What is the *Sustainability Framework*?

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

It provides a holistic approach to monitoring council sustainability, covering 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 f**inancial measures** - The financial measures (quantitative measures) highlight the core council financial sustainability areas (i.e., Operating Performance, Liquidity, Asset Management and Debt Service Capacity). These measures are detailed in the *Financial Management (Sustainability) Guideline* 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 required under legislation which is administered by the Department.

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. • The declaration of interests process for council members is managed and recorded appropriately. • Any closed council meetings are held in accordance with legislation.
Workforce Management	• Stability of CEO and Executive Staff tenures.
Complaints management/Media attention	• The absence of an official Councillor conduct complaint as identified by the Office of the Independent Assessor. • The absence of negative media regarding Council activities or Councillor conduct.

Key documents	• Key financial documents are produced and meet the legislative timeframes or extended deadlines granted by the Department.
	  ○ Corporate plan
	  ○ Operational plan
	  ○ 10-year long-term financial forecast
	  ○ Annual budget
	  ○ General purpose financial statements
	• Key asset management documents are produced and meet the legislative timeframes or extended deadlines granted by the Department.
	  ○ Long-term asset management plan
	  ○ Asset register
	• Key governance documents are produced and meet the legislative timeframes or extended deadlines granted by the Department.
	  ○ Procurement policy
	  ○ Investigation policy
	  ○ Administrative action complaints process
	  ○ Meeting procedures
	  ○ Register of interests published for every Councillor
	  ○ Councilors conduct register

Audit Functions	• Councils have an active internal audit function reporting to the internal audit committee or CEO at least twice a year. • Councils have an established an active audit committee (remuneration category 3 and above), meeting at least twice a year. • Number of significant audit deficiencies raised by the QAO following Council's annual audit process. • Significant audit deficiencies from previous years have not been remedied.

Grant funding delivery (DHLGPPW)	• Quarterly progress reports are consistently completed and submitted to the Department. • Number of grant project variations requested (all variation types included). • 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, the Department will not be publicly reporting 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 responses and tailored support to emerging sustainability challenges.

This information is currently being 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 above in Q3) 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 *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 *Financial Management (Sustainability) 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 will be considered holistically along 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 or LG Central.

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

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

A: Implementing the *Sustainability Framework* will be a partnership between the State and councils. Importantly, the *Sustainability 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 with aligning the *Sustainability Framework* to their organisational policies and processes, the Department provides additional guidance and support through the Department’s Website and LG Central.

The financial ratios and targets set by the Department within the *Financial Management (Sustainability) Guideline* can serve as an 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.

Frequently Asked Questions

Financial Management (Sustainability) Guideline

Technical Questions:

Q1: When will councils need to start calculating the financial sustainability measures?

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

Q2: What are the differences between the *Financial Management (Sustainability) Guideline* for 2023 version 1 and 2024 version 1?

The updates from the 2023 Guideline have been based on feedback from stakeholders, with the aim of providing greater clarity and improved useability for councils.

Key changes in the 2024 Guideline include:

- The leverage ratio formula now includes finance costs in the calculation to eliminate the impacts from interest expenses on council loans.
- The definition of infrastructure assets has been updated to exclude specific asset types for consistency given that councils control a diverse range of assets.
- Clarity on the definition of depreciation and amortisation to exclude right of use assets.
- The contextual financial measures, not audited by the QAO, have been separated from the measures that are audited on and included in a new appendix.

For more information, please refer to the *Financial Management (Sustainability) Guideline 2024 version 1* on the Department website or LG Central.

Q3: Will the Tier a council belongs to in the *Financial Management (Sustainability) Guideline* change from year to year?

A: No, councils are expected to remain in the assigned tiers for the next three financial years (2024-26).

The Department recognises that council population figures can fluctuate from year to year, and change over time, which 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 Financial Management (Sustainability) Guideline every three years. The next Tier review will be completed in 2026.

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.

For more information in relation to the council Tiers for the *Sustainability Framework* reporting period 2023-2026, please refer to the *Financial Management (Sustainability) Guideline 2024 version 1* on the Department website or LG Central.

Q4: Does each Tier group have a different implementation timeframe for reporting the financial measures in the *Financial Management (Sustainability) Guideline*?

A: From 1 July 2023, all councils are required to implement the *Sustainability Framework* and report on the financial measures in the *Financial Management (Sustainability) Guideline*. 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 only measure that is dependent on which Tier group councils are in is the 'Asset Renewal Funding Ratio' (ARFR). The Department appreciates that councils need time to work through any internal changes to data collection and reporting, therefore this measure has 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

Q5: How does the *Financial Management (Sustainability) 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 *Financial Management (Sustainability) 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.

Q6: Why is the Population Growth Ratio a ‘lagging indicator’?

A: The Australian Bureau of Statistics (ABS) releases the latest population data in September every year. Given this timing and the need for consistency in the calculation of this ratio, councils will calculate the current year Population Growth Ratio using prior year population data – for example, the calculation for FY2023-24 will use the population data for the years 2021 and 2022, published by the ABS in September 2023.

Q7: How should the Population Growth Ratio be calculated and reported?

A: The Department has developed some further guidance material and published the *Sustainability Framework - Calculation and Reporting of the Population Growth Ratio* to assist councils in calculating and reporting the Population Growth Ratio as part of the reporting requirement.

Councils are required to calculate and report on:

- Actual Population Growth Ratio for the current year,
- Average Population Growth Ratio for the past 5 years, and
- Forecast Population Growth Ratio for each year over the next nine years.

For more information about these formulas, calculation methodologies, and reporting of the Population Growth Ratio, please refer to the *Sustainability Framework - Calculation and Reporting of the Population Growth Ratio*, published on the Department’s website and LG Central.

Examples reporting templates for the Population Growth Ratio are in Appendix B and Appendix C of Financial Management (Sustainability) Guideline, also published on the Department’s website and LG Central.

Q8: How is externally restricted cash defined?

A: Externally restricted cash refers to the cash held by councils subject to restrictions or conditions by a third party who governs their use.

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

For more details, please refer to the *Definitions* in the *Financial Management (Sustainability) Guideline.*

Q9: 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's result.

Q10: Has the calculation of the 'Asset Renewal Funding Ratio' changed?

A: Yes, from the original calculation found in the Sustainability Framework discussion paper. While the calculation's intent has not changed for this ratio, the inputs to determine this measure have.

The discussion paper released in November 2021 proposed this ratio 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.

Q11: 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 *Financial Management (Sustainability) 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 the 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 the definitions section of the *Financial Management (Sustainability) Guideline* for further information on what is included and excluded from ratio calculations.

Q12: Prior to the implementation of the *Financial Management (Sustainability) Guideline*, 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.

Q13: Is it a requirement for councils to provide narrative for the budget and long-term forecasting?

The narrative that identifies key drivers and contributing factors is only required for the historical actual results, as demonstrated in the statement template in Appendix B of the Financial Management (Sustainability) Guideline. Councils are not mandated to provide narrative for the long-term forecasting in Appendix C. However, the Department encourages councils to integrate the narrative into their budget and long-term forecasting processes. This practice could offer potential benefits to councils, such as clarifying the connections between budget categories, increasing transparency for users, and aiding in the retention of corporate knowledge.

Q14: Are councils required to calculate the ratios on both a standalone and consolidated basis (i.e., with controlled entities)?

A: Yes. The Department requires the ratios to be calculated on a standalone and consolidated basis. For more information, please refer to the Appendix B and C in the *Financial Management (Sustainability) Guideline*

Q15: 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 *Financial Management (Sustainability) Guideline* provides an example of the Current-Year Sustainability Statement format.

Q16: Why does the Long-Term Sustainability Statement require councils to calculate ratios as a single-year result only?

A: Councils are only required to provide single year ratios for each forecast year, rather than a 5-year average. Single year ratios provide a more accurate representation of a specific year's financial performance, whereas a 5-year average could potentially obscure the councils' perspective on the forecasts. Given that a council's financial conditions can vary significantly from year to year, a single year's results may be more relevant for forecasting purposes than a 5-year average. This approach also optimises the budgeting and forecasting process, allowing councils to focus on the data for each specific year. It simultaneously boosts transparency and simplifies the comprehension of budget and long-term forecasting for stakeholders.

Appendix C of the *Financial Management (Sustainability) Guideline* provides an example of the Long-Term Sustainability Statement format.

Q17: Will QTC’s Long-Term Financial Forecast Tool (FFT) be updated to reflect the additional financial ratios?

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

The QTC FFT contains several ratios used for QTC’s credit assessment and borrowing application assessments process. The FFT will contain a separate page containing the department’s sustainability calculations and ratios based on the council Tiers (like the Natural Disaster Relief and Recovery Arrangements inputs).

An input sheet will be included in the FFT and councils that use QTC’s model can input data needed for the calculations of the sustainability ratios. Some of the inputs (e.g., current replacement costs) required for the calculations will be determined by councils outside the QTC model.

Councils will provide their current model to QTC and QTC will migrate councils’ data to the new version, which will contain the sustainability ratios.

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