Factors Impacting Local Government Financial Sustainability: A Council Segment Approach

Local Government Association of Queensland (LGAQ)

Final Report

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ORION Consulting Network

AECgroup
Outcome Driven

Acknowledgment

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Gavin's consultancy experience is wide-ranging, and has included financial and economic modelling, revenue strategy development, regulatory assessment, policy review and development, reform implementation, impact assessment, strategic performance reviews, measuring regional economic development outcomes and assessing needs for infrastructure, commercial property developments and community facilities. Over the past decade, Gavin has developed a suite of financial sustainability and costing/pricing models to assist Local Governments in all aspects of their operations.

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Simon is AEC*group*'s Chief Executive Officer and has been with the company since inception. Simon has wide-ranging experience in project management, systems and processes, economic and financial consulting, market and community research, strategic and business planning and information technology. He has worked on and managed significant projects for a range of private and public clients.

Simon has worked with Queensland Local Governments on financial sustainability, reform implementation and business improvement for the past two decades, and has a unique understanding of the different issues being faced by different Local Governments across the state (and nation).

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David has been actively involved in public sector reform for 35 years, and has been a financial management consultant for the last 10 years. At two of Australia's largest Councils (Brisbane and Ipswich), David was responsible for the strategic finances of those Councils. Since 2008, he has worked with 17 Local Governments as well as other bodies such as the LGAQ, LGAA, Department of Local Government, Unitywater and the ULDA.

Executive Summary

The enigma of Financial Sustainability in Local Government

There is a long history of poor financial sustainability outcomes in Local Government. In recent times, no less than thirteen State and national based inquiries into Local Government financial sustainability have been undertaken, with the general conclusions being that the Local Government sector is financially stressed, with anywhere from one third to 50% of Local Governments deemed to be unsustainable, weak or distressed.

According to the *Local Government Act 2009* (Qld), "*A Local Government is considered financially sustainable if its infrastructure capital (assets) and financial capital are able to be delivered and maintained over the long term*". Of particular concern is the ability to manage debt in a way that it is able to be serviced from operating revenue without becoming a burden for ratepayers through significant future adjustments to revenue and/or expenditure policies.

Furthermore, a number of high-level issues are evident in the Local Government sector when it comes to financial sustainability outcomes:

- **Vertical Fiscal Imbalance**, which refers to the situation where revenue collection at different levels of Government does not match expenditure requirements. This is especially the case with Local Government as they are dependent for much of their expenditure needs on transfers from State and Commonwealth Governments. A number of factors have contributed further to this fiscal imbalance in recent years including cost shifting, legislated higher standards of service, reductions in the real values of grants and subsidies or complete removal of them, and constraints on revenue raising.
- **Horizontal Fiscal Imbalance**, which refers to different abilities to raise revenue and different expenditure requirements at the same level of Government. Local Governments have different capacities to raise revenue as well as expenditure needs. Whilst partly addressed through grant allocation methodologies, the maintenance of these is outside the control of Local Government.
- **Internal Operating Environment**, which refers to the ability to influence community characteristics and trends. Due to different demographic characteristics and geographic locations, Local Governments have different abilities to attract and retain skilled resources. The growth and age composition of populations can also present funding challenges for infrastructure and service provision into the future.
- **External Operating Environment**: Refers to State, national and global economic forces over which Local Governments have limited influence.

Objectives of this study

Much of the research into Local Government financial sustainability took place prior to the 2008 Local Government reforms across Queensland, with policy makers arguing that the reforms in Queensland would enhance the sector's financial sustainability outcomes. There has also been some criticism of the relevance of prior reviews which have primarily focussed on the application of the same financial indicators that are primarily used for credit rating purposes, rather than an investigation into the underlying issues driving financial sustainability outcomes at the micro level.

LGAQ believes it is timely to test these assertions and reassess Local Government sustainability in a post-amalgamation environment, with a focus on researching sustainability outcomes for different Local Governments given their unique characteristics. These different characteristics may mean considerable differences in the factors impacting financial sustainability both now and into the future.

What are appropriate Local Government segments?

Table E.1 outlines the Local Government segments utilised in this study to identify the common and unique financial sustainability challenges facing each segment. In deriving the appropriate categorisation of Local Governments, consideration was given to current

LGAQ "Advocacy segments' in addition to the demographic, economic and social characteristics of each Local Government. A secondary category has been assigned to a number of Local Governments in brackets.

In the instance where a secondary segment is noted, it is highly likely that the financial sustainability challenges identified for both the primary and secondary segments are applicable. This is particularly relevant for those smaller Local Governments that have been categorised under the Resources segment when they are Rural/Remote in nature.

Table E.1: Adopted Local Government Segments in the Study

Segment	Description	Local Government
Indigenous (17) *(representing Indigenous Australians and Indigenous Torres Strait Islanders)*	Local Governments based in indigenous communities, where service delivery is constrained by capacity and which share similar capability challenges and representational demands. These Councils represent diverse communities and will require tailored support mechanisms.	Aurukun SC Cherbourg Aboriginal SC Doomadgee Aboriginal SC Hope Vale Aboriginal SC (Resources) Kowanyama Aboriginal SC Lockhart River Aboriginal SC Mapoon Aboriginal SC Mornington SC Napranum Aboriginal SC Northern Peninsula Area RC Palm Island Aboriginal SC Pormpuraaw Aboriginal SC Torres SC Torres Strait Island RC Woorabinda Aboriginal SC Wujal Wujal Aboriginal SC Yarrabah Aboriginal SC
Rural/ Remote (13)	Local Governments located predominately west of the Great Dividing Range which are geographically large, but contain populations of less than 10,000 residents. Due to a limited rate base, these Local Governments are traditionally reliant on external grants and subsidies to ensure their ongoing financial sustainability. Operational efficiencies are often difficult to achieve due to geographical distances and the ability to attract and retain suitably qualified staff across a range of disciplines.	Balonne SC Barcaldine RC Blackall-Tambo RC Boulia SC (Resources) Carpentaria SC Croydon SC Diamantina SC Flinders SC Longreach RC Murweh SC Paroo SC Richmond SC Winton SC
Rural/ Regional (8)	Local Governments located inland which are geographically large and contain populations of greater than 10,000 residents, and generally have a high level of reliance on agricultural activities.	Goondiwindi RC Lockyer Valley RC (SEQ) North Burnett RC Scenic Rim RC(SEQ) Somerset RC (SEQ) South Burnett RC Southern Downs RC Tablelands RC
Resources (16)	Local Governments located in, or adjacent to Queensland's key mining regions/basins, where their operations are impacted by current or proposed resource activity. These Local Governments are required to interact closely with mining sector stakeholders and also share similar challenges in balancing the economic opportunities derived from mining activity and the corresponding problems relating to liveability, wellbeing and the long term sustainability of their communities. A Local Government is recognised as a Resources Local Government if greater than 30% of activity in the local economy is due to the mining and mining related (manufacturing and processing) sectors.	Banana SC (Rural/Regional) Barcoo SC (Rural/Remote) Bulloo SC (Rural/Remote) Burke SC (Rural/Remote) Central Highlands RC (Rural/Regional) Charters Towers RC (Rural/Regional) Cloncurry SC (Rural/Remote) Cook SC (Coastal) Etheridge SC (Rural/Remote) Gladstone RC (Coastal) Isaac RC (Rural/Regional) Maranoa RC (Rural/Regional) McKinlay SC (Rural/Remote) Mount Isa CC (Rural/Regional) Quilpie SC (Rural/Remote) Western Downs RC (Rural/Regional)

Segment	Description	Local Government
Coastal (11)	Local Governments principally located along the Queensland coast line. These Local Governments are experiencing different growth scenarios with some experiencing strong population increases and demand for key infrastructure to service economic growth with others seeking to renew economic activity and reverse population decline. Climate change and rising sea levels will create challenges for all Councils in this segment.	Bundaberg RC Burdekin SC (Rural/Regional) Cairns RC Cassowary Coast RC (Rural/Regional) Fraser Coast RC Gympie RC (SEQ) Hinchinbrook SC (Rural/Regional) Mackay RC Rockhampton RC Townsville CC Whitsunday RC (Resources)
SEQ (8)	Higher capacity and capability Local Governments located in SEQ, managing high population growth resulting in increased service and infrastructure demand, and subject to specific inter-Governmental planning and service delivery arrangements.	Brisbane CC Gold Coast CC (Coastal) Ipswich CC Logan CC Moreton Bay RC (Coastal) Redland CC (Coastal) Sunshine Coast RC (Coastal) Toowoomba RC

Note: Excludes Weipa Town Authority. It could be argued that Gympie Regional Council has a third segment, being the Rural/Regional segment.
Source: LGAQ, AEC*group* (2013a)

How is Financial Sustainability defined & measured?

Many of the definitions of financial sustainability appear to be drawn from credit ratings agency concepts of creditworthiness and the riskiness of repaying borrowings under a range of economic conditions such as external shocks, rather than continuity of services and infrastructure maintenance necessary in a Local Government context. Whilst it is not the objective of this study to define Local Government financial sustainability, it is an objective to attempt to determine the factors impacting it. Reliance is therefore placed on the current Queensland legislation regarding the definition and measurement of financial sustainability.

The *Local Government Regulation 2012* (Qld) requires Queensland Local Governments to include three measures of financial sustainability (see Table E.2) in their annual budget forecasts for the financial year the budget is being prepared for in addition to forecasts for the subsequent nine years. As part of the annual audit, the Auditor General is required to assess performance against these three financial sustainability indicators.

Table E.2: Queensland Local Government Legislated Financial Sustainability Measures

Measure	Calculation	Target
Asset Sustainability Ratio	Capital expenditure on the replacement of assets (renewals) / depreciation expense	>90%
Operating Surplus Ratio	Net operating result / total operating revenue (both excluding capital items)	0%-10%
Net Financial Liabilities Ratio	(Total liabilities - current assets) / total operating revenue (excluding capital items)	<60%

Source: DLGCRR (2013)

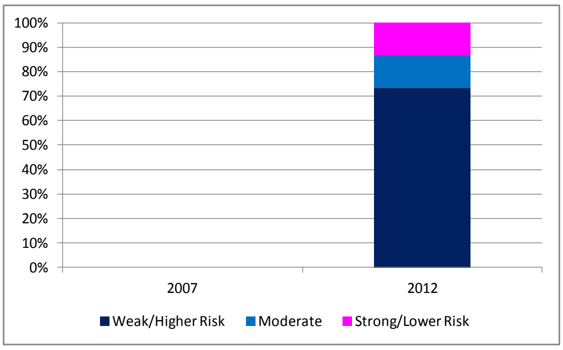
What have past Financial Sustainability reviews found?

Three major assessments of Queensland Local Government financial sustainability have been undertaken in recent times:

- Queensland Treasury Corporation (QTC, 2008) found that 39% of Local Governments had a financial sustainability rating below moderate, 50% moderate and 11% above moderate.
- Department of Local Government and Planning (DLGP, 2011b) found 21% of Local Governments to be financially challenged, 32% moderate and 46% strong.
- Queensland Audit Office (QAO, 2013) found 24% of Local Governments had a higher risk of financial sustainability issues, 19% with a moderate risk and 57% with a lower risk.

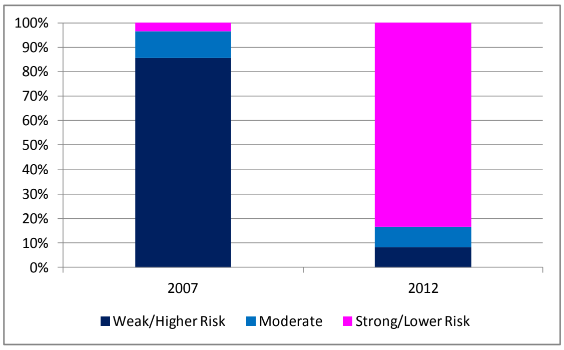
Whilst a comparison of these assessments pre and post the Local Government Reforms (Figures E.1 to E.6) may suggest that financial sustainability has improved in some segments, extreme caution should be exercised in drawing such conclusions. Direct comparisons cannot be drawn given the different methods applied in determining the ratings, in addition to the fact that a reduction in the number of higher risk Local Governments may simply be due to the amalgamation of multiple higher risk Local Governments rather than being reflective of an actual improvement.

Figure E.1: Financial Sustainability Pre/Post Local Government Reform - Indigenous



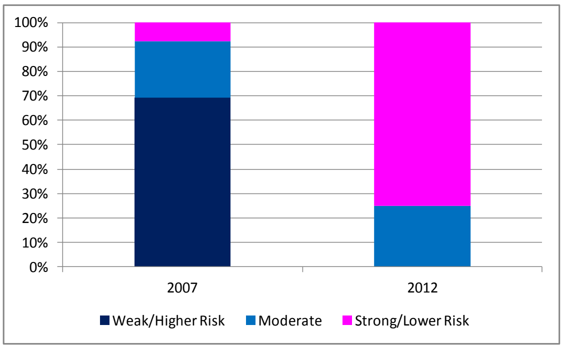
Note: QTC (2008) did not assess Indigenous Local Governments
Source: QTC (2008), QAO (2013), AEC*group*

Figure E.2: Financial Sustainability Pre/Post Local Government Reform - Rural/Remote



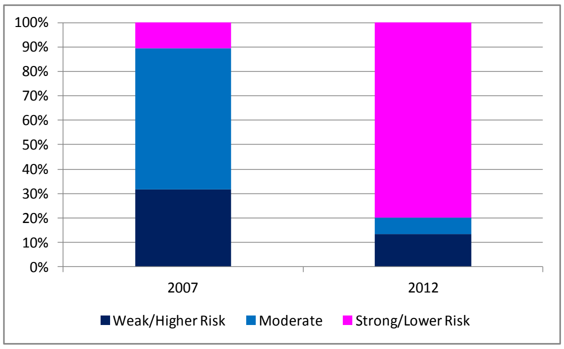
Source: QTC (2008), QAO (2013), AEC*group*

Figure E.3: Financial Sustainability Pre/Post Local Government Reform - Rural/Regional



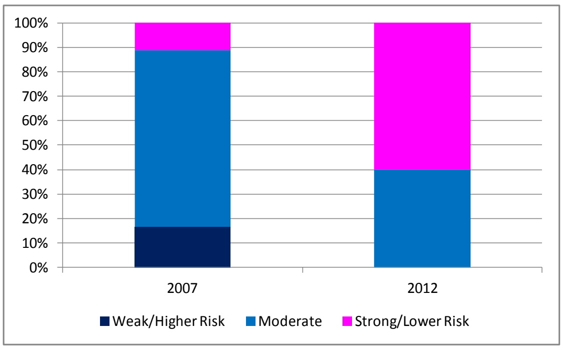
Source: QTC (2008), QAO (2013), AEC*group*

Figure E.4: Financial Sustainability Pre/Post Local Government Reform - Resources



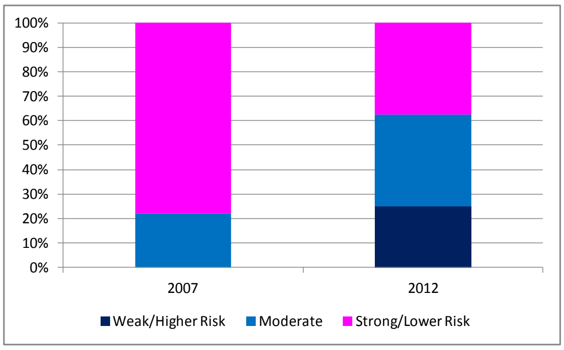
Source: QTC (2008), QAO (2013), AEC*group*

Figure E.5: Financial Sustainability Pre/Post Local Government Reform - Coastal



Source: QTC (2008), QAO (2013), AEC*group*

Figure E.6: Financial Sustainability Pre/Post Local Government Reform - SEQ



Source: QTC (2008), QAO (2013), AEC*group*

Interstate, in NSW and Victoria, distributions of Local Government financial sustainability are mixed. In NSW, TCorp (2013) found 26% of Local Governments below moderate, 52% moderate and 22% above moderate financial sustainability. Victorian Local Governments however, appear to be more financially sustainable with the Victorian Auditor-General (2012) finding 90% of Local Governments having a low risk of financial sustainability issues arising. This begs the question about what may be different in Victorian Local Government.

What does Local Government think about Financial Sustainability?

An online survey of Queensland Local Governments was undertaken in August 2012, with 53 responses received (representing a response rate of 72.6%).

Each Local Government selected a financial sustainability rating based on a subjective assessment of their medium to long-term financial sustainability and ability to manage assets moving forward. Around half of all Local Governments nominated an acceptable rating for their financial sustainability, while 23% nominated either a challenged or severely challenged rating. Only 6% of all Local Governments nominated a very strong rating, with a further 21% nominating a strong rating.

Each Local Government was requested to list out the biggest issues/impediments facing them from a financial sustainability perspective, with the top two issues raised being:

- *Asset Renewal*: Ability to source appropriate levels of internal and external funding, ageing infrastructure, funding depreciation, demand for new assets at the expense or renewing existing assets, more significant issues in smaller communities and ability to rationalise infrastructure given competing political and community priorities.
- *Queensland & Commonwealth Government Funding*: Constrained and reduced funding assistance, funding uncertainty of the level and stability of grants, high dependence on funding by smaller Local Governments, devolution of financial and other responsibilities and the lack of constitutional recognition.

Analysis by council segment revealed the following major issues/impediments and concerns:

- **Indigenous**: lack of own source revenue streams and the ability to fund infrastructure renewal.
- **Rural/Remote**: the level of economic activity to support the local rate base and community capacity to pay, along with the ability to fund infrastructure renewal.
- **Rural/Regional**: appropriate long-term financial and asset management planning, and the ability to fund infrastructure renewal given the lack of Queensland Government subsidies.
- **Resources**: impact of high levels of economic activity on infrastructure capacity and service delivery, ability to attract and retain appropriate resources in competition with the mining sector, and the ability to recoup sufficient revenue from the mining sector.
- **Coastal**: the need to fund growth-driven infrastructure faced with infrastructure renewal pressures and capped infrastructure charges, devolution of (and therefore increasing) responsibilities, and the impact of policy and regulation on resourcing.
- **SEQ**: the ability to effectively manage, plan, deliver and fund growth-driven infrastructure when faced with infrastructure renewal pressures, capped infrastructure charges, removal of State Government funding assistance for major infrastructure and pressure on debt balances.

All segments also raised the issue of devolution of responsibilities from other levels of Government as a significant factor impacting financial sustainability.

What factors influence Financial Sustainability?

There are many factors that influence financial sustainability. The regional characteristics and financial and resourcing factors found to impact financial sustainability are summarised in Tables E.3 and E.4.

Table E.3: Regional Characteristics Impacting Financial Sustainability

Factor	Description
Demographic	• In terms of population growth, the Rural/Regional, Coastal, Resources and SEQ segments are forecast to grow the fastest, while the Rural/Remote and Indigenous segments are forecast to grow the slowest. • The population is ageing in all council segments but is most dramatic in the SEQ and Coastal segments, and the Rural/Regional segment has the highest average age. • Educational achievement and population density are both relatively lower in the Indigenous, Rural/Remote, Rural/ Regional and Resources segments.
Economic	• The Resources segment has the highest but most volatile GRP per capita. • The Rural/Remote segment is experiencing the strongest per capita economic growth rates whilst the Indigenous segment is recording negative growth per capita. • The Indigenous, Rural/Remote and Rural/Regional segments are less economically diverse and rely heavily on public sector expenditure. • The Indigenous segment has the highest unemployment rate, while the Resources, SEQ and Rural/Remote segments have the lowest unemployment rates. • Average household incomes are highest in the Resources segment (30% above the State average) and lowest in the Rural/Regional segment (29% below the State average). • Average household incomes in the Rural/Remote, Indigenous and Coastal segments are lower than the State average by 21%, 17% and 10%, respectively. • SEQ households featured average incomes 4% higher than the State average. • Average individual incomes are the lowest in the Indigenous segment.
Social	• The Rural/Regional segment has relatively high levels of mortgage stress and rental stress. • The SEQ, Resources and Coastal segments have relatively high levels of rental stress.

Source: AEC*group*

Table E.4: Financial and Resourcing Factors Impacting Financial Sustainability

Factor	Description
Financial Capital	• Persistent operating deficits have the potential to result in intergenerational inequity and will ultimately threaten financial sustainability, and exist for many Local Governments particularly in the Indigenous and SEQ segments. • All council segments, excluding the Indigenous segment, record an acceptable working capital ratio and sufficient cash holdings to fund operations, and therefore liquidity is not a factor at present. • Manageable debt levels historically, but growth demands are placing significant (and unsustainable) pressure on future borrowing capacity in the Coastal, SEQ and Resources segments.
Infrastructure Capital	• All council segments feature an increasing asset base, with the asset value per capita indicator on an unsustainable, increasing trend. • The need for appropriate asset management is more acute for Queensland Local Governments than other jurisdictions, and all segments have the capacity to significantly improve asset management practices. • The Resources and SEQ segments have been renewing assets at a rate less than their depreciation. • There are practical issues associated with incorporating depreciation charges in determining financial sustainability, and the treatment of depreciation charges for contributed assets needs revisiting. • The Resources, Coastal and SEQ segments are facing significant expenditure burdens due to high growth demands.
Revenue Composition	• Rates and charges/user fees and charges (own source revenue) provide less than 50% of revenue across Queensland, with the Coastal and SEQ segments the only segments above this level and all other segments being highly dependent on grants and subsidies and recoverable works. • Average rating levels across Queensland Local Governments are currently at the upper limit of ratepayers' capacity to pay and continuing significant rate increases are likely to be unsustainable, particularly for the Rural/Regional, Coastal and SEQ segments. • The Indigenous segment is almost entirely reliant on, and therefore particularly vulnerable to funding decisions regarding, Queensland and Commonwealth Government operational grant funding, while the Rural/Remote and Resources segments are also very heavily reliant on such grant funding in addition to recoverable works contracts revenue.
Expenditure Composition	• Expenditure per capita is rising at a rapid rate for the Rural/Remote, Resources, Rural/Regional and Coastal segments. • Expenditure on road assets is generally the most prominent operating expenditure item. • For most council segments, there appears to have been some rationalisation in expenditure on general operation and administration. • Labour costs appear to be reducing relative to other expenditure items for most council segments (except the SEQ segment and possibly the Rural/Regional segment depending on recent impacts of flood reconstruction works). • The importance of materials and services costs is increasing for those segments featuring smaller Local Governments, and effective purchasing practices are becoming increasingly important in those segments. • Financing costs have been increasing at a rapid rate for the SEQ and Coastal segments, in line with the significant jump in debt balances in recent years.

Factor	Description
Human Resources	• Many council segments have experienced deterioration in economies of scale in service provision from their indoor workforce, suggesting increased administration and compliance pressures. • It is possible that Local Government reforms have enabled some rationalisation in outdoor staff for selected segments (SEQ, Coastal and Rural/Regional), but with the exception of the SEQ segment this has been offset by increased internal workforce resourcing requirements. • While there appears to have been some improvement in skilled employee attraction and retention in recent years, the Indigenous, Resources, Rural/Remote and Rural/Regional segments still have difficulties in filling the necessary positions with the problem of extreme concern for the Indigenous segment.
Service Levels	• Limited time series data exists in relation to service levels, although the determination of appropriate current and desired levels of service does appear to be an issue for all Local Government segments across the majority of asset classes. • However, the provision of services to a mandatory standard that assumes a 'one size fits all' approach creates additional cost, reporting and compliance burdens for councils.

Source: AEC*group*

It is acknowledged that Indigenous Local Governments differ markedly from other Queensland Local Governments, and specific strategies are required to deal with the challenges faced by this council segment. Councils in the Indigenous segment:

- Have very low own-source revenue (approximately averaging 5% for the segment) and are not realistically able to reach the desired 60% own source revenue ratio target.
- Are almost entirely reliant on Queensland and Commonwealth Government grant funding.
- Face difficulties in planning service delivery and infrastructure works because of the annual funding cycle that is applied to most State and Commonwealth Government grants.

There have been a number of recent external Queensland Government policy decisions that have impacted Local Government financial sustainability in different ways and in ways that Local Government cannot control, including:

- **Local Government reforms**: Overall, there does not yet appear to be a material change in the vulnerability of Queensland Local Governments in the detailed data analysis pre and post reforms, with the only noticeable trend possibly assisted by the reform process being a consolidation of staffing levels and associated costs for selected segments. With the recent decision to de-amalgamate certain Local Governments, it is possible that the de-amalgamation costs and associated resourcing adjustments could offset, or worsen, any potential efficiencies achieved for those affected Local Governments.
- **Reduction & removal of capital grants & subsidies**: There is little doubt that the spike in debt levels, particularly in the Coastal and SEQ segments, has been impacted by the decision to remove capital grants and subsidies. The removal of these grants and subsidies has also placed considerable financing pressures on all other segments and could possibly be considered as the most significant funding withdrawal for Queensland Local Governments in our history.
- **Capping of infrastructure charges**: The capping of infrastructure charges has contributed to, and will continue to contribute to, increasing debt levels across Local Governments in growth areas in addition to the need for substantial increases in rating levels to ensure operating deficits do not persist. Any further reductions in infrastructure charges will place additional pressure on Queensland Local Governments to finance infrastructure provision.
- **SEQ water reforms**: There has been a significant reduction in own-source revenues as a proportion of total revenues in affected Local Governments along with a one-off reduction in debt due to compensation payments. Asset values per capita appear to have stabilised and in some instances reduced post transfer.

What are the key Financial Sustainability challenges and how do they impact council segments?

Table E.6 provides a summary of the identified financial sustainability challenges facing each council segment, and the extent of the impact of each of these 'pressure points' on each segment. Each identified financial sustainability challenge is assessed on a qualitative scale as follows:

Table E.5: Impact Assessment Scale

Impact	Description
Not Applicable	The identified challenge does not apply to the council segment.
Not Identified	No impact is identifiable from the challenge given the information presented and reviewed.
Negligible	The identified challenge is not considered a material influencing factor on financial sustainability for the council segment.
Minor	The identified challenge has a minor impact on financial sustainability, but should still be addressed to avoid becoming a moderate impact in the short to medium term.
Moderate	The identified challenge has a moderate impact on financial sustainability for the council segment, but is still considered a critical issue that requires addressing in the short term. If not addressed, the challenge could escalate to a significant impact in the short to medium term.
Significant	The identified challenge has a significant impact on financial sustainability for the council segment and needs to be addressed as a matter of immediate priority in the short term.

Source: AEC*group*
Note: It is acknowledged that many of the demographic, socio-economic and geographic challenges are unable to be overcome and therefore the impact assessment scale is more relevant to the financial and resourcing challenges.

Table E.6: Identified Financial Sustainability Pressures and Relative Impact Level on Each Local Government Segment

Description of Financial Sustainability 'Pressure Point'	Indigenous	Rural/ Remote	Rural/ Regional	Resources	Coastal	SEQ
Regional Characteristics						
1. Economic activity is heavily reliant on public expenditure.	Significant	Significant	Minor	Minor	Minor	Negligible
2. Lower population density.	Significant	Significant	Moderate	Significant	Negligible	Negligible
3. Lower household incomes.	Significant	Significant	Significant	Negligible	Minor	Negligible
4. Housing shortages and a lack of affordable housing.	Significant	Not Identified	Not Identified	Significant	Not Identified	Negligible
5. Ageing population.	Negligible	Minor	Moderate	Negligible	Moderate	Minor
6. Remoteness (increased cost of living, reduced access to services).	Significant	Significant	Minor	Significant	Minor	Negligible
Financial Pressures						
1. Prominence of operating deficits.	Significant	Minor	Moderate	Minor	Moderate	Significant
2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.	Not Applicable	Minor	Significant	Minor	Significant	Moderate
3. Limited own source revenue and reliance on external funding assistance for operations.	Significant	Significant	Moderate	Moderate	Minor	Negligible
4. Reliance on revenues derived from contract works for other levels of Government.	Moderate	Significant	Moderate	Moderate	Minor	Negligible
5. Ability to fund the renewal/replacement of ageing infrastructure.	Significant	Significant	Significant	Significant	Significant	Moderate
6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).	Negligible	Negligible	Moderate	Significant	Significant	Significant
7. High and increasing debt levels that may limit future borrowing capacity moving forward.	Negligible	Negligible	Negligible	Minor	Moderate	Significant
8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.	Not Applicable	Not Applicable	Not Applicable	Significant	Not Applicable	Not Applicable
9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').	Significant	Significant	Significant	Significant	Significant	Significant
10. Impact of natural disasters and climate change on operations and financial sustainability.	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Resourcing Issues						
1. Difficulty in attracting and retaining appropriately skilled employees.	Significant	Significant	Moderate	Significant	Moderate	Minor
2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.	Significant	Significant	Moderate	Significant	Moderate	Minor
3. Lack of economies of scale for management, administration and technical support costs.	Significant	Significant	Minor	Significant	Minor	Negligible
4. Commitment to long-term financial sustainability and asset management planning.	Significant	Significant	Significant	Significant	Moderate	Moderate
5. Risk management and internal audit procedures.	Moderate	Moderate	Moderate	Moderate	Minor	Minor

Source: AEC*group*

Some of the factors impacting Local Government financial sustainability at a high level are considered 'game changers' over the next two election terms and are categorised by council segment as internal and external pressures in Table E.7.

Table E.7: Key Financial Sustainability 'Game-Changers' by Council Segment

Segment	Internal	External

Indigenous	• Reduce the prominence of operating deficits.
	• Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure:
	  ○ More cost effective administration and compliance functions; and
	  ○ Appropriate access to specialist management and technical expertise.
	• Workforce strategies to better manage and build capability of the local workforce.
	• Commitment to long-term financial sustainability and asset management planning.
	• Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.
		• Ensure appropriate external operational and grant funding assistance given sustainability is entirely dependent on such funding.
		• Reduce compliance burden.
		• No additional devolution of responsibilities.
		• Explore alternative options for the delivery of government services with greater utilisation of local providers.
		• Explore long-term strategies to improve skill levels of local people to fill local, State and Commonwealth jobs.
		• Recognition of the broader role performed by Indigenous councils in providing a range of services in their communities and appropriately fund for these services.

Rural/ Remote	• Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure:
	  ○ More cost effective administration and compliance functions; and
	  ○ Appropriate access to specialist management and technical expertise.
	• Workforce strategies to assist in the attraction and retention of professional and skilled technical employees, either at the local or regional level.
	• Commitment to long-term financial sustainability and asset management planning.
	• Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.
		• Ensure appropriate external operational and grant funding assistance given sustainability is heavily dependent on such funding.
		• Ensure that contract works arrangements with other levels of Government remain in place or begin making arrangements to amend resourcing and costs as appropriate if they are at risk.
		• Reduce compliance burden.
		• No additional devolution of responsibilities.

Rural/ Regional	• Reduce the prominence of operating deficits. • Continue to monitor the appropriateness of rating levels given that a high rating effort already exists, and review the efficiency of existing rating structures (in terms of the incidence placed on different ratepayer classes). • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.	• Ensure appropriate external operational and grant funding assistance given sustainability is influenced by such funding. • No additional devolution of responsibilities.

Segment	Internal	External
Resources	• Ensure appropriate funding of infrastructure required to service the resources sector through direct contributions, particularly where there is a high risk of that infrastructure becoming stranded in the event of the resources sector exiting from the Local Government area in question. • Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure: ○ More cost effective administration and compliance functions; and ○ Appropriate access to specialist management and technical expertise. • Workforce strategies to assist in the attraction and retention of professional and skilled technical employees, either at the local or regional level. • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement. • Continue to monitor the appropriateness of rating categories and levels applied to the resource sector to ensure adequate revenue is generated to meet the demands placed on infrastructure and service delivery.	• Appropriate facilitation and funding of infrastructure required to meet resources sector needs by other levels of Government and the resources sector. • Ensure appropriate external operational and grant funding assistance given sustainability is influenced by such funding. • Reduce compliance burden. • No additional devolution of responsibilities.
Coastal	• Reduce the prominence of operating deficits. • Proactively monitor the ongoing impact of providing growth infrastructure on future borrowing capacity given recent significant increases in debt. • Continue to monitor the appropriateness of rating levels given that a high rating effort already exists, and review the efficiency of existing rating structures (in terms of the incidence placed on different ratepayer classes). • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.	• Appropriate external funding assistance for growth infrastructure, including the removal of infrastructure charges caps. • No additional devolution of responsibilities.
SEQ	• Reduce the prominence of operating deficits. • Proactively monitor the ongoing impact of providing growth infrastructure on future borrowing capacity given recent significant increases in debt and the likelihood for constrained borrowing for a number of Local Governments moving forward. • Commitment to long-term financial sustainability and asset management planning.	• Appropriate external funding assistance for growth infrastructure, including the removal of infrastructure charges caps. • No additional devolution of responsibilities.

Source: AEC*group*, Orion Consulting Network

How can stakeholders address Financial Sustainability challenges?

There are four key stakeholders that can effect change in Local Government. Each of these has different powers and levels of influence as follows:

- **Commonwealth Government**: financial assistance grants, specific regional funding programs.
- **Queensland Government**: governing legislation, funding programs, removal of revenue raising restrictions and devolution of responsibility.
- **Local Government**: financial management, revenue, services and levels of service.
- **Local Government Association of Queensland**: representation, advocacy and policy development, and business service offerings to support reductions in operating costs.

In response to the key financial sustainability and resourcing challenges the broad strategies and policy actions by stakeholder in Table E.8 are recommended.

Table E.8: Broad Strategies and Policy Actions by Stakeholder

Commonwealth Government	Queensland Government

• Provision of longer-term capital and operational funding commitments to support Local Governments in their ability to more effectively plan and monitor financial sustainability outcomes, as well as assisting in the provision of more reliable 10-year financial forecasts as required by State legislation.
• Utilisation of an allocative model for funding commitments (as opposed to a competitive bid from a nominal funding pool) to provide certainty and stability in financial sustainability outcomes, in addition to enabling Local Governments to take advantage of scheduling, procurement and other efficiencies.
• The following commitments should be made to promote financially sustainable outcomes across the Local Government sector:
  ○ Appropriate operational funding to ensure all Local Governments, irrespective of size and location, are able to meet base governance, management, administration and compliance functions.
  ○ Appropriate capital and operational funding to ensure liveable communities exist across Queensland with appropriate access to essential infrastructure and community services at an affordable cost.
  ○ Appropriate capital funding to facilitate major growth infrastructure in growth areas.
  ○ Appropriate capital funding for major infrastructure maintenance, renewal and replacement in regional/remote areas.
  ○ Appropriate infrastructure funding commitments in regions heavily impacted by resources sector activity (e.g. upgrades to community infrastructure, roads, airports, etc.).
  ○ Appropriate capital funding for natural disaster recovery and mitigation works.
• Constitutional recognition of Local Government and provision of direct funding linked to taxation revenue.
• Consideration of further tax incentives to attract skilled workers to rural/remote areas.
• Appropriate consultation for new/revised legislation impacting Local Government, including reasonable timelines that allow Local Governments to properly consider matters, make decisions and provide advice to the State Government.
• Increased reliance on advice from elected local leaders on any future investments in communities.
• Ensure appropriate community service provision in rural, remote and Indigenous communities to reduce the financial burden placed on Local Governments as the 'service provider of last resort' for services that are the responsibility of other levels of Government (or the private sector).
• Provide DLGCRR and LGAQ with access to Local Government data analysis and reporting on individual Local Governments and aggregated Local Government sectors to avoid potential duplication of effort in monitoring financial sustainability and in identifying trends that may threaten financial sustainability.
• Recreate a Community Development Employment Projects (CDEP) type process and funding (with better controls) to give Indigenous Local Governments more flexible resources and the ability to harness community resources.
	• DLGCRR to work with LGAQ to effectively utilise collected time series data on an ongoing basis to identify financial sustainability trends and issues by Local Government segment and in aggregate.
	• Provision of longer-term capital and operational funding commitments to support Local Governments in their ability to more effectively plan and monitor financial sustainability outcomes, as well as assisting in the provision of more reliable 10-year financial forecasts as required by State legislation.
	• Utilisation of an allocative model for funding commitments (as opposed to a competitive bid from a nominal funding pool) to provide certainty and stability in financial sustainability outcomes, in addition to enabling Local Governments to take advantage of scheduling, procurement and other efficiencies.
	• The following commitments should be made to promote financially sustainable outcomes across the Local Government sector:
	  ○ Appropriate operational funding to ensure all Local Governments, irrespective of size and location, are able to meet base governance, management, administration and compliance functions.
	  ○ Appropriate capital and operational funding to ensure liveable communities exist across Queensland with appropriate access to essential infrastructure and community services at an affordable cost.
	  ○ Appropriate capital funding to facilitate major growth infrastructure in growth areas.
	  ○ Appropriate capital funding for major infrastructure maintenance, renewal and replacement in regional/remote areas.
	  ○ Appropriate infrastructure funding commitments in regions heavily impacted by resource sector activity (e.g. Royalties for Regions funding for upgrades to community infrastructure, roads, airports, etc.).
	  ○ Appropriate capital funding for natural disaster recovery and mitigation works.
	• Reinstatement of the capital subsidy scheme for essential infrastructure demonstrating a high level of community benefit.
	• Greater long-term certainty and stability in workflow for contract works (e.g. Transport and Main Roads), given the impacts on Local Government resourcing and administration of lumpy and uncertain works programs.
	• Ensure appropriate community service provision in rural, remote and Indigenous communities to reduce the financial burden placed on Local Governments as the 'service provider of last resort' for services that are the responsibility of other levels of Government (or the private sector).
	• Consider the delegation of additional Queensland Government service provision to Local Governments servicing rural/remote communities on a full cost recovery basis.
	• Facilitate the establishment of a rate base for Indigenous areas via private land ownership and valuation (where possible)[1].
	• Further streamline Local Government compliance and reporting requirements.
	• Fit for purpose approach to infrastructure service

[1] A recent media article (Wardill, 2012) suggested that the Queensland Government is "*developing a plan to sell some social housing to long-term tenants, introducing home ownership for the first time in many communities*".

Commonwealth Government	Queensland Government
• Appropriately consider natural disasters and climate change in infrastructure planning and risk management.	standards and policy making. • In accordance with the *Partners in Government Agreement* between LGAQ and the State Government, undertake appropriate consultation for new/revised legislation impacting Local Government (including reasonable timelines that allow Local Governments to properly consider matters and make decisions). • Issuance of rateable property valuations when exploration permits are issued. • Guidelines or legislative clarification regarding the factors that Local Governments may consider when setting rates based on the demands placed on infrastructure and service delivery by the resources and energy sectors[2], which may also involve the requirement to publish resource license volumes for Local Government consideration in rate setting (as an improved measure over the number of employees). • Removal of the cap on infrastructure charges to ensure that such charges are able to be set on the basis of the actual cost of trunk infrastructure provision. • Ensuring affected Local Governments are included in infrastructure agreement negotiations with developers in priority development areas. • Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* (2012). • Enable Local Governments to declare and not fund the depreciation of grant-funded portions of assets and assets that will not be replaced unless grant funded. • Allow renewals annuity in lieu of straight line depreciation in determining financial sustainability indicators (e.g. operating surplus) for relevant asset classes that are not revenue generating in nature. • Consider a more appropriate treatment of depreciation on contributed assets that does not inappropriately impact the operating position (and financial sustainability ratios) on a year-to-year basis. • No further devolution of responsibilities, roles and functions to Local Governments without associating financial compensation (as per the *Partners in Government Agreement*). • Appropriately consider natural disasters and climate change in infrastructure planning and risk management.

Local Government	Local Government Association of Queensland
• Challenge the status quo and focus on providing value for money regarding the costs that Local Governments can control, e.g. labour, materials and services procurement, selected service levels (and manage community expectations) and capital works programs. • Focus budget development, key decision-making and reporting on long-term financial sustainability outcomes. • Commit resources (either local or shared) to improve asset management planning and integrate outcomes into budgeting and financial forecasting processes. • Greater commitment towards priority funding for appropriate asset renewal and replacement. • Fully review service levels (and manage community expectations) and investigate alternative means of service delivery and undertake appropriate business case assessments (including full recognition of lifecycle costs) before investing in the replacement of existing assets, or the addition of new assets. • Commit to principles of asset management in ensuring that existing infrastructure can be maintained before committing to building new infrastructure.	• Base level of support to Local Governments in relation to the identified broad and segment-focussed policy recommendations. • Advocacy to further the identified potential Queensland Government and Commonwealth Government policy recommendations. • Partner with agencies to challenge service and environmental standards (where practicable), and to identify the changes in regulation that have the potential to significantly reduce the growing cost base of Local Governments. • Partner with agencies to review reporting requirements and lobby to improve where possible. • Assistance in relation to guidelines for optimal rating structures and best practice industry benchmarks regarding rating levels. • Work with DLGCRR to effectively utilise collected time series data on an ongoing basis to identify financial sustainability trends by Local Government segment and in aggregate. • Advocacy to ensure no further devolution of

[2] Xstrata v Whitsunday Regional Council cited in Fynes-Clinton (2010).

Local Government	Local Government Association of Queensland
• Actively seek cost efficiencies and productivity opportunities across all areas of operation. • Ensure infrastructure charges are levied on an appropriate, timely basis (subject to legislated caps and other restrictions). • Investigate the financial sustainability implications of providing additional services and higher service levels for non-core activities before committing capital or operational funds. • Adoption of a 'Centre for Excellence' approach at the ROC level for asset management, risk management and specialist technical expertise for major infrastructure and community service functions (e.g. water, sewerage, waste, roads). • Consider the consolidation of front office functions (e.g. customer services) and back office functions (e.g. payroll, ICT, information security, compliance and reporting) at state-wide and regional levels and with Local Governments that have similar service areas, to enhance economies of scale and scope and reduce systems requirements (where considered cost effective and beneficial to local communities). • Improvements in procurement approaches through the greater utilisation of joint procurement contracts (i.e. leveraging off region-wide and State-wide partnerships). • Seriously evaluate alternative models of service delivery (e.g. Local Buy, LGM, LGW) through state-wide and regional collaboration and resource sharing opportunities, including the ability to leverage off existing arrangements (e.g. ROCs, RRTGs, LGIS, Propel Partnerships). • Pro-actively manage revenue collection ensuring rates, charges and/or rents are pursued in line with good business practice. • Ensure an optimal rating structure exists, including the review of rating levels and capacity to increase rates considering household income and economic activity ratio benchmarks. • Adopt a user pays pricing approach to utility services (where possible). • Appropriately consider natural disasters and climate change in infrastructure planning and risk management. • Invest in training and capacity building initiatives for elected members, focussing on improving financial and business acumen skills.	responsibilities, roles and functions to Local Governments without associated financial compensation (as per the *Partners in Government Agreement*). • Promote Local Government as an employer of choice. • Provision of assistance and training in relation to financial sustainability interpretation and implementation. • Provision of best practice guides and toolkits in specific areas of concern for Local Governments (financial sustainability, asset management, risk management, audit procedures, and other targeted areas such as productivity assessment, waste and recycling, carbon emissions and credits, capital evaluation, etc.). • Assist to remove any barriers associated with Local Governments working collaboratively with each other to enhance economies of scale and scope. • Promote LGAQ's information and on-site support services (e.g. Total Solutions – business, workforce, training and performance solutions including asset management, Resolute IT, Propel Partnerships and Local Buy). • Investigate further opportunities for alternative business models and support services for Local Government, including international best practice models. • Lobbying to ensure that the Queensland Government is aware of the importance of contract works to the financial sustainability of Local Governments, particularly those in the Rural/Remote segment. • Assistance to Local Governments on their responsibilities in adapting infrastructure planning and risk management to meet ongoing service obligations in light of natural disasters and climate change.

Source: AEC*group*, Orion Consulting Network

In addition, recommended broad strategic and policy actions for council segments (in addition to the broad strategies and policy actions outlined above) are provided in Table E.9.

Table E.9: Specific Strategies and Policy Actions by Council Segment

Segment	Strategy
Indigenous	• Resource sharing at the regional level (for skilled/technical positions and compliance functions such as asset valuation, asset management planning and risk management and internal controls) and procurement partnerships to help address resourcing issues. • Workforce strategies to better manage and build capability of the local workforce. • Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible). • Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).

Segment	Strategy
Rural/ Remote	• Evaluate scope to increase rates (with a relatively low rating effort as a proportion of average household income, but a relatively high rating effort as a proportion of GRP). • Resource sharing at the regional level (for skilled/technical positions and compliance functions such as asset valuation, asset management planning and risk management and internal controls) and procurement partnerships to help address resourcing issues. • Workforce strategies to assist in the attraction and retention of professional and skilled technical employees. • Regional economic development initiatives to help diversify local economies. • Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible). • Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).
Rural/ Regional	• Resource sharing at the regional level (primarily for skilled/technical positions) and procurement partnerships to help address resourcing issues. • Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible). • Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).
Resources	• Ensure rating levels for the resource sector adequately reflect demands placed on infrastructure and service delivery (noting that there has already been some rating policy amendments made in recent years). • Business case and risk assessment prior to major investments in infrastructure and other assets to cater for resource sector demands and needs. • Improved income security via appropriate development contributions from the resource sector (subject to legislated caps and other restrictions). • Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* (2012), e.g. partnership with the resource sector in the provision of infrastructure and service delivery (i.e. contributions for directly impacted infrastructure such as airports and roads). • Evaluate the scope to increase rates for other ratepayers (given a relatively low rating effort as a proportion of average household income), although noting the wide variation in socio-economic profiles for those employed in mining and related sectors versus other sectors. • Resource sharing at the regional level (for skilled/technical positions and compliance functions such as asset valuation, asset management planning and risk management and internal controls) and procurement partnerships to help address resourcing issues. • Workforce strategies to assist in the attraction and retention of professional and skilled technical employees. • Investigate strategies and partnerships to improve affordable housing for those outside of the resource sector. • Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible). • Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).
Coastal	• Monitor the ongoing financial sustainability and debt capacity impacts of facilitating growth and servicing new development areas. • Introduce strategies to move towards consistent operating surpluses to pay down debt (although noting the relatively high rating effort already in place as a proportion of both household income and economic activity). • Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* (2012), e.g. opening up local infrastructure projects to institutional finance using infrastructure bonds with concessional tax arrangements for investors and other instruments available to higher tiers of government to create the scale of borrowing that will attract investors to local infrastructure projects. • Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible). • Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).
SEQ	• Monitor the ongoing financial sustainability and debt capacity impacts of facilitating growth and servicing new development areas. • Introduce strategies to move towards consistent operating surpluses to pay down debt. • Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* (2012), e.g. opening up local infrastructure projects to institutional finance using infrastructure bonds with concessional tax arrangements for investors and other instruments available to higher tiers of government to create the scale of borrowing that will attract investors to local infrastructure projects.

Source: AEC*group*, Orion Consulting Network

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Glossary

Advocacy segment	LGAQ grouping of Local Governments used to assist in the development of policies, programs and services on behalf of Queensland Local Governments.
Asset management	The combination of management, financial, economic, engineering, and other practices applied to physical assets with the objective of providing the required level of service in the most cost-effective manner.
Asset renewal	Expenditure on an existing asset to return the service potential or the life of the asset up to that which it had originally.
Asset sustainability	The extent to which the infrastructure assets managed by the Local Government are being replaced as they reach the end of their useful lives.
Capital grants and subsidies	Funding received or receivable from a third party that relates to a capital project.
Compliance burden	Also called regulatory burden, is the administrative cost of compliance of regulation in terms of dollars, time and complexity.
Cost shifting	Moving the costs of service delivery from one level of Government to another.
Creditworthiness	An assessment of the likelihood that a borrower will default on their debt obligations.
Current assets	All current assets as identified in the balance sheet, including cash and cash equivalents, receivables, other financial assets and current inventories.
Current liabilities	All current liabilities as identified in the balance sheet, including payables, leave entitlements, other current liabilities and the current amounts due for loan repayments.
Council segment	The grouping of Local Governments used in the study.
Depreciation expense	Depreciation represents the allocation of the value of an asset over its estimated useful life to the Local Government. In a more technical sense, depreciation is the systematic allocation of the depreciable amount (gross value less estimated residual value) of an asset over its useful life.
External operating environment	State, national and global economic forces over which Local Governments have limited influence.
Financial assistance grant	Allocation of funding from the Commonwealth Government to States and Territories which is then allocated to Local Governments by Local Government Grants Commissions.
Financial sustainability	"*A Local Government is considered financially sustainable if its infrastructure capital (assets) and financial capital are able to be delivered and maintained over the long term.*" Local Government Act 2009 (Qld)
Horizontal fiscal imbalance	Different abilities to raise revenue and different expenditure requirements at the same level of Government.
Infrastructure charges	Charges levied on developments that are used to provide and/or upgrade infrastructure and to ensure neighbourhoods have the services they need.
Internal operating environment	The community and operating characteristics of the Local Government area.
Liquidity	The capacity of an organisation to meet its financial commitments as and when they fall due.
Net financial liabilities	Total liabilities less current assets.
Operating revenue	All operating revenue as presented in the income and expenditure statement less any capital grants and donations and contributions for non-current asset acquisitions that have been recognised as operating revenue.
Operating position	Total revenues less capital revenues less operating expenditure.
Own source revenue	Rates and charges and user fees and charges set and levied by a Local Government.
Service levels	Documented levels of service expected from an asset or a service.
Vertical fiscal imbalance	Occurs where revenue collection at different levels of Government does not match their expenditure requirements.
Written down value	The gross replacement cost of infrastructure assets less the accumulated depreciation on the infrastructure assets.

Abbreviations

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACELG	Australian Centre of Excellence for Local Government
ACLG	Australian Classification of Local Governments
AMP	Asset Management Plan
CC	City Council
CDEP	Community Development Employment Projects
CPI	Consumer Price Index
DLG	Queensland Department of Local Government
DLGCRR	Queensland Department of Local Government, Community Recovery and Resilience
DLGP	Queensland Department of Local Government and Planning
DLGSR	Queensland Department of Local Government, Sport and Racing
DSDIP	Queensland Department of State Development, Infrastructure and Planning
FAG	Federal (Commonwealth) Government Financial Assistance Grants
FIFO	Fly-in / Fly-out
FSR	Financial Sustainability Rating
GDP	Gross Domestic Product
GRP	Gross Regional Product
GSP	Gross State Product
ICT	Information and Communications Technology
IMF	International Monetary Fund
LG	Local Government
LGAQ	Local Government Association of Queensland
LGIS	Local Government Infrastructure Services
LGM	Local Government Mutual
LGW	Local Government Workcare
NCCARF	National Climate Change Adaptation Research Facility
NLC	National League of Cities
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
QAO	Queensland Audit Office
QLD	Queensland
QLGGC	Queensland Local Government Grants Commission
QTC	Queensland Treasury Corporation
RC	Regional Council
ROC	Regional Organisation of Councils
RRTG	Regional Roads and Transport Group
SA	South Australia
SC	Shire Council
SEQ	South-East Queensland
TCorp	New South Wales Treasury Corporation
WA	Western Australia
WDV	Written Down Value

1. Introduction

KEY POINTS

This report presents research findings into the factors impacting Local Government financial sustainability. Furthermore, because Local Governments have widely different demographic, economic and social characteristics, the research has been undertaken on a council segment basis. This results in a broad range of strategies and policies for each council segment (rather than a one-size-fits-all solution) to address financial sustainability issues and challenges.

1.1 Background

Queensland Local Governments provide an array of essential services and infrastructure that underpin all local and regional communities. In many regional and remote communities, Local Governments represent the only institutional presence. Over the last few decades, the service scope for Queensland Local Governments has increased significantly.

Public infrastructure is critical to the livability and sustainability of communities and there is a strong community expectation that it will be available to all, regardless of capacity to pay. Strong financial and governance structures are necessary to ensure Local Governments are sustainable through the long term and continue in the important role they play in maintaining and improving Queensland communities.

A Local Government is considered financially sustainable if its infrastructure capital (assets) and financial capital are able to be delivered and maintained over the long term. Of particular concern is the ability to manage debt in a way that it is able to be serviced from operating revenue without becoming a burden for ratepayers through significant future adjustments to revenue and/or expenditure policies.

Achieving this outcome has been shown to be often quite difficult given that the revenue base of Local Governments is not tied to the value of their asset base.

The Local Government Association of Queensland (LGAQ) has identified a number of high-level issues evident in the Local Government sector when it comes to financial sustainability outcomes, as per the following table.

Table 1.1: Selected Key Financial Sustainability Issues Facing Local Government

Issue	Description
Vertical Fiscal Imbalance (revenue collection at different levels of Government does not match their expenditure requirements)	• Many Local Governments are dependent for much of their expenditure needs on transfers from State and Commonwealth Governments. • A number of factors have contributed to the vertical fiscal imbalance in recent years, including: ○ Cost shifting from higher levels of Government. ○ Higher legislated service provision standards. ○ Reduced real value of grants and subsidies, or removal of them. ○ Constraints on revenue raising.
Horizontal Fiscal Imbalance (different abilities to raise revenue and different expenditure requirements at the same level of Government)	• Local Governments have different capacities for revenue-raising, in addition to different expenditure characteristics. • While many large urban Local Governments are largely financially sustainable, regional Local Governments experience mixed financial sustainability and rural and remote Local Governments are likely to have sustainability problems. • Horizontal fiscal imbalance is partly addressed by fiscal transfers such as Financial Assistance Grants, and the sustainability outcomes for many Local Governments are dependent on the maintenance of these external revenue streams which are outside of their control.
Internal Operating Environment (influencing community characteristics and trends)	• Local Governments face different demographic characteristics and due to location different abilities to attract and retain skilled resources. • Local Governments with relatively high population growth and/or an ageing population may be challenged to fund necessary infrastructure and services into the future. • While Local Governments have some capacity to manage their internal operating environment, the external environment significantly influences the internal environment.

Issue	Description
External Operating Environment (State, national and global economic forces)	• Local Governments have limited capacity to influence the external environment, although they can attempt to influence outcomes through specific expenditure programs and initiatives (e.g. investment attraction). • Local Governments must consider the external environment when reviewing rating policies, service provision and capital expenditure programs. • For example, areas heavily influenced by mining activity can often be subject to boom/bust infrastructure financing pressures and Local Government investment in infrastructure can often be subject to significant economic risk given the relatively small (stable) rate base which exists in many instances outside of the mining sector.

Source: LGAQ, AEC*group*

Numerous State and national based inquiries have demonstrated that the Local Government sector is financially stressed, with the burden of the fiscal distress falling on a backlog of infrastructure provision, maintenance and renewal. There is mounting evidence that infrastructure in Australia, across all tiers of Government, is not keeping pace with the demands placed on it by a growing population and the current economic approach to funding infrastructure.

1.2 Objectives of this Study

Through its Member Connect process, LGAQ has identified financial sustainability as one of the most common and significant issues affecting Queensland Local Governments.

A broad range of financial management issues have been cited by Queensland Local Governments as impacting their ongoing sustainability in the past. Consequently, there is a need for additional information on the factors impacting Local Government financial sustainability, and to what extent these factors affect Local Governments with different characteristics.

Much of the research into Local Government financial sustainability took place prior to the 2008 Local Government reforms across Queensland, with policy makers arguing that the reforms in Queensland would enhance the sector's financial sustainability outcomes.

LGAQ believes it is timely to test these assertions and reassess Local Government sustainability in a post-amalgamation environment, with a focus on researching sustainability outcomes for different Local Governments given their unique characteristics. These different characteristics may mean considerable differences in the factors impacting financial sustainability both now and into the future.

In addition, Queensland Local Governments generally have different characteristics to those in the other States that have been subject to comprehensive financial sustainability evaluations, due to the fact that they:

- Generally cover a greater area and a larger population.
- Are more infrastructure oriented.
- Are subject to a different Financial Assistance Grants (FAG) methodology.
- Have a range of different population pressures (growth, decline and ageing).

There has also been some criticism of the relevance of prior reviews which have primarily focussed on the application of the same financial indicators used for credit rating purposes, rather than an investigation into the underlying issues driving financial sustainability outcomes at the micro level.

To investigate factors impacting the financial sustainability of Queensland Local Governments, AEC*group* and Orion Consulting Network were commissioned to undertake a program of research to:

- Undertake a review of the definitions underlying the current LGAQ Local Government Advocacy segments[3], in addition to the Local Governments initially assigned to each segment by LGAQ, and form appropriate "council segments" for an analysis of factors influencing Local Government financial sustainability.

[3] Indigenous, Rural/Remote, Resources, Coastal, South East Queensland (SEQ).

- Examine the factors impacting the financial sustainability of Queensland Local Governments by "council segment".
- Where possible, determine any changes in financial sustainability trends for Queensland Local Governments over the past decade resulting from structural and policy changes in the sector and determine the relative vulnerability of each "council segment" from such changes.
- Identify the key financial sustainability challenges that Queensland Local Governments are likely to face over the next eight years (or two election terms).
- Propose broad and "council segment" focussed strategies for improving the financial sustainability of Queensland Local Governments.

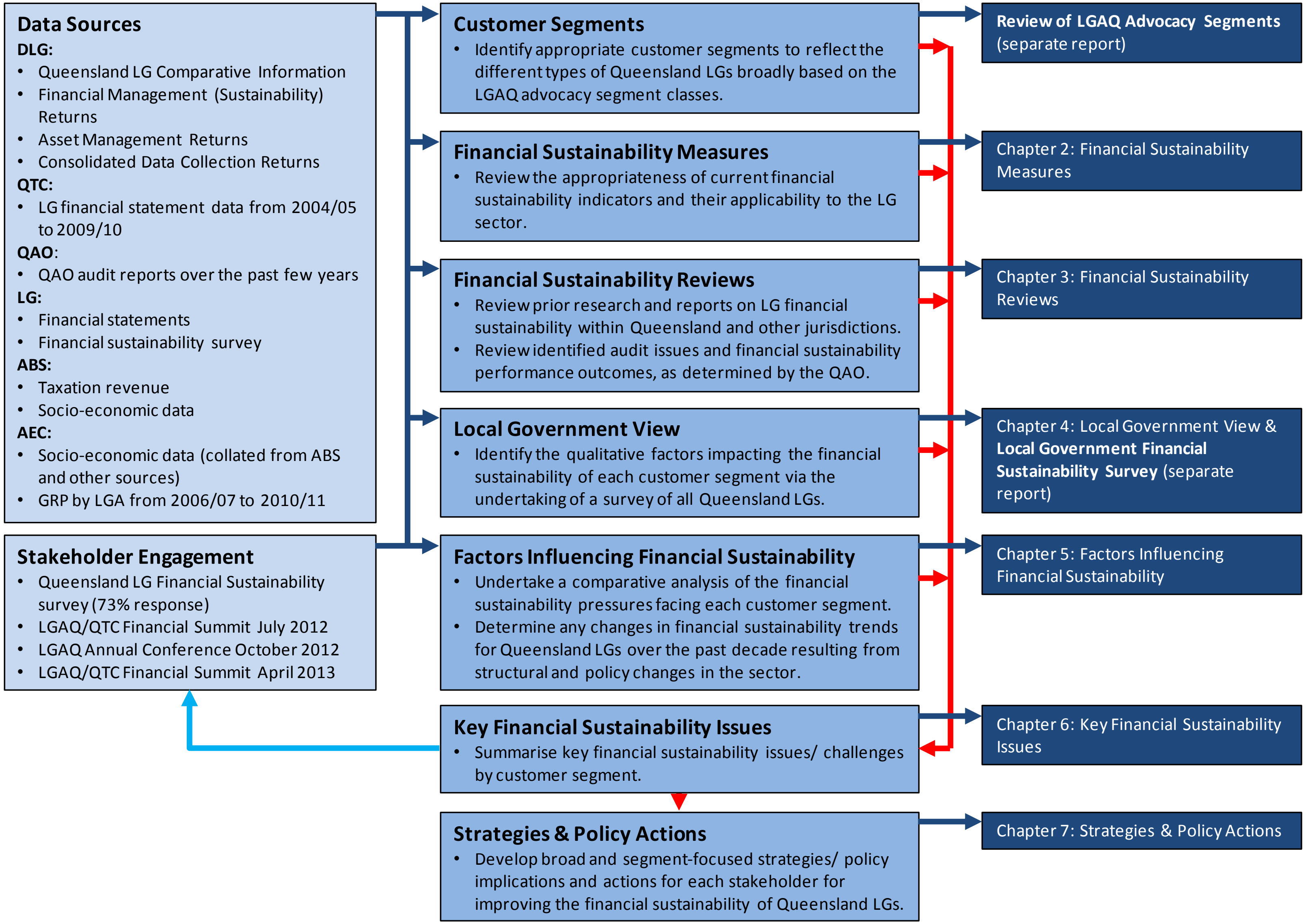
The study outcomes will not only be used to inform Local Governments of the financial sustainability issues most relevant to their segment, but also to identify policy implications and actions both common and specific to each segment and other levels of Government that may help overcome identified financial sustainability issues moving forward.

1.3 Study Approach

A comprehensive study process was adopted to ensure all available information was utilised to determine the key financial sustainability challenges facing each council segment, and to develop appropriate broad and council segment-focussed strategies for improving the financial sustainability of Queensland Local Governments.

Figure 1.1 details the elements of the study including data sources (both published and unpublished), stakeholder engagement which provided input and a feedback loop on issues, segmentation of the main areas of research and how findings of the research fed into the key issues, and lastly the outputs in terms of separate reports or chapters in this report.

Figure 1.1: Study Methodology



1.4 Council Segments

LGAQ has assigned Queensland Local Governments into council "Advocacy segments" based on similar characteristics. These segments are used to assist in the development of policies, programs and services on behalf of Queensland Local Governments. It is believed that these segments are more appropriate in identifying the specific factors impacting Local Government financial sustainability rather than simply categorising Local Governments as a whole or on the basis of small/medium/large/very large from the level of population served and/or level of expenditure. LGAQ believes that using these identified segments (or a similar grouping) will help drive the evaluation of factors impacting Queensland Local Government financial sustainability.

As required by the terms of reference for this study, a review of the appropriateness of each LGAQ "Advocacy segment" was undertaken in addition to a review of the individual Local Governments assigned to each segment. Because Queensland Local Governments are not homogenous, consideration was given to demographic, economic and social characteristics as these internal operating environment factors significantly impact financial sustainability.

Table 1.2 describes each LGAQ Local Government "Advocacy segment", with the text in **red** in the "Description" column representing suggested amendments following the review of each segment. A new category called Rural/Regional has also been added.

Local Governments in the "Local Government" column with a segment noted in red have been reallocated from that noted segment based on the suggested amendments. A secondary segment is also suggested for some Local Governments in blue where they could be assigned to more than one category.

In the instance where a secondary segment is noted, it is highly likely that the financial sustainability challenges identified for both the primary and secondary segments are applicable. This is particularly relevant for those smaller Local Governments that have been categorised under the Resources segment when they are also Rural/Remote in nature.

Table 1.2: Proposed LGAQ Local Government Segment Definitions

Segment	Description	Local Government
Indigenous (17) *(representing Indigenous Australians and Indigenous Torres Strait Islanders)*	Local Governments based in indigenous communities, where service delivery is constrained by capacity and which share similar capability challenges and representational demands. These Councils represent diverse communities and will require tailored support mechanisms.	Aurukun SC Cherbourg Aboriginal SC Doomadgee Aboriginal SC Hope Vale Aboriginal SC (Resources) Kowanyama Aboriginal SC Lockhart River Aboriginal SC Mapoon Aboriginal SC Mornington SC Napranum Aboriginal SC Northern Peninsula Area RC Palm Island Aboriginal SC Pormpuraaw Aboriginal SC Torres SC Torres Strait Island RC Woorabinda Aboriginal SC Wujal Wujal Aboriginal SC Yarrabah Aboriginal SC
Rural/ Remote (13)	Local Governments located predominately west of the Great Dividing Range which are geographically large, **but contain populations of less than 10,000 residents**. Due to a limited rate base, these Local Governments are traditionally reliant on external grants and subsidies to ensure their ongoing financial sustainability. Operational efficiencies are often difficult to achieve due to geographical distances and the ability to attract and retain suitably qualified staff across a range of disciplines.	Balonne SC Barcaldine RC (Resources) Blackall-Tambo RC Boulia SC (Resources) Carpentaria SC (Resources) Croydon SC Diamantina SC Flinders SC Longreach RC Murweh SC Paroo SC Richmond SC Winton SC

Segment	Description	Local Government
Rural/ Regional (8)	**Local Governments located inland which are geographically large and contain populations of greater than 10,000 residents, and generally have a high level of reliance on agricultural activities.**	Goondiwindi RC (Rural/Remote) Lockyer Valley RC (SEQ) (SEQ) North Burnett RC (Rural/Remote) Scenic Rim RC (SEQ) (SEQ) Somerset RC (SEQ) (SEQ) South Burnett RC (Rural/Remote) Southern Downs RC (Rural/Remote) Tablelands RC (Rural/Remote)
Resources (16)	Local Governments located in, or adjacent to Queensland's key mining regions/basins, where their operations are impacted by current or proposed resource activity. These Local Governments are required to interact closely with mining sector stakeholders and also share similar challenges in balancing the economic opportunities derived from mining activity and the corresponding problems relating to liveability, wellbeing and the long term sustainability of their communities. **A Local Government is recognised as a Resources Local Government if greater than 30% of activity in the local economy is due to the mining and mining related (manufacturing and processing) sectors.**	Banana SC (Rural/Regional) Barcoo SC (Rural/Remote) (Rural/Remote) Bulloo SC (Rural/Remote) (Rural/Remote) Burke SC (Rural/Remote) Central Highlands RC (Rural/Regional) Charters Towers RC (Rural/Remote) (Rural/Regional) Cloncurry SC (Rural/Remote) Cook SC (Coastal) (Coastal) Etheridge SC (Rural/Remote) (Rural/Remote) Gladstone RC (Coastal) (Coastal) Isaac RC (Rural/Regional) Maranoa RC (Rural/Regional) McKinlay SC (Rural/Remote) (Rural/Remote) Mount Isa CC (Rural/Regional) Quilpie SC (Rural/Remote) (Rural/Remote) Western Downs RC (Rural/Regional)
Coastal (11)	Local Governments principally located along the Queensland coast line. These Local Governments are experiencing different growth scenarios with some experiencing strong population increases and demand for key infrastructure to service economic growth with others seeking to renew economic activity and reverse population decline. Climate change and rising sea levels will create challenges for all Councils in this segment.	Bundaberg RC Burdekin SC (Rural/Regional) Cairns RC Cassowary Coast RC (Rural/Regional) Fraser Coast RC Gympie RC (SEQ) Hinchinbrook SC (Rural/Regional) Mackay RC Rockhampton RC Townsville CC Whitsunday RC (Resources)
SEQ (8)	Higher capacity and capability Local Governments located in SEQ, managing high population growth resulting in increased service and infrastructure demand, and subject to specific inter-Governmental planning and service delivery arrangements.	Brisbane CC Gold Coast CC (Coastal) Ipswich CC Logan CC Moreton Bay RC (Coastal) Redland CC (Coastal) Sunshine Coast RC (Coastal) Toowoomba RC

Note: Excludes Weipa Town Authority. It could be argued that Gympie Regional Council has a third segment, being the Rural/Regional segment.
Source: LGAQ, AEC*group* (2013a)

These amended definitions and Local Government allocations represent the "council segments" used in this study. A full analysis of LGAQ "Advocacy segments" and segment profiles is contained in a separate report titled *Review of LGAQ Advocacy Segments* (AEC*group*, 2013a), which was prepared separately for LGAQ.

The uniqueness of Queensland Local Government is well understood by the authors, but in order to evaluate underlying datasets and survey responses, conclusions have been drawn on an aggregated council segment basis from Local Governments with certain similar characteristics.

2. Financial Sustainability Measures

KEY POINTS

Definition of Financial Sustainability

None of the available definitions of financial sustainability seem to convey an appropriate definition being either based around **creditworthiness** (fiscal sustainability) or **asset focussed** (asset sustainability), rather than continuity of service provision and the infrastructure maintenance and renewal necessary in a Local Government context. For example, Section 104(2) of the *Local Government Act 2009* (Qld) defines financial sustainability as being the ability:

"A Local Government is financially sustainable if the Local Government is able to maintain financial capital and infrastructure over the long term."

Legislative Requirements

Queensland Local Governments through legislation and regulation are required to **effectively plan for the future long-term sustainability** of their communities, including a focus on longer-term financial planning and accountability.

The *Local Government Regulation 2012* (Qld) requires Queensland Local Governments to include in their annual budget **forecasts of the following relevant measures of financial sustainability** for the financial year the budget is being prepared for and the subsequent nine years:

Measure	Calculation	Target
Asset Sustainability Ratio	Capital expenditure on the replacement of assets (renewals) / depreciation expense	>90%
Operating Surplus Ratio	Net operating result / total operating revenue (both excluding capital items)	0%-10%
Net Financial Liabilities Ratio	(Total liabilities - current assets) / total operating revenue (excluding capital items)	<60%

Source: DLGCRR (2013)

Past & Current Assessments of Financial Sustainability

Major assessments of Queensland Local Government financial sustainability have been undertaken in recent times. QTC (2008) found that 39% of Local Governments had a financial sustainability rating below moderate, 50% moderate and 11% above moderate. DLGP (2011b) found 21% of Local Governments to be financially challenged, 32% moderate and 46% strong. QAO (2013) found 24% of Local Governments (including many Indigenous councils) had a higher risk of financial sustainability issues, 19% moderate and 57% with a lower risk.

At face value, a comparison of these assessments pre and post the Local Government Reforms (Local Government Reform Commission, 2007) suggest that financial sustainability may have improved in all council segments except SEQ. However, caution must be exercised in making any direct comparisons as a result of the different methods applied in determining ratings, in addition to the fact that a reduction in the number of higher risk Local Governments may simply be due to the amalgamation of multiple higher risk Local Governments rather than an actual improvement.

Similar distributions of Local Government financial sustainability assessments have been recently found in NSW with 26% of Local Governments below moderate, 52% moderate and 22% above moderate. Victorian Local Governments, however, appear to be **more financially sustainable** with **90% of Local Governments having a low risk** of financial sustainability issues arising.

Factors Impacting Financial Sustainability

- Infrastructure, services and levels of service provided to ratepayers need to be appropriate for that community.
- Achieving a balanced or surplus operating position.
- Developing and managing appropriate Asset Management Plans (AMPs) to aid planning and scheduling of future capital expenditure and maintenance programs.
- Ensuring there are appropriate returns from commercialised business units.
- Sustaining community equity whilst ensuring that there is no significant infrastructure backlog.
- Guidance and training around financial sustainability and the calculation of appropriate measures.
- Refinement of assumptions in long-term financial sustainability planning.

2.1 Introduction

This chapter defines financial sustainability and details the current Local Government financial sustainability indicators applicable in the Queensland context. Previous and current assessments of Queensland Local Government financial sustainability are reviewed along with selected interstate experiences. Finally, any factors that have been found to impact financial sustainability are summarised.

2.2 Definitions of Financial Sustainability?

2.2.1 Public Sector Context

Financial sustainability is referred to in the literature as 'fiscal sustainability'. The word sustain is derived from the Latin "sustenere" which means to hold up[4]. Table 2.1 provides some example definitions of fiscal sustainability in a public sector context.

Table 2.1: Definitions of Fiscal Sustainability in a Public Sector Context

Organisation	Definition
World Bank (Bird, 2003)	Fiscal sustainability exists when "...*a sub-national Government [State or Local Government] covers its expenditures out of its own revenues, reducing its dependence on borrowing and transfers from the centre [government].*"
Czech National Bank (Krejdl, 2006)	Fiscal sustainability is defined as fiscal policy in which future primary surpluses equal current debt, with this definition focussing on the ability of an agency to service its debt.
OECD/IMF (IMF, 2007)	Fiscal sustainability is the ability of a Government to sustain its current spending, tax, and other policies in the long term without defaulting on its liabilities or promised expenditures.
Congressional Budget Office (CBO, 2007)	Fiscal sustainability requires a stable debt to GDP ratio (over a long period) and matched revenues and expenditures.
Australian Treasury (McKissack & Comley, 2005)	Fiscal sustainability exists when all obligations, current and future, can be met without changing current policy settings.

Source: Orion Consulting Network

2.2.2 Local Government Context

Between 2003 and 2007, a number of Local Government financial sustainability reviews were undertaken for several States and for Australia as a whole (for example, Access Economics (2006a, 2006b, 2007) and PriceWaterhouseCoopers (2006) – see Table 3.1). All of these reviews used the same definition of financial sustainability, being:

> *".. the extent to which a council's financial capacity is sufficient – for the foreseeable future – to allow the council to meet its expected financial requirements over time without having to introduce substantial or disruptive revenue (and expenditure) adjustments."* Source: Access Economics (2006a, p.57)

Queensland Treasury Corporation (QTC, 2008) conducted a review of financial sustainability of Queensland Local Government using the following financial sustainability definition:

> *"...the capacity to meet financial commitments in the short, medium and long term, manage unforseen financial shocks and adverse changes in Local Government business and economic conditions, and manage core business risks."*
> Source: QTC (2008, p.8)

Section 104(2) of the *Local Government Act 2009* (Qld) features a simpler definition of financial sustainability:

> *"A Local Government is financially sustainable if the Local Government is able to maintain financial capital and infrastructure over the long term."*

[4] The Latin word is made from *sus*, which means "up", and *tenere*, which means "to hold".

2.2.3 Appropriateness of Definitions

Many of the above definitions of financial sustainability appear to be drawn from credit ratings agency concepts of creditworthiness and the riskiness of repaying borrowings under a range of economic conditions such as external shocks, rather than continuity of service provision and infrastructure maintenance and renewal necessary in a Local Government context.

This is particularly the case with the two Queensland definitions, with the QTC definition focussing on creditworthiness in the face of external shocks and the *Local Government Act 2009* definition more concerned with the ability to maintain the financial and infrastructure base of the Local Government.

The Access Economics (2006a), PriceWaterhouseCoopers (2006), IMF (2007) and Australian Treasury (McKissack & Comley, 2005) definitions also consider the constraint of avoiding large or disruptive changes in revenue and expenditure settings, while the World Bank's (Bird, 2003) definition is more related to self-reliance of the current generation (thus ensuring intergenerational equity).

CASE STUDY:
To illustrate the differences in approach, consider the case of the former Johnstone Shire Council in Queensland. QTC (2008) assessed Johnstone Shire Council as being financially distressed, and unable to survive without substantial changes. The Council was subsequently amalgamated with a smaller shire with only moderate financial strength, but survives nearly a decade later. However, this has occurred with considerable increases in rates and other revenues, reductions in service levels and additional external support. The Council was not sustainable on its previous policy settings (rates, service levels and asset renewals), but has avoided defaulting on its debts by making substantial policy changes (including many by the Administrator).

2.3 Legislative & Policy Context

Queensland Local Governments through legislation and regulation are required to effectively plan for the future long-term sustainability of their communities, including a focus on longer-term financial planning and accountability.

2.3.1 Financial Management

The *Local Government Act 2009* (Qld) requires Local Governments to have in place a '*system of financial management*' to ensure ongoing financial sustainability, and deems a Local Government financially sustainable if they are able to maintain their financial capital and infrastructure capital over the long term.

Section 104(5) of the *Local Government Act 2009* (Qld) also requires the system of financial management established by a Local Government to include:

> *(a) the following financial planning documents prepared for the Local Government—*
> *(i) a 5-year corporate plan that incorporates community engagement;*
> *(ii) a long-term asset management plan;*
> *(iii) a long-term financial forecast;*
> *(iv) an annual budget including revenue statement;*
> *(v) an annual operational plan; and*
>
> *(b) the following financial accountability documents prepared for the Local Government—*
> *(i) general purpose financial statements;*
> *(ii) asset registers;*
> *(iii) an annual report;*
> *(iv) a report on the results of an annual review of the implementation of the annual operational plan; and*
>
> *(c) the following financial policies of the Local Government—*
> *(i) investment policy;*
> *(ii) debt policy;*
> *(iii) revenue policy.*

The *Local Government Regulation 2012* (Qld) details the requirements and processes for Local Government revenue raising, financial management, and planning and reporting documents. The Regulation includes details on:

- Business activities and full cost pricing and associated pricing provisions.
- Rates and charges.
- Financial accounts, documents, policies, records and reports.
- Planning and accountability documents.
- Contracts.
- Allocation of Commonwealth funds for Local Government purposes.

2.3.2 Sustainability & Reporting Process

The sustainability and reporting process developed by the then Department of Local Government and Planning (DLGP) (2011a) and further progressed by the Department of Local Government, Community Recovery and Resilience (DLGCRR) (2013) emphasises sustainable communities and Local Governments, and evaluates Local Governments in the key financial sustainability areas of:

- Asset management.
- Community engagement.
- Governance.
- Financial management (sustainability).

The sustainability and reporting process includes the implementation of the national frameworks for sustainability, and a national initiative to improve the ongoing sustainability of Local Governments throughout Australia. The chairperson of the Local Government and Planning Ministers' Council informs the chairperson of the Council of Australian Governments (COAG) on the progress of the initiative and its implementation within each State and Territory.

2.3.3 Financial Sustainability

The *Local Government Regulation 2012* (Qld) requires Queensland Local Governments to include in their annual budget forecasts the relevant measures of financial sustainability for the financial year the budget is being prepared for and for the subsequent nine years. The *Financial Management (Sustainability) Guideline 2013* (DLGCRR, 2013) describes the relevant measures of financial sustainability required to be published.

The 2013 Guideline is an updated version of the *Financial Management (Sustainability) Guideline 2011* (DLGP, 2011a), and represents a significant improvement in terms of layout, content and guidance regarding the calculation and importance of each indicator. The 2013 Guideline focuses on three key indicators of Local Government financial sustainability, a significant reduction from the seven indicators in the 2011 Guideline[5].

The Asset Renewal Funding Ratio is also mentioned in the 2013 Guideline as being an additional desirable financial sustainability indicator that will be included in the Regulations as a relevant measure of infrastructure capital sustainability when the challenges associated with accurate measurement are overcome (e.g. all infrastructure assets are managed in accordance with formal AMPs and the selection of appropriate discount rates). This ratio represents the extent to which required capital renewals per the AMPs are incorporated into the 10-year financial model of the Local Government.

Table 2.2 provides a summary of the three measures required to be published by the *Local Government Regulation 2012* (Qld), including description, calculation and target.

In addition to the three agreed financial sustainability indicators, QTC will continue to use its own set of credit metrics when undertaking QTC Credit Reviews and may supplement the above indicators when undertaking Financial Sustainability Reviews.

[5] The ratios no longer included in the 2013 Guideline include the Asset Consumption Ratio, the Asset Renewal Funding Ratio, the Interest Coverage Ratio and the Working Capital Ratio.

Table 2.2: State Measures of Sustainability

Measure	Description	Calculation	Target	Implications
Infrastructure Capital Sustainability				
Asset Sustainability Ratio	• This ratio indicates whether a Local Government is renewing or replacing existing non-financial assets at the same rate that its overall stock of assets is wearing out.	Capital expenditure on the replacement of assets (renewals) / depreciation expense *(Expressed as a percentage)*	>90%	• A ratio > 90% means that the Local Government is likely to be sufficiently maintaining, replacing or renewing existing infrastructure assets as they reach the end of their useful life. • A ratio < 90% means that the Local Government is likely to not be sufficiently maintaining, replacing or renewing existing infrastructure assets as they are being depreciated, which may create a 'renewals backlog', resulting in a reduction in the service levels and/or useful lives previous expected. This will create a burden on future ratepayers, who will either incur financial costs to restore the asset or a convenience cost from not being able to utilise the asset (e.g. road closures due to excessive pot holes).
Financial Capital Sustainability/Viability				
Operating Surplus Ratio	• The ratio is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes or other purposes.	Net operating result (excluding capital items) / total operating revenue (excluding capital items) *(Expressed as a percentage)*	0%-10%	• A ratio within the target range means that the Local Government is expecting to generate healthy levels of revenues that can be used to offset past or future operating deficits or to fund proposed capital expenditure and/or debt repayments, and is less likely to compromise the levels of service expected by ratepayers. • A ratio < 0% means that the Local Government is expecting to not be able to generate sufficient revenues that can cover operating expenses and offset past or future operating deficits or act as a funding source for proposed capital expenditure and/or debt repayments. • A ratio > 10% may suggest that whilst the Local Governments is expecting to generate substantial revenues to assist in offsetting past or future operating deficits and fund proposed capital expenditure and/or debt repayments, the low levels of operating expenses compared to operating revenues could also indicate that levels of service are being provided below that expected by ratepayers.
Net Financial Liabilities Ratio	• The ratio is an indicator of the extent to which the net financial liabilities of a Local Government can be serviced by its operating revenues.	(Total liabilities - current assets) / total operating revenue (excluding capital items) *(Expressed as a percentage)*	0%-60%	• A ratio within the target range means that the Local Government has net financial liabilities exceeding current assets which must be serviced using available operating revenues, but that the Local Government remains within recommended levels for sustainability in that it has the capacity to fund the financial liabilities and appears to have the capacity to increase its loan borrowings if required. • A ratio > 60% means that the Local Government has total financial liabilities that exceed current assets above recommended levels, likely has limited capacity to increase its loan borrowings and may be becoming over-burdened with debt. • A ratio < 0% means that the Local Government has current assets that exceed total liabilities and appears to have the capacity to increase its loan borrowings if required.

Source: DLGCRR (2013), AEC*group*

2.4 Assessments of Financial Sustainability

2.4.1 Queensland Treasury Corporation

2.4.1.1 Purpose

In 2006, Queensland Treasury Corporation (QTC, 2008) was requested by LGAQ and then Queensland Department of Local Government, Sport and Recreation (DLGSR) to review and comment on the financial sustainability of the Local Governments participating in LGAQ's *Size, Shape and Sustainability* (LGAQ, 2005) program. The objective of the review was to:

- Provide each Local Government with a financial sustainability rating (FSR) and outlook.
- Provide each Local Government with a report analysing their current and forecast financial position, together with recommendations aimed at improving their ongoing financial sustainability.
- Comment on financial sustainability issues impacting the Local Government industry.

The FSR included an analysis of the Local Government's historical financial performance from 2001 to 2007, a long-term (10-year) financial forecast and a number of quantitative and qualitative indicators.

2.4.1.2 Financial Sustainability Indicators Used

QTC developed a range of quantitative indicators and undertook consideration of qualitative factors such as trends, industry benchmarks and economic factors to determine the financial sustainability of each Local Government. Table 2.3 presents the quantitative and qualitative indicators used.

Table 2.3: QTC Quantitative and Qualitative Indicators of Financial Sustainability, 2008

Measure	Description	Calculation	Target
Quantitative Factors			
Operating margin	• Net operating result (excluding capital items) as a percentage of operating revenue.	Net operating result (excluding capital items) / operating revenue *(Expressed as a percentage)*	> -4%
Self-generated operating revenue contribution	• Capacity of the Local Government to significantly influence its own revenue outcomes.	Operating income (excluding subsidies, donations and contributions) / operating expenses (including interest and depreciation) *(Expressed as a percentage)*	> 60%
Interest cover – EBITDA	• Earnings before interest, taxation, depreciation and amortisation, divided by interest costs.	Operating result (excluding capital items, interest and depreciation) / interest cost	> 6 times
Cash holdings	• Total cash divided by average month cash operating expenses (excluding capital items and depreciation).	Total cash / average month cash operating expenses (excluding capital items and depreciation)	> 3 months
Current ratio	• Current assets divided by current liabilities.	Current assets / current liabilities	> 3 times
Capital expenditure ratio	• Annual capital expenditure divided by annual depreciation.	Annual capital expenditure / annual depreciation	> 1.1 times

Measure	Description	Calculation	Target
Qualitative Factors			
Discussions with senior staff regarding the Local Government's objectives, etc. and research regarding the macro-economic environment	The environment in which a Local Government operates, both internal and external: • Business model and operating systems. • Demographic factors. • Management's capacity to deliver required outcomes and manage business risk. • Reputation of the Local Government. • Quality of the Local Government's assets. • The risks associated with the Local Government's ownership of non-core assets. • Past audit qualifications.		

Source: QTC (2008, p.20)

2.4.1.3 Categorisation of Local Governments

QTC (2008) used the Australian Classification of Local Government (ACLG) to report on different Local Governments. Being prior to the Local Government Reforms (Local Government Reform Commission, 2007), the total number of Local Governments assessed was 109 and excluded Indigenous Local Governments. A summary of the categories and number of Local Governments in each category is outlined in Table 2.4, in addition to a comparison with the council segments adopted for this study. It is evident that:

- The UFS and URS classifications align with the Indigenous segments.
- The Urban classifications line up with the SEQ segment.
- The Rural classifications line up with the Rural/Remote, Rural/Regional and Resources categories.
- Coastal segments are split over the Urban Fringe and Rural classification.

Table 2.4: Australian Classification of Local Government vs. Council Segments

ACLG	Total	%	Indig.	Rural/ Rem.	Rural/ Reg.	Res.	Coast.	SEQ
Urban Capital City UCC	1	1%						1
Urban Developed Large UDL	1	1%						1
Urban Developed Medium UDM	1	1%						1
Urban Developed V. Large UDV	1	1%						1
Urban Fringe Large UFL	1	1%					1	
Urban Fringe Medium UFM	4	3%			1		3	
Urban Fringe Small UFS	23	15%	17		1	2	3	
Urban Regional Large URL	2	1%					1	1
Urban Regional Medium URM	3	2%					2	1
Urban Regional Small URS	21	13%	16		3	2		
Urban Regional Very Large URV	7	4%					1	6
Rural Agricultural Large RAL	14	9%		9	1	3	1	
Rural Agricultural Medium RAM	25	16%		13	4	7	1	
Rural Agricultural Small RAS	7	4%		7				
Rural Agricultural V. Large RAV	21	13%	1	7	4	2	7	
Rural Remote Large RTL	3	2%	1	2				
Rural Remote Medium RTM	12	8%		8		4		
Rural Remote Small RTS	6	4%		2	1	3		
Rural Remote Extra Small RTX	4	3%		4				
Total	**157**	**100%**	**35**	**52**	**15**	**23**	**20**	**12**

Source: QTC (2008), AEC*group* (2013a)

2.4.1.4 Financial Sustainability Outcomes by Council Segment

QTC (2008) developed a rating methodology incorporating a FSR and outlook to describe the financial sustainability position of a Local Government. The outlook focuses on the potential movement in a Local Government's rating in the short to medium term. These definitions are given in Table 2.5 and Table 2.6, respectively.

It should be noted here that QTC have since added a "sound" rating between moderate and strong. Further, the QTC financial sustainability rating and outlook definitions have changed over time. While the current ratings and outlooks used by QTC are different from those used in 2008, those adopted in 2008 are outlined here given that is what was adopted at the time the ratings assessment was made.

Table 2.5: QTC Financial Sustainability Rating (FSR) Definitions, 2008

Rating	Definition
Very Strong	A Local Government with a very high capacity to meet its financial commitments in the short, medium and long term. It is highly likely to be able to manage major unforeseen financial shocks and any adverse changes in its business and in general economic conditions without revenue or expense adjustments. Its capacity to manage core business risks is very strong.
Strong	A Local Government with a high capacity to meet its financial commitments in the short, medium and long term. It is likely to be able to manage major unforeseen financial shocks and any adverse changes in its business and in general economic conditions with only minor revenue or expense adjustments. Its capacity to manage core business risks is strong.
Moderate	A Local Government with a high capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term. It is expected to be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions with minor to moderate revenue or expense adjustments. Its capacity to manage core business risks is acceptable.
Weak	A Local Government with an acceptable capacity to meet its financial commitments in the short to medium term and a limited capacity in the long term. It is unlikely to be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions without the need for significant revenue or expense adjustments. It may experience difficulty in managing core business risks.
Very Weak	A Local Government with a limited capacity to meet its financial commitments in the short term and medium term and a very limited capacity long term. It is highly unlikely to be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions without the need for some structural reform and major revenue and expense adjustments. Managing core business risks may test its capacity.
Distressed	A Local Government with a very limited capacity to meet its short-term financial commitments and no capacity to meet its medium to long-term financial commitments. To be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions, major revenue and expense adjustments and structural reform will be required to meet its medium and long-term obligations. It will have difficulty in managing core business risks.

Source: QTC (2008, p21)

Table 2.6: QTC Outlook Definitions, 2008

Outlook	Definition
Positive	As a result of a foreseeable event or circumstance occurring, there is the potential for enhancement in the Local Government's capacity to meet its financial commitments (short and/or long term) and resultant change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.
Neutral	There are no known foreseeable events that would have a direct impact on the financial sustainability of the Local Government. It may be possible for a rating upgrade or downgrade to occur from a neutral outlook, if such an event or circumstance warranted as such.
Developing	A current situation exists that could have a direct impact (positive or negative) on the financial sustainability of a Local Government but the impact of that situation is uncertain.
Negative	As a result of a foreseeable event or circumstance occurring, there is the potential for deterioration in the Local Government's capacity to meet its financial commitments (short and/or long term) and resultant change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.

Source: QTC (2008, p.22)

Table 2.7 and Figure 2.1 provide a summary of the FSRs determined by QTC (2008) by council segment. It was identified that:

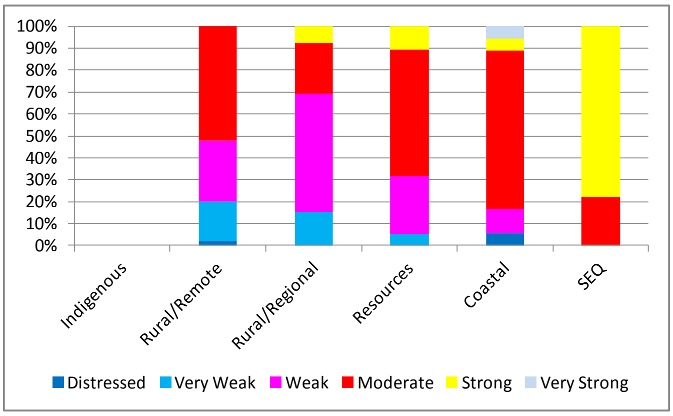
- 48% of the Rural/Remote segment were rated as weak or worse, whilst the remainder were moderate.
- 69% of the Rural/Regional segment were rated as weak or worse, whilst 23% were moderate and 8% were strong.
- 32% of the Resources segment were rated as weak or worse, whilst 58% were moderate and 11% were strong.
- 17% of the Coastal segment were rated as weak or worse, whilst 72% were moderate and 11% were strong or very strong.
- None of the SEQ segment were rated as weak or worse, whilst 22% were moderate and 78% were strong.
- Overall, excluding the Indigenous segment, 39% of Local Governments were rated as weak or worse, 50% as moderate and 11% as strong or very strong.

Table 2.7: QTC Financial Sustainability Ratings by Council Segment, 2008

Segment	Distressed	Very Weak	Weak	Moderate	Strong	Very Strong	Total
Indigenous	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	**n.a.**
Rural / Remote	1 *2.0%*	9 *18.0%*	14 *28.0%*	26 *52.0%*	0 *0.0%*	0 *0.0%*	**50** *100.0%*
Rural / Regional	0 *0.0%*	2 *15.4%*	7 *53.8%*	3 *23.1%*	1 *7.7%*	0 *0.0%*	**13** *100.0%*
Resources	0 *0.0%*	1 *5.3%*	5 *26.3%*	11 *57.9%*	2 *10.5%*	0 *0.0%*	**19** *100.0%*
Coastal	1 *5.6%*	0 *0.0%*	2 *11.1%*	13 *72.2%*	1 *5.6%*	1 *5.6%*	**18** *100.0%*
SEQ	0 *0.0%*	0 *0.0%*	0 *0.0%*	2 *22.2%*	7 *77.8%*	0 *0.0%*	**9** *100.0%*
Total	**2** *1.8%*	**12** *11.0%*	**28** *25.7%*	**55** *50.5%*	**11** *10.1%*	**1** *0.9%*	**109** *100.0%*

Note: QTC did not assess Indigenous Local Governments.
Source: QTC (2008), AEC*group*

Figure 2.1: QTC Financial Sustainability Ratings by Council Segment, 2008



Note: QTC did not assess Indigenous Local Governments.
Source: QTC (2008), AEC*group*

2.4.1.5 Conclusions, Findings & Recommendations

Despite 39% of Local Governments being rated weak or worse, QTC (2008) concluded that the consolidated financial position of Local Government showed a strong balance sheet with low debt levels. QTC (2008) also noted that liquidity (cash holdings) were generally quite sound, with only a small percentage of Local Governments suffering liquidity issues.

More detailed findings included:

- A significant number of Local Governments (65%) routinely recorded operating deficits over 2001 to 2007.
- A large number of Local Governments may be depreciating their assets too quickly.
- Approximately 57% did not have complete and robust AMPs.
- A number of Local Governments were repatriating funds from their commercialised business activities to the detriment of these businesses.
- The financial focus of the majority of Local Governments appeared to be the current year (cash accounting).
- Many Local Governments were basing revenue increases at or below the consumer price index (CPI).
- Asset maintenance funding often becomes an early casualty when budgets are tight.
- Business case development for major projects was sporadic.
- Local Governments were under utilising debt.
- Population growth in many Queensland Local Government areas has been strong over a number of years.
- The proportion of older people in the population continued to increase in line with a global trend.
- The accuracy of published comparative information for a number of Local Governments was found to be questionable.

In response to these findings, QTC (2008) made 17 recommendations, with some of the more relevant recommendations including:

- Local Government should target a balanced or surplus operating result.
- Increases to net rates, utilities and charges should be determined as a function of the underlying cost and price movement of services rather than the CPI.
- A review of depreciation methodologies and appropriate application of them.
- A review of taxation and dividend policy principles for business activities and appropriate application of them.
- Implementation of appropriate policies to handle various liquidity scenarios.
- Consideration of optimal funding mix for capital investment programs and for Local Governments to borrow where appropriate.
- Preparation and completion including regular updating of AMPs and 10-year financial forecasting model (including an estimate for asset revaluation).
- Financial training for senior management and elected officials particularly around the understanding of AMPs, use of debt and the difference between capital and operating revenues.
- Regular review of financial sustainability.
- Financial statements and internal reporting to include details of net operating position.
- Improvements to the methodology for sourcing and reporting Local Government comparative data.

2.4.2 Department of Local Government & Planning

2.4.2.1 Purpose

The then DLGP (DLGP, 2009 & 2011b) undertook two evaluations of financial management (sustainability) following the commencement of the sustainability and reporting process:

- 2009: 58 Local Governments were requested to submit data returns and 49 were received.
- 2011: All 73 Local Governments were requested to submit data returns and 56 were received.

2.4.2.2 Categorisation of Local Governments

The DLGP (2011b) categorised Local Governments using the categories established by the Queensland Local Government Remuneration and Discipline Tribunal. A summary of the categories and number of Local Governments in each category is outlined in Table 2.8, in addition to a comparison with the council segments adopted for this study. It is evident that:

- The Small/Indigenous category aligns with the Indigenous, Rural/Remote and Resources segments.
- The Medium category aligns with the Rural/Remote, Resources, Rural/Regional and Resources segments.
- The Large category aligns with the Rural/Regional, Coastal and Resources segments.
- The Very Large category aligns with the SEQ and Coastal segments.

Table 2.8: DLGP Categories vs. Council Segments

Size Category	Total	%	Indig.	Rural/ Remote	Rural/ Regional	Resources	Coastal	SEQ
Small/Indigenous	32	44%	17	8	-	7	-	-
Medium	13	18%	-	5	2	4	2	-
Large	16	22%	-	-	6	5	5	-
Very Large	12	16%	-	-	-	-	4	8
Total	**73**	**100%**	**17**	**13**	**8**	**16**	**11**	**8**

Source: DLGP (2011b), AEC*group*

2.4.2.3 Financial Sustainability Outcomes by Council Segment

DLGP (2011b) reports on six infrastructure and financial ratios ten years into the future by size category, as outlined in Table 2.9.

Table 2.9: DLGP Measures of Sustainability

Measure	Description	Calculation	Target
Infrastructure Capital Sustainability			
Asset Sustainability Ratio	• This ratio indicates whether a Local Government is renewing or replacing existing non-financial assets at the same rate that its overall stock of assets is wearing out.	Capital expenditure on the replacement of assets (renewals) / depreciation expense *(Expressed as a percentage)*	>90%
Asset Consumption Ratio	• This ratio seeks to highlight the aged condition of a Local Government's stock of physical assets	Written down value of infrastructure assets / gross current replacement cost of infrastructure assets. *(Expressed as a percentage)*	40%-80%
Interest Coverage Ratio	• This ratio indicates the extent to which a Local Government's operating revenues are committed to funding interest expense on current loan borrowings and leases.	Net interest expense on debt service / total operating revenue *(Expressed as a percentage)*	0%-5%
Financial Capital Sustainability/Viability			
Operating Surplus Ratio	• This is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes or other purposes.	Net operating result / total operating revenue *(Expressed as a percentage)*	0%-10%

Measure	Description	Calculation	Target
Working Capital Ratio	• This is an indicator of the management of working capital (short-term financial capital) and measures the extent to which a Local Government has liquid assets available to meet short term financial obligations.	Current assets / current liabilities *(Expressed as X:1 where X = above result)*	1:1-4:1
Net Financial Liabilities Ratio	• This is an indicator of the extent to which the net financial liabilities of a Local Government can be serviced by its operating revenues.	(Total liabilities - current assets) / total operating revenue *(Expressed as a percentage)*	<60%

Source: DLGP (2011a)

Using these ratios, Local Governments are classified as being in a strong (46%), moderate (32%) or financial challenged (21%) position.

Looking forward, DLGP (2011b) reports that when compared to 2009-10:

- Small Local Governments identify an expected improvement in their financial sustainability outlook.
- Medium Local Governments identify a decline in their financial sustainability outlook
- Large and Very Large Local Governments identify no change in the financial sustainability outlook.

2.4.2.4 Conclusions, Findings & Recommendations

In addition to the above findings, DLGP (2011b) concluded from their evaluations that there are a number of Local Governments without a long-term financial model underpinned with clearly identified assumptions as well as a number that are yet to develop a clear and coherent financial strategy into the future.

In response to its conclusions and findings, DLGP (2011b) indicated it would:

- Work with Local Governments that require support with their long-term financial forecast and developing a financial sustainability strategy, including working with QTC.
- Continue to promote integrated planning processes in Local Governments through financial management and sustainability workshops, regional forums and information sessions.
- Provide Local Government with the necessary information on the integration between the strategic planning element of both the *Sustainable Planning Act 2009* (Qld) and the *Local Government Act 2009* (Qld).

2.4.3 Queensland Audit Office

2.4.3.1 Purpose

The *Auditor General Act 2009* (Qld) requires the Auditor General of Queensland (through the Queensland Audit Office (QAO)) to audit the annual financial statements of all public sector entities (including Local Government) and prepare an audit report. The audit report (including an audit opinion) provides assurance about the reliability of financial reporting, in addition to compliance with legislative requirements. The most recent report on the *Results of Audits: Local Government Entities 2011-12* is dated April 2013 (QAO, 2013).

2.4.3.2 Categorisation of Local Governments

QAO (2013) uses the same categorisation of Local Governments as the DLGP (2009, 2011b).

2.4.3.3 Financial Sustainability Outcomes by Council Segment

As part of the annual audit, the Auditor General is required to assess each Local Government's performance against the three financial sustainability performance measures published in the *Local Government Regulation 2012* (Qld), namely the operating surplus, net financial liabilities, and asset sustainability ratios.

For the 2011/12 financial year, Local Governments were risk assessed against these three financial sustainability measures on the basis of three years of actual financial performance (i.e. published financial statements from 2009/10-2011/12). QAO (2013) used the capital replacement ratio in lieu of the asset sustainability ratio given the asset sustainability ratio could not be calculated from the audited financial statements.

Risk ratings were considered on the basis of a Local Government becoming unsustainable based on historical performance, with each Local Government being rated as higher risk, moderate risk or lower risk. Table 2.10 provides details on the criteria and measures used to assign the risk level to each Local Government.

Table 2.10: QAO Risk Assessment Criteria

Risk Level	Detail	Measure
Higher	Higher risk of sustainability issues arising in the short to medium term if currently experienced operating income and expenditure policies continue, as indicated by average operating deficits/(losses) of more than 10% of revenue.	• Operating surplus ratio <-10% • Net financial liabilities ratio >80% • Capital replacement ratio <0.9
Moderate	Moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by: • Current net financial liabilities more than 80% of revenue, • Average capital replacement ratio less than 0.9, or • Realising two or more of the ratios per the moderate risk assessment.	• Operating surplus ratio -10%-0% • Net financial liabilities ratio 60%-80% • Capital replacement ratio 0.9-1.5
Lower	Lower risk of financial sustainability concerns based on current income, expenditure, asset investment and debt financing policies.	• Operating surplus ratio >0% • Net financial liabilities ratio <60% • Capital replacement ratio >1.5

Note: QAO advised that its assessment of financial sustainability risk factors does not take into account long-term forecasts or credit assessments undertaken by QTC.
Source: QAO (2013)

Table 2.11 and Figure 2.2 provide a summary of the risk ratings determined by QAO (2013) by council segment. It was identified that the 16 Local Governments (11 of these Indigenous) rated as higher risk (23.5%) had recurring operating deficits over the last three years.

Table 2.11: QAO Risk Assessment by Council Segment, 2011/12

Segment	Higher Risk	Moderate Risk	Lower Risk	Total
Indigenous	11 *73.3%*	2 *13.3%*	2 *13.3%*	**15** *100.0%*
Rural / Remote	1 *8.3%*	1 *8.3%*	10 *83.3%*	**12** *100.0%*
Rural / Regional	0 *0.0%*	2 *25.0%*	6 *75.0%*	**8** *100.0%*
Resources	2 *13.3%*	1 *6.7%*	12 *80.0%*	**15** *100.0%*
Coastal	0 *0.0%*	4 *40.0%*	6 *60.0%*	**10** *100.0%*
SEQ	2 *25.0%*	3 *37.5%*	3 *37.5%*	**8** *100.0%*
Total	16 *23.5%*	13 *19.1%*	39 *57.4%*	**68** *100.0%*

Source: QAO (2013), AEC*group*

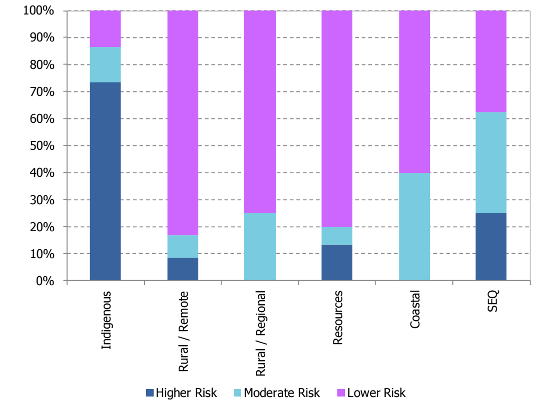
The consolidated financial sustainability measure outcomes published by QAO (2013) and used to undertake its financial sustainability risk assessment for each Local Government are summarised in Table 2.12 and illustrated by council segment in Figure 2.3 to Figure 2.5. Those council segments which feature outcomes materially worse than average are highlighted in bold in the table.

Table 2.12: QAO Financial Sustainability Measure Outcomes, 2011/12

Measure	Performance (proportion of category)			Conclusion
Infrastructure Capital Sustainability				
Capital Replacement Ratio	Result < 0.9 **8 Indigenous (53%)**	Result 0.9-1.5 4 Indigenous (27%) 3 Rural/Remote (25%) 3 Rural/Regional (38%) 3 Resources (20%) 3 Coastal (30%) 3 SEQ (38%)	Result >1.5 3 Indigenous (20%) 9 Rural/Remote (75%) 5 Rural/Regional (63%) 12 Resources (80%) 7 Coastal (70%) 5 SEQ (63%)	40% (27/68) LGs did not meet the targeted level of replacement for infrastructure investment.
Financial Capital Sustainability/Viability				
Operating Surplus	Result < -10% **11 Indigenous (73%)** 1 Rural/Remote (8%) 2 Resources (13%) **2 SEQ (25%)**	Result -10% and 0% 2 Indigenous (13%) 1 Rural/Remote (8%) **5 Rural/Regional (63%)** 3 Resources (20%) **7 Coastal (70%)** **3 SEQ (38%)**	Result >0% 2 Indigenous (13%) 10 Rural/Remote (83%) 3 Rural/Regional (38%) 10 Resources (67%) 3 Coastal (30%) 3 SEQ (38%)	24% (16/68) of LGs have had average operating deficits greater than -10% since 2009/10 that will lead to long-term sustainability issues should they persist.
Net Financial Liability	Result > 80% **1 Coastal (10%)** **2 SEQ (25%)**	Result 60%-80% **1 Coastal (10%)**	Result <60% 15 Indigenous (100%) 12 Rural/Remote (100%) 8 Rural/Regional (100%) 15 Resources (100%) 8 Coastal (80%) 6 SEQ (75%)	6% (4/68) of LGs have higher than recommended debt levels requiring a re-evaluation of future debt servicing strategies.

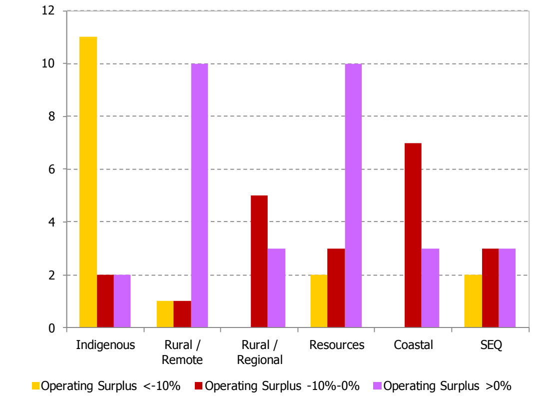
Source: QAO (2013), AEC*group*
Notes: The capital replacement ratio is a comparison of the rate of capital spending on property, plant and equipment to the rate of depreciation.

Figure 2.2: QAO Risk Assessment By Council Segment



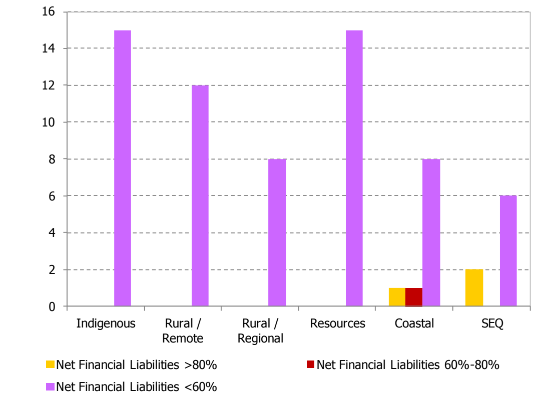
Source: QAO (2013), AEC*group*

Figure 2.3: Average Operating Surplus Ratio Performance By Council Segment



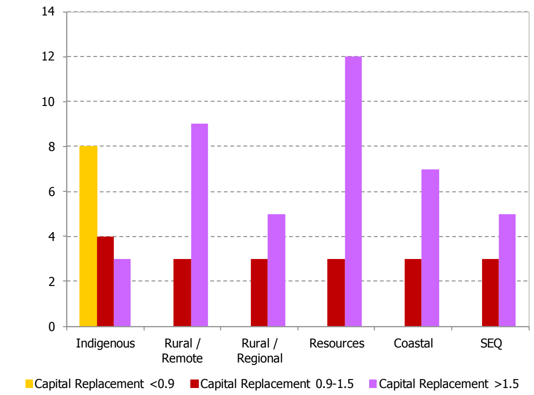
Source: QAO (2013), AEC*group*

Figure 2.4: Net Financial Liabilities Ratio Performance By Council Segment



Source: QAO (2013), AEC*group*

Figure 2.5: Average Capital Replacement Ratio Performance By Council Segment



Source: QAO (2013), AEC*group*

Table 2.13 provides a summary of the 2011/12 audit outcomes for each council segment, including financial sustainability outcomes and other identified issues. All council segments appear to have common issues in the areas of information security, insufficient asset management and sustainability planning, insufficient risk management practices, procurement non compliance and excessive leave balances. In addition to these issues, the following segment specific outcomes are noted:

- Indigenous Local Governments feature a relatively higher prevalence of operating deficits and in some instances appear to have insufficient resources to meet desired compliance requirements such as asset valuation and management, risk management and internal controls.
- Rural/Remote Local Governments feature a higher prevalence of monitoring and control issues, in addition to a mix of operating results from minor deficits to reasonable surpluses.
- Rural/Regional Local Governments feature a relatively high prevalence of control environment issues, in addition to a mix of operating results from minor deficits to reasonable surpluses.
- Resources Local Governments feature a higher prevalence of control environment issues, risk management and monitoring and control issues, in addition to a mix of operating results from minor deficits to reasonable surpluses.
- Coastal Local Governments feature a relatively higher prevalence of operating deficits and higher than recommended debt levels.
- SEQ Local Governments feature a relatively higher prevalence of operating deficits and higher than recommended debt levels.

Table 2.13: QAO Audit Outcomes Summary, 2011/12

<table>
<tr><th>Segment</th><th>Indigenous</th><th>Rural/Remote</th><th>Rural/Regional</th><th>Resources</th><th>Coastal</th><th>SEQ</th></tr>
<tr><td>Audit Opinions</td><td>• 13% (2/15) with qualifications relating to 2010/11 comparatives unable to be relied upon due to issues associated with records, financial adjustments, asset valuation/management, and internal control aspects.</td><td>• No qualifications recorded.</td><td>• 13% (1/8) with qualifications relating to 2010/11 asset impairment following the floods.</td><td>• 7% (1/15) with qualifications relating to asset valuation issues for road, drainage and bridge transport infrastructure.</td><td>• 20% (2/10) with qualifications relating to asset valuation issues for road, bridge, water, sewerage and drainage infrastructure and 2010/11 asset impairment following the floods.</td><td>• No qualifications recorded.</td></tr>
<tr><td rowspan="2">Significant Audit Issues – Control Environment</td><td>• Nil</td><td>• Nil</td><td>• 38% (3/8)</td><td>• 27% (4/15)</td><td>• 10% (1/10)</td><td>• Nil</td></tr>
<tr><td colspan="6">…did not have policies and plans over information systems change management, user security access, business continuity and disaster recovery, or long-term financial sustainability plans (including comprehensive asset management plans).</td></tr>
<tr><td rowspan="2">Significant Audit Issues – Risk Management</td><td>• 13% (2/15)</td><td>• 8% (1/12)</td><td>• Nil</td><td>• 13% (2/15)</td><td>• 10% (1/10)</td><td>• Nil</td></tr>
<tr><td colspan="6">…did not have an up to date risk management policy or risk register, potentially exposing them to significant adverse financial consequences.</td></tr>
<tr><td rowspan="2">Significant Audit Issues – Monitoring and Review</td><td>• 13% (2/15)</td><td>• 33% (4/12)</td><td>• 13% (1/8)</td><td>• 13% (2/15)</td><td>• 10% (1/10)</td><td>• Nil</td></tr>
<tr><td colspan="6">…identified as having not established an internal audit function in accordance with legislative requirements (to ensure effective monitoring and control activities are in place).</td></tr>
<tr><td>Significant Audit Issues – Control Activities</td><td colspan="6">• 91% of all Local Governments feature control weaknesses relating to accounting systems and processes that pose significant risk and require corrective action as matter of high priority (e.g. asset valuation controls, information systems access, procurement non compliance, excess leave balances).
• By size, control weaknesses were recorded in 75% of Small/Indigenous Local Governments, 77% of Medium Local Governments, 100% of Large Local Governments and 100% of Very Large Local Governments.</td></tr>
<tr><td>Financial Capital Sustainability Ratios</td><td>• Higher prevalence of operating deficits which may threaten long-term sustainability.</td><td colspan="3">• Mixed operating results, with the existence of both operating deficits (which may threaten long-term sustainability) and operating surpluses of greater than 10%.</td><td colspan="2">• Higher prevalence of operating deficits which may threaten long-term sustainability.
• Higher than recommended debt levels that have the potential to limit capacity for future borrowings and impact ability to service debt moving forward.</td></tr>
<tr><td>Infrastructure Capital Sustainability Ratios</td><td colspan="6">• Targeted levels of infrastructure renewal and replacement are not being met by some Local Governments (with 12% of all Local Governments audited found to have a capital replacement ratio below the desired level of 90%), suggesting that financing asset renewal and replacement may be an issue moving forward.</td></tr>
<tr><td>Audit Outcomes (recurring financial sustainability issues)</td><td colspan="6">• Insufficient asset management planning impacted by shortcomings in asset valuations and infrastructure renewal/replacement forecasts.
• Excessive employee leave balances.
• Procurement and payable internal control weaknesses that reduce Local Government purchasing power and potentially impede the achievement of maximum value for their communities.
• Poor debtor control.
• Lack of established or up to date risk management planning affecting all facets of operations.
• Ineffective system access controls including information systems security, increasing the risk of data loss or theft.</td></tr>
</table>

Source: Auditor-General of Queensland (2013), AEC*group*

2.4.3.4 Conclusions, Findings & Recommendations

Except for Indigenous Local Governments, QAO (2013) concluded that the overall financial sustainability risk for Local Governments in 2011-12 was low. Key findings included:

- 16 Local Governments (including 11 of the 14 Indigenous Local Governments) were at higher risk of becoming unsustainable if the results from the previous three years continued.
- 20 of the 55 Local Governments which published their 2011-12 annual reports on their respective websites did not disclose all three financial sustainability measures.

In relation to financial sustainability, QAO (2013) made the following recommendations:

- The DLGCRR revises and reissues the financial sustainability guidelines so that Councils are provided detailed guidance (including examples) on the calculation of the three sustainability measures well in advance of Local Governments having to present them for audit in 2012/13 (Recommendation 7).
- The DLGCRR works with QTC to actively assist Councils in refining the assumptions used in their long-term forecasts to heighten council awareness of the impact today's budgetary decisions have on a Local Government's long-term financial sustainability (Recommendation 8).

2.4.4 Financial Sustainability Pre & Post Local Government Reform

It is important to note here that it is extremely difficult to make a direct comparison between the financial sustainability performances of Local Governments pre and post the Local Government Reforms (Local Government Reform Commission, 2007) given that the above reviews undertaken by QTC and QAO were undertaken on such different bases. As an example, the QAO rating only considered three financial ratios, whereas the QTC rating considered a wider set of quantitative and qualitative data.

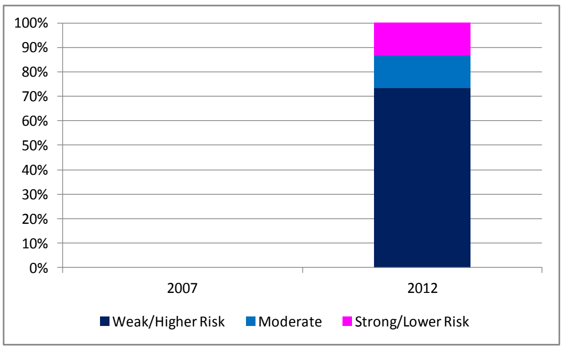
For information purposes, a comparison has still been made by comparing the QTC (2008) and QAO (2012) assessments using the council segments and equating QTC's (2008) FSRs with QAO's (2013) as per Table 2.14.

Table 2.14: Equating QTC and QAO Financial Sustainability Measures

QTC FSR	QAO Measure Risk	New Term
Distressed, Very Weak, Weak	Higher Risk	Weak/Higher Risk
Moderate	Moderate	Moderate
Strong, Very Strong	Lower Risk	Strong/Lower Risk

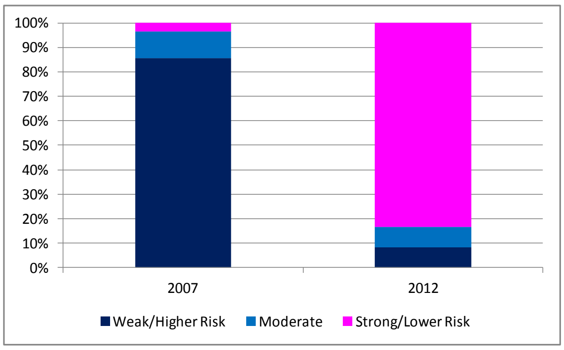
Source: QTC (2008), QAO (2013), AEC*group*

Figure 2.6: Financial Sustainability Pre/Post Local Government Reform - Indigenous



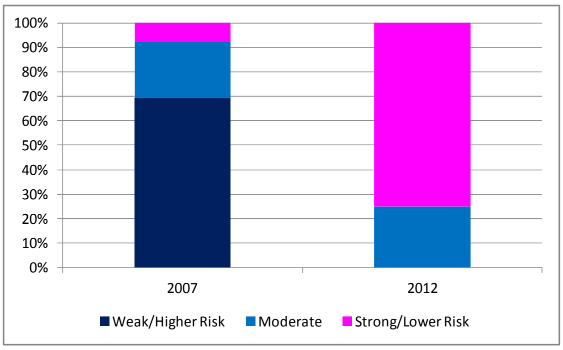
Note: QTC (2008) did not assess Indigenous Local Governments
Source: QTC (2008), QAO (2013), AEC*group*

Figure 2.7: Financial Sustainability Pre/Post Local Government Reform - Rural/Remote



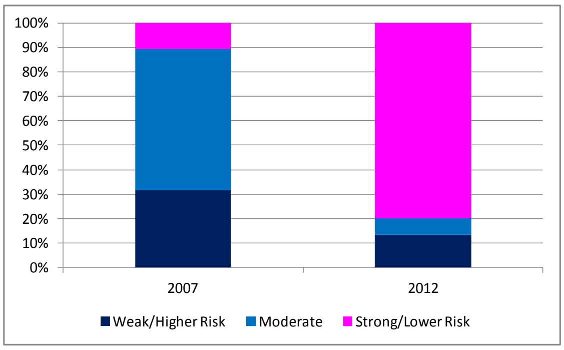
Source: QTC (2008), QAO (2013), AEC*group*

Figure 2.8: Financial Sustainability Pre/Post Local Government Reform - Rural/Regional



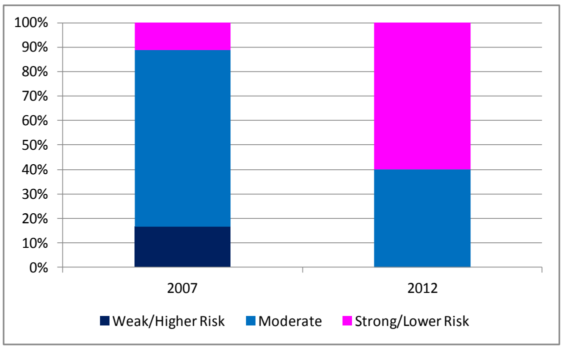
Source: QTC (2008), QAO (2013), AEC*group*

Figure 2.9: Financial Sustainability Pre/Post Local Government Reform - Resources



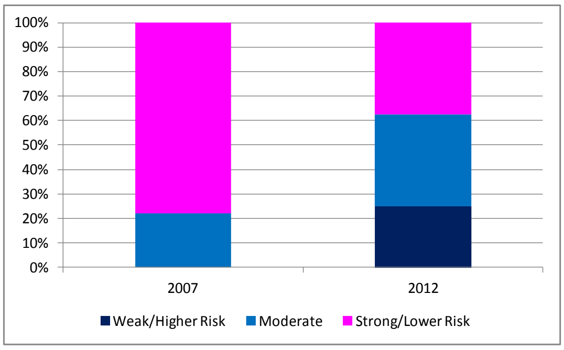
Source: QTC (2008), QAO (2013), AEC*group*

Figure 2.10: Financial Sustainability Pre/Post Local Government Reform - Coastal



Source: QTC (2008), QAO (2013), AEC*group*

Figure 2.11: Financial Sustainability Pre/Post Local Government Reform - SEQ



Source: QTC (2008), QAO (2013), AEC*group*

Whilst a comparison of these assessments pre and post the Local Government Reforms in the above figures may suggest that financial sustainability has improved in some segments, extreme caution should be exercised in drawing such conclusions. Direct comparisons cannot be drawn given the different methods applied in determining the ratings, in addition to the fact that a reduction in the number of higher risk Local Governments may simply be due to the amalgamation of multiple higher risk Local Governments rather than being reflective of an actual improvement.

A more detailed and informed analysis of financial sustainability trends for each council segment over time (including pre and post Local Government reforms) is contained in chapter 5.

2.5 Interstate Experiences

Financial sustainability initiatives for Local Governments across Australia are in various stages of implementation, with States such as Victoria and New South Wales relatively progressed with the establishment of strategic planning processes, but other States such as Western Australia currently implementing integrated strategic planning including the development of community plans, corporate plans and AMPs.

Only Queensland, Victoria and Tasmania require their Auditor General to oversee the annual financial audit processes for Local Governments, with the remaining States allowed to self appoint their auditor annually. As such, the availability of information relating to sustainability issues on a State-by-State basis from auditor general reports presented to their respective parliaments is limited.

2.5.1 Victoria

A review of the Victorian Auditor General's *Local Government Results of the 2011-12 Audits* (2012) identified that approximately 7% of Local Governments had medium to high levels of financial sustainability risk (up from 6% in 2009-10 but down from 10% in 2010/11). The assessment considers the performance of each Local Government against a set of financial sustainability indicators similar to those used in Queensland (i.e. liquidity indicators, asset sustainability/consumption, etc.).

Table 2.15: Victoria Two-Year Financial Sustainability Risk Assessment by Local Government Category

	2011-12			2010-11		
Council	**High**	**Medium**	**Low**	**High**	**Medium**	**Low**
Inner metropolitan	-	-	17	1	-	16
Outer metropolitan	-	2	12	-	3	11
Regional city	-	1	10	-	1	10
Large shire	-	1	15	-	-	16
Small shire	1	1	19	1	2	18
Total	**1**	**5**	**73**	**2**	**6**	**71**
%	1%	6%	93%	3%	7%	90%

Source: Victorian Auditor-General (2012)

Identified financial sustainability issues for Victorian Local Governments which appear to be in common with Queensland Local Governments include:

- Asset management processes.
- Procurement controls.
- Sustainability reporting measures.

2.5.2 New South Wales

A performance review of the New South Wales division of Local Government undertaken by the NSW Auditor-General (2012) focussed on the division's ability to identify and address financial sustainability issues rather than the actual issues evident for, and the performance of, Local Governments. A number of recommendations were made regarding the strengthening of legislation regarding sustainability reporting, as well as providing the division with greater power in dealing with instances of legislative non compliance by Local Governments.

In its response to the Auditor-General, the New South Wales Treasury Corporation (2013) completed a sustainability assessment in April 2013 of NSW Local Government that examined the following issues:

- The financial capacity of each Local Government, which included an analysis of historical results from the 2008/09 to 2011/12 financial years.
- The long-term sustainability of each Local Government, which included an analysis of Long-Term Financial Plans and the degree to which each Local Government has completed its AMP and integrated the requirements of the AMP into its Long-Term Financial Plan.
- The financial performance of each Local Government in comparison to a range of similar Local Governments when measured against the established benchmarks.

The results of the assessment showed that 113 (74.3%) of the 152 NSW Local Governments are currently rated moderate or better, and 39 (25.7%) are rated weak or very weak. No Local Governments were rated as very strong or distressed.

Table 2.16: NSW Financial Sustainability Rating Distribution

Rating	Count	%
Very strong	-	-
Strong	2	1.3%
Sound	32	21.1%
Moderate	79	52.0%
Weak	34	22.4%
Very weak	5	3.3%
Distressed	-	-
Total	**152**	**100.0%**

Note: A Moderate rating indicates that a Local Government has an adequate capacity to meet its financial obligations in the short to medium term (being the next five years), and to manage risks to its business. A Local Government rated as Moderate is likely to have recorded some minor to moderate operating deficits and it may have also recently recorded a significant operating deficit. It is likely to be able to address any unforseen financial shocks with moderate revenue and/or expense adjustments. Achieving a Moderate level FSR is considered to be the base target level for Local Governments and those Local Governments with a FSR higher than Moderate are in a much stronger position to deliver services, manage their assets and risks and address their Infrastructure Backlogs. Local Governments rated as Moderate will generally not have sufficient funds to address their infrastructure backlogs.
Source: NSW Treasury Corporation (2013)

Financial sustainability issues for NSW Local Governments identified by the New South Wales Treasury Corporation (2013) which also appear to be in common with Queensland Local Governments include:

- Ongoing operating deficits.
- Issues with asset management processes (reflected in significant infrastructure backlogs).

A number of recommendations have been made by the NSW Treasury Corporation to address the identified financial sustainability issues facing NSW Local Governments.

2.6 Conclusion & Identified Financial Sustainability Factors

Historically, there have been significant differences between the financial sustainability indicators applied to Local Governments. Some indicators have been developed from those applied by credit rating agencies to determine creditworthiness and the ability to withstand external shocks. Others have been more focussed on the sustainability (or otherwise) of current policy settings in meeting required service provision and service levels over the long term.

Queensland Local Governments are required to comply with an established sustainability reporting process based around effective asset management, community engagement, governance and financial management focussed on long-term sustainability outcomes. A *Financial Management Sustainability Guideline* (DLGCRR, 2013) has been produced to assist in the calculation and disclosure of selected financial sustainability ratios.

Assessments of financial sustainability have been undertaken by QTC (2008), DLGP (2009, 2011b) and QAO (2013). These reviews have used different classification approaches to Local Governments, with QTC (2008) using the ACLG and the remainder using the categories of the Queensland Local Government Remuneration and Discipline Tribunal. This study has, where possible, converted these into the council segments used in this study so that they can be compared on a similar basis.

QTC (2008) found that 39% of Local Governments had a FSR below moderate, 50% moderate and 11% above moderate. DLGP (2011) found 21% of Local Governments to be financially challenged, 32% moderate and 46% strong. QAO (2013) found 24% of Local Governments had a higher risk of financial sustainability issues, 19% moderate and 57% with a lower risk.

Whilst a comparison of these assessments pre and post the Local Government Reforms may suggest that financial sustainability has improved in some segments, extreme caution should be exercised in drawing such conclusions. Direct comparisons cannot be drawn given the different methods applied in determining the ratings, in addition to the fact that a reduction in the number of higher risk Local Governments may simply be due to the amalgamation of multiple higher risk Local Governments rather than being reflective of an actual improvement. Consequently, further analysis is required before that conclusion can be reached (refer to chapter 5).

Similar distributions of Local Government financial sustainability assessments have been recently found in NSW with 26% of Local Governments below moderate, 52% moderate and 22% above moderate. Victorian Local Governments however, appear to be more financially sustainable with 90% of Local Governments having a low risk of financial sustainability issues arising.

All of the assessments considered made a range of recommendations to improve financial sustainability but do not actually delve into the root causes in any detail. The improvement suggestions therefore are pointers to the underlying causes and include:

- *Community capacity to pay*: The infrastructure, services and levels of service provided to ratepayers need to be appropriate for that community.
- *Operating deficits*: Achieving a balanced or surplus operating position.
- *Long-term planning*: Developing and managing appropriate AMPs to aid planning and scheduling of future capital expenditure and maintenance programs.
- *Limited own source revenue*: Ensuring there are appropriate returns from commercialised business units.
- *Asset renewal*: Sustaining community equity whilst ensuring that there is no significant infrastructure backlog.
- *Governance*: Guidance and training around financial sustainability and the calculation of appropriate measures as well as refinement of assumptions in long-term financial sustainability planning.

3. Financial Sustainability Reviews

KEY POINTS

Historical Reviews

There is a **long history of poor financial sustainability outcomes** in Local Government in many State and national jurisdictions. Amalgamation is most often the response as seen in Victoria and Queensland in recent times. But **even the largest Local Governments are not immune**, for example Brisbane City Council has experienced financial crises in 1931, 1937, 1952 and 1955. Interestingly, no Local Governments have gone bankrupt in Australia.

There have **always been subsidies** to Local Government from higher levels of Government. Early grants were replaced by rates but Local Government reliance on grants has made Local Government very **vulnerable to their withdrawal** as is still the case today.

Recent Studies

Thirteen State and national based inquiries have been undertaken over the past decade, with the general conclusions being that the Local Government sector **is financially stressed**, with anywhere from one third to 50% of Local Governments deemed to be unsustainable, weak or distressed.

There has been some **criticism** of the relevance of these Local Government financial sustainability reviews, given that many of them have primarily focussed on the application of the financial indicators used for credit rating purposes, rather than investigating the underlying issues driving financial sustainability outcomes at the micro level.

Issues Requiring Further Research

- Need for an **appropriate definition of financial sustainability** in a Local Government context, in addition to the establishment of **predictive and performance measures** that enable the identification of financially unsustainable operating practices and policy settings (both at the local level and from other levels of Government).
- Need for research into **community capacity to pay** and overall tax take from the economy at the local level (i.e. fiscal capacity) is essential in ensuring that Local Government policy settings are set at an appropriate level.
- Need to determine the specific financial sustainability factors influencing **different types of Local Governments**, and the relative level of **reliance on grant funding** from other levels of Government by each of these types of Local Governments. (Note: this study examines factors for various Local Government segments).

Factors Impacting Financial Sustainability

- Funding shortfalls have resulted in a massive backlog of infrastructure provision, maintenance and renewal.
- Cost shifting from other levels of Government has added to financial sustainability issues.
- Local Governments have limited revenue raising capacity, and many are heavily (and some totally) reliant on stable grant funding from other levels of Government, including most Indigenous and Rural / Remote councils.
- Urban developed Local Governments tend to draw relatively lightly on their fiscal capacity (in terms of tax take as a share of household income and economic output), whereas rural and remote Local Governments tend to draw more heavily.
- A relatively high proportion of 'unsustainable' Local Governments have been found to be Indigenous and rural / remote Local Governments, while regional Local Governments appear to feature mixed sustainability outcomes.
- Growth can place significant pressure on the financial sustainability of larger Local Governments.
- Indigenous Local Governments differ markedly from other Local Governments, and specific strategies are required to deal with the challenges faced by these Local Governments.

3.1 Introduction

There have been numerous State and national inquiries into Local Government financial sustainability. The purpose of this chapter is not to simply undertake a review of available literature on the topic of Local Government financial sustainability, but to focus on the trends from prior research and the key implications for the identification of factors impacting the financial sustainability of Queensland Local Government.

3.2 Australian Local Government Financial Sustainability History

3.2.1 Early History

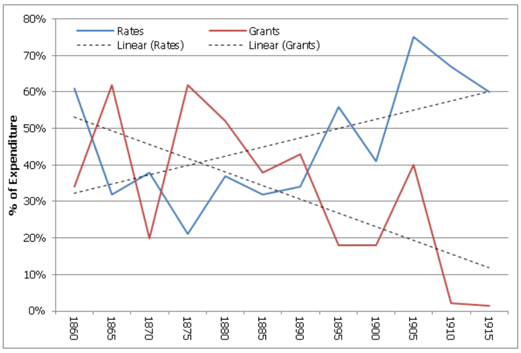
According to Jones (1981), Australian Local Governments were typically set up by Colonial Governments to fail. The Colonial Governments distrusted local democracy and attempted to offload responsibilities while providing very limited powers and revenue sources to those Local Governments. It was typical for early grants to diminish over time. Therefore, many Local Government systems throughout Australia failed in their early days.

3.2.2 Queensland History

Jones (1981) noted that Queensland only had a population of 28,000 persons when it became a separate State in 1859. Central Brisbane and Ipswich were incorporated as municipalities a year earlier in 1858. The *Municipal Institutions Act 1864* allowed the establishment of a municipality if a petition of more than 100 households was gathered. Various mechanisms were implemented in attempts to encourage the establishment of Local Governments in Queensland. This included subsidies equal to double rate revenue for the first five years.

However, by 1875, only 21% of Queensland was covered by voluntary Local Governments, and the Queensland Parliament passed the *Divisional Boards Act 1879* which compulsorily created 74 Divisional (Roads) Boards covering the remaining parts of the State. As Local Governments took over responsibilities, Queensland Government grants declined and had to be replaced by Local Government rates and charges (Jones 1981). Figure 3.1 highlights this trend, as well as the volatility in grant funding.

Figure 3.1: Queensland Local Government Grants vs. Rates – Early History



Source: Orion Consulting Network, Jones (1981)

This large reduction in grants was heavily criticised by the Royal Commission on Local Government in Queensland in 1896. Jones (1981) claims that "…*the lesson in this experience is that dependence on Local grants from other levels of Government makes Local Government very vulnerable to withdrawal of those funds*".

Overall, Jones (1981) noted that Local Government history in Australia is the cumulative effect of weak functions, a poor financial base and small administrative units, in addition to claiming that the high visibility and lump sum nature of Local Government rates on residents and businesses retards the growth and financial ability of Local Government versus other levels of Government which have far less visible methods of taxation.

It is important to note that even the largest Local Governments have endured financial sustainability challenges. Brisbane City Council was formed by the amalgamation of parts of 20 Local Governments plus several statutory authorities in 1925. The former Local Governments had exhausted all of their cash prior to amalgamation, which required the new Local Government to borrow additional funds. Within a short time, debt servicing costs consumed a quarter of revenue, and Brisbane City Council had to scour the world for new loan raisings. The stock market crash and subsequent depression led to massive rate arrears and employee retrenchments. By 1931, Brisbane City Council nearly defaulted on its loans but was saved by Government guarantees and debt deferral arrangements.

The Queensland Government appointed financial investigators in 1937, but there was another liquidity crisis in 1939 at the outbreak of World War 2 requiring 500 staff to be retrenched. Subsequently, the Queensland Government passed the *Financial Emergencies Act 1937* to reform the Council's finances. Of note, one reform was to abolish accounting for depreciation, which was regarded as a 'slush fund'.

In 1952, another financial crisis caused over 1,000 employees to be made redundant, even with new capital subsidies from the Queensland Government. In 1955, a further 350 employees were retrenched during a credit squeeze. It was not until the Chandler and Clem Jones Administrations provided more stable administrations and Jones introduced Developer Charges to pay for infrastructure did the Council's finances stabilise (Cole, 1984).

3.2.3 Interstate Experiences

Bains (1979) looked at the viability of Local Government structures in the Bendigo area in Victoria. The report found a high level of administrative costs as a proportion of rates in some of the smaller Local Governments. As a result of these viability concerns, amalgamation of the Local Governments in Bendigo was recommended. This was implemented in the 1994 Kennett Victorian Government Local Government amalgamations.

Jones (1981) noted that most Local Governments in Australia have survived for over 100 years despite ongoing viability concerns, and few, if any, have gone bankrupt. He argues that State Government monitoring of Local Government enables corrective action to be taken before a financial crisis arises. Often, this is addressed by appointing an Administrator.

Whelan & Whelan (2010) conducted a statistical analysis of relative financial sustainability in Victorian Local Governments, focussing on rural Local Governments with small populations. A 'Sustainability Ratio' was developed by dividing capacity to pay by grants and own-source revenue. Capacity to pay was based on net disposable community income[6]. The Report identified 18 Local Governments experiencing considerable difficulty in providing sustainable services within the community's capacity to pay and without creating intergenerational inequities. The 18 Local Governments were all identified as rural Local Governments, particularly those with smaller populations.

3.2.4 International Experiences

Similar financial sustainability problems have occurred in large cities in other parts of the world. The most publicised was the City of New York, which came within a few hours of a major loan default in 1975 and was saved by last minute pension fund investments and Federal loans. For many years prior to this, commentators had claimed that the City of New York existed in a state of chronic bankruptcy (Leinwand, 1971).

In fact, in the United States, according to the National League of Cities (NLC) (Pagano, Hoene and McFarland, 2012), 268 municipalities went bankrupt between 1980 and 2012. The largest and most recent bankruptcy was the City of Stockton which has a similar population as Logan City in Queensland. Prior to declaring bankruptcy, the City had cut 25% of its workforce, defaulted on a $2 million loan, and suspended repayments on $10 million of loans. The NLC claims that this is a *"cautionary tale about what happens if you*

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[6] This approach appears to be similar to that applied by the recent Productivity Commission report summarised in Table 3.1.

don't make dramatic fiscal changes to react to the broader economic picture" (The Economist, 2012).

Many municipalities in the United States have large cash operating deficits, ranging from 5% in Seattle to 20% in Detroit. These deficits would be considerably larger if depreciation was included as occurs in Australia.

In fact, Detroit has recently been placed in Chapter 9 Bankruptcy proceedings, with debts of around US$20 billion. About half of these debts arose from unfunded pension and health insurance entitlements. Detroit's population has declined from 1.8 million in the 1950's to around 700,000 now, meaning that a smaller, more impoverished population is paying for infrastructure created for a much larger and affluent population. With unemployment of nearly 20%, property tax arrears are now at 47%. This example shows that bigger Local Governments are not necessarily financially more sustainable, especially in the context of an adverse economic and social environment.

3.3 Recent Studies into Local Government Financial Sustainability

Numerous State and national inquiries, as well as academic research, have demonstrated that the Local Government sector is financially stressed, with the burden of the fiscal distress falling on a backlog of infrastructure provision, maintenance and renewal.

Table 3.1 provides a summary of recent studies and reviews into Local Government financial sustainability in Australia over the past decade.

Table 3.1: Summary of Studies and Reviews into Local Government Financial Sustainability over the Past Decade

Year	Author/Report	Review Purpose	Review Outcomes
2003	House of Representatives Standing Committee on Economics, Finance and Public Administration *Hawker Inquiry Report – Rates and Taxes: A Fair Share for Responsible Local Government*	To address concerns surrounding the perceived shifting of costs from State Government to Local Government, in addition to reducing Local Government grants.	• The report identifies the current roles and responsibilities of Local Government and the growth of its functions. The extent and effects of cost shifting are detailed as are the major problems facing Local Government's deteriorating infrastructure. • The benefits of regional co-operation are explored and the history of Commonwealth Government funding of Local Government is examined. A new approach, which could resolve the outstanding problems with the current arrangements, is recommended. • Local Government has, over a number of years, been on the wrong end of cost shifting largely by State Governments. • To fix cost shifting, there is a need to review governance arrangements and the way taxes, including rates, are spent. • The duplication and coordination costs of all levels of Government in Australia under the current arrangements probably amount to more than $20 billion per annum. • One of the key recommendations was for a national Summit on Inter-Governmental Relations where all three spheres of Government can work out a better way to manage our financial relationships and governance, in particular: o tri-partite partnerships - which level of Government does what best. o the current range of Local Government services and the level of funding to follow functions. o restrictions on, and the capacity of, Local Government to raise its own revenue. o measures to prevent future cost shifting by all levels of Government. o a review of Specific Purpose Programs. o the state of Local Government infrastructure. o performance monitoring and structural reform of Local Government.
2005	South Australian Local Government Financial Sustainability Financial Sustainability Review Board *Rising to the Challenge: Towards Financially Sustainable Local Government in South Australia*	Independent inquiry into the current and future financial position and sustainability of Local Governments in South Australia (commissioned by Local Government Association of South Australia).	• Of those South Australian (SA) Local Governments whose long-term finances were sustainable, only some seem to have the types of policies and practices in place that lock in their financial sustainability. • Found that the that the long-term finances of many SA Local Governments are not sustainable, as evidenced by their: o high operating deficits (which look set only to get bigger in future). o substantial infrastructure renewal and replacement backlogs. • Suggested that 26 of SA's 68 Local Governments are in the financially unsustainable category, covering about one-third of the State's population. • For those Local Governments, unless their spending is cut or other Governments come to the rescue, rates increases – which should always be the last resort – are inevitable and the increases would need to be substantial. The current or prospective financial performance and position of these Local Governments is not strong enough to absorb likely future developments and unanticipated financial shocks. • Did not see further amalgamations as a panacea, as amalgamation of itself does not necessarily address the more fundamental problems currently impacting on Local Government finances. • More equitable funding arrangements with the other spheres of Government are warranted, but may go only part way to putting Local Government finances onto a sustainable basis. • Convinced that the Commonwealth and SA Governments are more likely to 'come to the party' after Local Governments have made a substantial start towards securing their own long-term financial futures. • More strategic expenditure decisions by Local Government – and more rigorous funding policies – are at least as important as increased grants revenue. • Similarly, financial governance reforms are also vital, with a widespread need to increase expertise and understanding regarding financial governance among elected members as well as at the officer level. A cash accounting mindset and a short-term (one-year) planning horizon both still overwhelmingly prevail. • Strengthened policy frameworks and improved financial governance are essential across the Local Government sector if: o ratepayers are to get the stability and predictability in per-property rates they expect.

Year	Author/Report	Review Purpose	Review Outcomes
			○ the community is to understand the true costs of current infrastructure and service commitments. ○ Local Governments are to have the financial capacity to deliver on those key outcomes in SA's Strategic Plan that are reliant on an efficient and effective Local Government sector. ○ the Local Government sector is to be positioned to negotiate with the SA Government on level terms, including to clarify roles and responsibilities and to agree joint activities.
2005	Local Government Association of Queensland *Size, Shape and Sustainability Framework*	Development of a reform framework by LGAQ and the Queensland Government to enhance Queensland Local Government financial sustainability.	• Investigated a range of issues that may enhance the financial sustainability of Queensland Local Governments, including (but not limited to) regional cooperation, shared services arrangements, voluntary boundary changes and mergers. • Abandoned in 2007 when the Queensland Government established a compulsory Local Government reform process (Local Government Reform Commission, 2007).
2006	West Australian Local Government Association *Systemic Sustainability Study: In Your Hands – Shaping the Future of Local Government in Western Australia*	Study by the Western Australian Local Government Association to investigate ways of addressing the sustainability of the State's 142 Local Governments.	• Found that Western Australian (WA) Local Governments are facing a range of challenges, including growing community demands and expectations, in addition to limited revenue bases. • On average, WA Local Governments registered operating deficits in 2004/05 amounting to 4.5% of own-source revenue. • Found that 80 Local Governments require a substantial (i.e. greater than 10%) increase in their own-source revenue to eliminate their underlying operating deficits. • On this basis, the assessment concluded that 58% of WA Local Governments serving approximately 21% of the State's resident population were 'unsustainable' on the basis that substantial adjustments appear necessary in order for the long-term finances to be put on a sustainable footing going forward. • An infrastructure backlog of approximately $1.75 billion was identified, equal to 14% of the total value of non-financial assets. • The identified 'unsustainable' Local Governments were mainly regionally located Local Governments, with 93% of unsustainable Local Governments representing 16% of the unsustainable Local Governments' resident population. • It was indicated that these Local Governments typically represent most of the State's smallest and declining population Local Governments, pointing to structural problems in their ongoing ability to provide services to the community.
2006	Access Economics *Local Government Finances in Western Australia*	Assessment of the current state of Local Government finances in WA (commissioned by the Western Australian Local Government Association).	
2006	Access Economics *Local Government Finances in NSW: An Assessment*	Research report for the independent inquiry into the financial sustainability of NSW Local Governments (commissioned by the NSW Local Government and Shires Association).	• Estimated a deficiency in capital spending (infrastructure renewal gap) for all Local Government purposes of between $400 million and $600 million per annum, representing an annual deficiency of between $2 million and $4 million per Local Government or between $60 and $90 per NSW resident. • Concluded that NSW Local Governments needed to find an additional $900 million per year to overcome their infrastructure crisis, excluding any additional requirements to meet infrastructure demands associated with population growth. • Local Government per capita revenues and expenses are expected to grow in real terms by 8% and 9%, respectively, over the next decade.
2006	Independent Inquiry Into the Financial Sustainability of NSW Local Government *Allan Inquiry Report – Are Councils Sustainable?*	Independent inquiry into the financial sustainability of NSW Local Governments (commissioned by the NSW Local Government and Shires Association).	• A wide ranging review covering NSW Local Government's profile, drivers, role, infrastructure, services, development planning and controls, revenue, governance and management and finance. • Whilst the NSW DLG prescribes a standard set of financial indicators, they do not appear to be a good indicator of Local Government financial failure. • The balance sheets of most Local Governments were exceptionally strong, displaying very low levels of indebtedness to other sectors of the economy. On average, the net financial liability of Local Governments is little more than 2% of their total assets, with only a handful exceeding 10%. • The operating statements of most Local Governments (when stripped of capital revenue) were in deficit. • Additional functions and pressures could result in Local Government real per capita expenditure growth being double what it would be without any policy changes.

Year	Author/Report	Review Purpose	Review Outcomes
			• There is no magic bullet that will solve the financial problems of each and every Local Government. A combination of measures are necessary including: ○ *Boosting supply*: Removing rate pegging in whole or in part, broadening or increasing the tax base, removing tax exemptions, accruing all unpaid rates to estates with an interest charge, increasing statutory fees and fines, securing increased grants, selling surplus assets, getting better returns on investments, and/or increasing borrowings and debt. ○ *Reducing demand*: Charging for services, and/or imposing or tightening eligibility rules. ○ *Shedding responsibilities*: Abandoning certain functions, and/or transferring these to other organisations. ○ *Revising obligations*: Resetting one's own standards, and/or renegotiating with other tiers of Government the nature or application of their statutory obligations. ○ *Reordering priorities*: Saying no to future cost and responsibility shifting where legally possible; embracing a 'back to basics' agenda until the infrastructure crisis is fixed; adopting 'zero-base' budgeting, whereby all existing activities are re-examined as to their necessity; and developing and implementing credible long-term strategic and financial plans to assist in identifying priorities and responding to emerging challenges. ○ *Pursuing efficiencies*: Benchmarking operational practices and results against other organisations, adopting flexible work practices, reengineering work processes and systems to streamline and standardise them, setting productivity savings targets, sharing limited staffing resources (e.g. planners), changing procurement practices (e.g. resorting to ADR rather than litigation, accessing bulk discounts under State supply contracts), joining a shared services centre (e.g. general accounting and financial transaction processing), outsourcing services (e.g. internal audit), and/or merging smaller Local Governments where other alternatives for achieving economies are not viable. ○ *Improving capacity*: Raising the management and governance capacity of both elected Councillors and professional staff, which will include clarifying roles and responsibilities of each party, and setting milestones for monitoring performance.
2006	PriceWaterhouseCoopers *National Financial Sustainability Study of Local Government*	Independent analysis of the financial sustainability of Local Government in Australia (commissioned by the Australian Local Government Association).	• There has been an increase in Local Government scope over the last 30 years. • Local Governments have implemented ongoing efficiency improvements over time, including outsourcing, structural reforms, commercialisation, shared services and regional service delivery. • Australian Local Governments have 36% of public sector non-financial assets, but only 3% of public sector tax revenue. • A 'sizeable proportion' of Local Governments face long-term financial sustainability problems, with operating deficits tending to lead to the deferral of asset renewals, especially in community infrastructure, and there is now a large renewals backlog. • Other types of infrastructure, such as water, sewerage and roads have either user charges or renewal funding programs (e.g. Roads to Recovery), although rural Local Governments often still have challenges funding the provision and renewal of these essential assets. • Financial ratio analysis was undertaken via a survey of 100 Local Governments and using outcomes from the State-based reviews by Access Economics and studies by the Municipal Association of Victoria, with the results indicating that: ○ 36% of Local Governments are financially unsustainable. ○ Over one third of Local Governments had tight interest coverage, meaning that their credit worthiness was at risk. ○ Many Local Governments appeared to be spending less on capital than annual depreciation, indicating that they are consuming their asset base. ○ Some Local Governments appear to have liquidity problems, especially in the urban fringe, urban development, rural remote and rural agricultural Local Governments. • A renewals backlog of $14.5 billion was identified across all Australian Local Governments, with the annual renewal under-spend estimated at $1.1 billion – it was indicated that this would require an additional $3.1 billion per annum to address. • The report points to segment variance in Local Government financial sustainability, noting that: ○ Most large urban Local Governments are largely financially sustainable. ○ Regional Local Governments exhibit mixed financial sustainability. ○ Rural and remote Local Governments are likely to have sustainability problems and require additional investment for the

Year	Author/Report	Review Purpose	Review Outcomes
			urgent replacement of existing community infrastructure. • While larger Local Governments, in terms of scale of operations or population, tend to be more financially viable than smaller ones, their financial sustainability can be affected by Local Government policies including expansion of services, rates suppression, and poor cost management, especially relating to managing growth.
2007	Access Economics *A Review of the Financial Sustainability of Local Government in Tasmania*	Independent analysis of the financial sustainability of Local Government in Tasmania (commissioned by the Local Government Association of Tasmania).	• Found that only five of 29 Tasmanian Local Governments may be financially viable. • Proposed expenditure reduction, extra revenue and improved financial governance, such as Audit Committees and 10-year financial plans, to help overcome financial sustainability issues moving forward.
2008	Productivity Commission *Assessing Local Government Revenue Raising Capacity*	Research report into Local Government revenue raising capacity (requested by the Australian Treasurer).	• Local Government own-source revenue is approximately 2% of GDP, but rates revenue has declined as a proportion of GDP from 1% to 0.9% since 1990. • A significant factor affecting the ability of a Local Government to raise revenue is its fiscal capacity. • Fiscal capacity, as measured by communities' aggregate incomes, differs significantly across classes of Local Government, with capital city Local Governments having the highest fiscal capacities and urban fringe Local Governments the lowest. • Revenue-raising effort (the extent to which a Local Government draws on its fiscal capacity) also differs across classes of Local Governments, with urban developed and urban fringe Local Governments tending to draw lightly on their fiscal capacity and urban regional, rural and remote Local Governments drawing relatively heavily on their fiscal capacity. • The factors that have the greatest bearing on the own-source revenue per person raised by Local Governments include the after-tax income of their communities (personal and business), and key attributes driving expenditure (such as the length of the local road network, the number of properties served, whether water and sewerage services are supplied, and whether the Local Government is experiencing rapid population growth or decline). • Communities with larger populations tend to raise less own-source revenue per person because they are able to achieve economies of scale in the delivery of some services. • Each Local Government, when benchmarked against all others adjusting for differences in key characteristics, is assessed to have some potential to raise additional own-source revenue, with an indicative estimate being that own-source revenue could be raised by about 12% (or about $140 per person) on average. • The majority of rural and remote Local Governments on average would still remain highly dependent on State and Commonwealth Government grants.
2008	Byrnes, Dollery, Crase & Simmons *Resolving the Infrastructure Funding Crisis in Australian Local Government: A Bond Market Issue Approach Based on Local Council Income*	Published paper that develops an alternative funding approach for the backlog of local infrastructure maintenance and renewal.	• Develops an alternative funding approach based on the issue of asset-backed securities by Local Governments in the capital markets. • Uses the case of water and wastewater operations by Local Governments in NSW to show that Local Government has access to a relatively attractive asset in the form of municipal income that can form an income stream payable on a fixed-income security issued by the Australian Local Government sector.
2008	Queensland Treasury Corporation *Financial Sustainability in Queensland Local Government: Findings*	A review of the financial sustainability of Queensland Local Governments.	• Based on an analysis of 109 Local Governments' finances, the review found that 38.5% of Local Governments were weak, very weak or distressed. • A significant number of Local Governments were found to be routinely reporting operating deficits. • A large number of Local Governments may be depreciating their assets too quickly (thus potentially overstating the operating deficits in the previous point).

Year	Author/Report	Review Purpose	Review Outcomes
	and Recommendations		• Liquidity levels were found to be generally sound. • Most Local Governments appear to focus on the current financial year only, and many Local Governments base revenue increases on or below inflation without consideration to the actual cost of service delivery. • Over half of Local Governments did not have robust asset management in place, with asset maintenance funding also often an early casualty of tight budgets and business cases for major projects being sporadic. • Local Governments were found to be under-utilising debt. • Some Local Governments were repatriating funds from commercialised businesses to the detriment of those businesses. • The relationship between demographic variability and the financial sustainability of Local Governments was highlighted as a factor impacting financial sustainability, with Local Governments experiencing population growth and/or an ageing population being challenged to fund necessary infrastructure and services into the future. • The accuracy of published comparative information was found to be questionable.
2009	Indigenous Council Task Force (Brett de Chastel) *Indigenous Council Task Force Report*	Identify common issues and trends across the Indigenous Local Government sector and propose actions to assist with fundamental long-term change.	• Sector wide issues and trends were identified as being: ○ Governance – Local Governments struggling with financial management tended to have poor governance practices. ○ Staff attraction and retention – More successful Local Governments have been able to maintain continuity of staff in key positions. ○ Asset management – Asset management planning is at an embryonic stage at best and funding depreciation is a major issue. ○ Financial viability – Many Local Governments are struggling to survive with current levels of grant funding. ○ Focus on core services – Local Governments tend to expand service provision into non-core activities due to community needs and expectations (and the absence of such service provision by other levels of Government and the private sector). • The following long-term actions to enhance the financial sustainability of Indigenous Local Governments were identified: ○ Building governance capacity. ○ Improving financial management. ○ Building the knowledge and understanding for effective asset management. ○ Building staff capacity. ○ Ongoing Council engagement. ○ Considering alternative (and more appropriate) management systems and resource sharing. ○ Considering the issue of land tenure. ○ Considering structural reforms.
2009	Dollery *Financial Sustainability in Australian Local Government: Problems and Solutions*	Working paper that reviews enquiries into the financial sustainability of Local Governments.	• Highlights a range of proposed policy solutions to the perceived financial crisis in Local Government including: ○ Structural reform such as forced amalgamations. ○ Internal reforms such as asset management. ○ Greater transfers from higher tiers of Government. ○ Greater borrowing by Local Governments. ○ Relaxation of constraints on revenue raising such as rate capping in NSW.
2012	Parliamentary Transport and Local Government Committee *Report No 7 – Financial Sustainability of Remote Councils*	Inquiry into the financial sustainability of remote Local Governments.	• The sustainability issue is typically more acute in smaller Local Governments, which are generally located in rural or remote areas and feature limited own-source revenue streams. • These Local Governments also suffer from reduced financial and asset management capabilities and resourcing due to both location and scale. • Recommendations to improve financial sustainability included ensuring appropriate long-term forecasting processes exist, with appropriate audit mechanisms in place to verify these forecasts.
2012	Ernst & Young	Independent review of the	• Despite its title, the study mostly focuses on various forms of debt financing for infrastructure.

Year	Author/Report	Review Purpose	Review Outcomes
	Strong foundations for sustainable local infrastructure: Connecting communities, projects, finance and funds	prioritisation and financing of local infrastructure (commissioned by the Commonwealth Department of Regional Australia, Local Government, Arts and Sport).	• The headline recommendation is the establishment of a National Financing Authority, which is identical to the establishment of QTC in Queensland in 1989, only on a national scale. • It would have the advantage that the financing would be backed by the Australian Government AAA credit rating, which would reduce borrowing costs. • However, this would only have a limited impact on Local Government financial sustainability and would not resolve the sustainability issues pertinent to particular types of Local Governments. • A recent paper by the Local Government Association of South Australia (2012) notes that "…*borrowings are not a form of revenue and do not replace the need to generate adequate revenue*". • Other recommendations include more exotic financing tools such as tax increment financing, and various structural arrangements to pool resources in a similar way to that offered by Local Government Infrastructure Services (LGIS) in Queensland. • Overall, this study is unlikely to improve financial sustainability for Queensland Local Governments which already have access to low cost loans provided they are creditworthy. • However, it might provide some additional tools for Local Governments to manage their infrastructure financing.
2013	Australian Centre for Excellence in Local Government *In Our Hands: Strengthening Local Government Revenue for the 21st Century*	Explores the key themes and findings for Local Government of previous reviews, provides contextual background and analyses the Local Government sector's financial performance and capacity.	• See section 3.3.1 for details.
2013	NSW Treasury Corporation *Financial Sustainability of the New South Wales Local Government Sector*	To undertake a financial assessment and benchmarking report for each Local Government seeking or requiring such an assessment under the State Government's Local Infrastructure Renewal Scheme.	• Compiled a list of ten key benchmarks to measure performance on a common basis across all Local Governments. • Built on the work undertaken by QTC (2008) in regard to Financial Sustainability Rating and Outlook. • Only one third of the 156 Local Governments reported an operating surplus in 2012, but operating deficits were understated given the Commonwealth Government prepaid half of the 2013 FAGs. • Sustainability is deteriorating for nearly 50% of Local Governments and should this continue, 46% of Local Governments would be rated as weak or lower in three years. • There is a reported infrastructure backlog of $7.2 billion. • Asset management is improving but there was an asset maintenance gap of $389 million in 2012 and an accumulated $1.6 million over the last four years. • Regional performance varies with weaker Local Governments in the north coast and far western regions mainly due to lower population density.

Source: Orion Consulting Network, AEC*group*

3.3.1 Australian Centre for Excellence in Local Government Report

Recently, the Australian Centre of Excellence for Local Government (ACELG) (Comrie, 2013) published a report entitled "*In Our Hands: Strengthening Local Government Revenue for the 21st Century*", which has been touted as providing "*sound evidence to guide councils on how they might improve revenue streams in the medium to long term*" and "*independently generate greater income to meet ongoing and emerging needs of local communities*" (ACELG, 2013).

Overall, the report indicates that "...*it is likely that overall the Local Government sector is in reasonable financial shape and has the capacity to raise additional debt if needed*", based on the following assertions (Comrie, 2013, p.13):

- Even though revenues include capital revenues in the data provided and the subsequent analysis undertaken, it is suggested that it is likely that when excluding capital revenues in aggregate for the sector and for many Local Governments, operating revenues would be approximately equal to, or only moderately less than, operating expenses.
- Despite issues with asset valuation differences and the reliability of depreciation estimates, depreciation charges have been reducing as a percentage of total expenses as a result of improving asset management practices.
- Given extraordinarily low borrowing levels relative to asset value and annual revenues, in addition to the existence of net financial assets and reasonable operating results in aggregate across all Local Governments, such funds should be utilised to address any identified infrastructure renewal backlogs.

There are obvious issues associated with utilising aggregated national financial statistics and inferences from those statistics in deriving such broad-brush conclusions for the Local Government sector, given the different situations facing different Local Governments in different jurisdictions.

Overall, the report has been prepared at a very high level, and does not consider the factors influencing financial sustainability at the council segment level, nor potential actions that could assist in improving financial sustainability outcomes for Local Governments within each segment. It is acknowledged in the report (Comrie, 2013, p.5-6) that the financial circumstances and capacity of Local Governments, in addition to the needs and opportunities for improvement, are of necessity general in nature, and may be more applicable to certain Local Governments and jurisdictions than others.

It is clearly outlined that there are a variety of different circumstances facing Local Governments within each jurisdiction, let alone each council segment within each jurisdiction. It is also noted that alternative approaches to those suggested in the report may be considered to enhance financial sustainability at the individual Local Government level.

The following table outlines the relevant factual findings, conclusions and recommendations arising from the review.

Table 3.2: Relevant ACELG Financial Sustainability Review Report Findings and Recommendations

Issue	Relevant Factual Findings	Conclusions and Recommendations
Frameworks	• Not applicable.	• Many Local Governments focus on short-term cash costs when making decisions, creating problems when increased asset management expenditure is required (p.27). • For many Local Governments, financial issues are ones of perception or ones that can be substantially addressed through improved decision making in relation to revenue raising, service levels and expenditure commitments (p.27). • Further improvements and consistency in the regulatory environment, guidance and skills – e.g. by agencies responsible for Local Government and Local Government peak bodies – to practice sound financial decision making (e.g. financial sustainability reporting, long-term financial plans and AMPs), in addition to the sharing of information, materials and learning experiences between jurisdictions (p.27, p.29, p.46). • Local Governments "*…need the skills and frameworks that assist them to objectively and equitably balance revenue-raising with affordable preferred service levels that are efficiently delivered*" (p.29). • "*The strengthening of Local Government revenue raising and ongoing financial management improvement by the sector will require commitment and actions by all three spheres of Government*" (p.45).

Revenues	• Local Governments raise a very modest share of total national taxation revenue (3.5%) (p.16).
	• Local Government revenues have consistently exceeded operating expenses slightly between 2001/02 and 2010/11, although noting that these revenues include capital revenues (p.9).
	• The largest difference between Local Government revenue sources by State or Territory relates to the level of revenue from the 'sales of goods and services' given that Local Governments in some States are responsible for the provision of water and sewerage services (p.14).
		• If a Local Government believes it needs additional income, in most cases it is likely to best achieved this from its own sources of revenue, subject to legislative constraints (p.30), given that property taxes are an appropriate source of revenue.
		• While recent significant increases in Local Government taxation revenue has caused backlash in some localities, increases have been accepted in other localities without significant adverse reaction, suggesting that Local Governments need to:
		  o Better ensure community service level preferences are reflected in their expenditure decisions;
		  o Adequately convey the services provided and the need for rate increases;
		  o Structure rating decisions to extract revenue from those receiving greater benefits and with greater use of services and taking into account capacity to pay for particular classes of ratepayers; and
		  o Better understand rating theory to ensure decisions are reasonable and defendable (p.30, p.39).
		• Delays by Local Governments in making more extensive use of their property tax powers risks other levels of Government taking advantage of this tax base (p.36).
		• Local Government rating legislation warrants review in many jurisdictions to enable appropriate decisions to be made (p.30) and there is potential for a greater degree of beneficial harmonisation of charging legislative frameworks (p.46), and Local Governments would benefit from having clearer understanding and guidance regarding sound property tax rating principles considering local circumstances and being able to better communicate the rationale for rating decisions (p.38, p.46).
		• Services with 'private good' characteristics such as water, sewerage and waste management services should be fully recovered from end users rather than subsidised through property taxes, unless there are clear policies and reasons regarding such subsidies or concessions (p.39).
		• For other services where demand for a service or facility that offers primarily private benefits to recipients exceeds available supply (e.g. recreation and sport facilities, street car parking), user pays pricing should be considered (p.40).
		• It is indicated that given grants, in aggregate, represent a smaller share of total revenue than own-source revenues, the Local Government sector lacks the confidence and willingness to control its own destiny through the levying of higher rates and charges on their communities (p.23).
		• Many small Local Governments in rural and remote areas only generate a minor share of revenues through own-source revenues and substantial increases in rates will have minimal impact on their financial position and may also not be an option on community capacity to pay grounds (p.24).

Issue	Relevant Factual Findings	Conclusions and Recommendations
Grant Funding	• The most significant sources of Local Government grants include Commonwealth Government Financial Assistance Grants (FAGs) and the Commonwealth Government Roads to Recovery Program (p.21). • While FAGs only accounted for 6.2% of total Local Government revenues, they can represent 50% or more of total revenues received by small Local Governments with limited revenue-raising capacity and high expenditure disadvantages (p.21). • Grant revenues provided to Australian Local Governments have failed to keep pace with the increase in total operating expenses, while own source revenues have increased at a greater rate (p.9).	• Grants as a share of Local Government revenue have declined, despite there being an increase in the roles of Local Governments (p.23). • It would be possible to materially improve Local Governments' revenues with a very modest negative impact on the Commonwealth and/or the States' budgets (p.23). • Any additional financial assistance is unlikely on the basis that other levels of Government are also facing fiscal pressures (particularly State Governments which are heavily reliant on funding from revenue sources controlled by the Commonwealth Government) (p.23). • The Commonwealth Government has specifically indicated that it will not be increasing the quantum of funds beyond normal escalation (p.24). • The report indicates that "*for the Commonwealth, there are always likely to be higher priorities for discretionary expenditure than supporting a sector that legally is the responsibility of the states*" (p.24). • Despite this, improvements in aggregate grant revenue should still be sought and may still be achievable, particularly in relation to the FAGs per capita escalation factor, indexation of future Roads to Recovery grants, and potential increases in Roads to Recovery grants if programs are deemed to be beneficial (p.24). • Additional tied grants may be able to be accessed, but may actually add to the financial pressures of Local Governments on a lifecycle cost basis and any such funding assistance should be carefully evaluated regarding long-term financial implications (p.24). • There appears to be a case for redistribution and more effective targeting of existing grant pools (specifically the FAGs) to support smaller Local Governments in rural and remote areas (p.24), with a suggestion to relax the 30% basis of calculating the minimum per capita grant on the basis that "…*many (probably the overwhelming majority) of the councils that would incur a reduction in funding from a reduced minimum grant would not be materially adversely impacted*" (p.25).
Expenditure	• The major expenditure category of Australian Local Governments is transport and communications (primarily roads, bridges, footpaths, etc.), although all other expenditure categories appear to be growing at a faster pace (p.10).	• Local Governments need to carefully consider the long-term financial implications of new asset acquisitions, particularly if they impact the ability to renew existing essential assets (p.43). • Local Governments need to consider opportunities for service level reviews, in addition to productivity improvement and efficiency gains via appropriate consideration of amalgamations, resource-sharing, outsourcing, staffing levels and asset rationalisation (p.43).
Financial Liabilities	• The financial liabilities of Australian Local Governments are modest as a percentage of total assets (5%) and as a percentage of total annual revenue (44%) and financial assets exceed total liabilities (p.11) – although total annual revenue includes capital revenues.	• Local Governments fail to utilise debt appropriately in financing necessary infrastructure (pp.41-42). • Local Governments with high rates of development growth are often reluctant to use (or are perceived that they are constrained from using) debt at appropriate levels to fund the upgrade and expansion of infrastructure networks to service growth, and instead opt to delay necessary asset replacement works and/or reduce service levels instead (p.41). • Local Governments investing in new infrastructure with cash reserves to keep debt levels low generally find that they have limited capacity to undertake warranted and cost-effective asset renewal activity (p.41).
Capital Investment	• Australian Local Government has been investing in new infrastructure at a rate in excess of the recorded annual consumption of existing assets (i.e. depreciation) (p.12).	• Local Governments maintain a preference for investing in new additional assets without due consideration of lifecycle costs (p.28). • Local Governments perceive that they do not have the capacity to address claimed asset renewal needs, even though aggregate operating results, the capacity to increase rating levels and low debt ratios all suggest that there is financial capacity to address so called asset renewal backlogs (p.28).

Source: ACELG (2013)

3.3.2 Criticism of Recent Studies

There has been some criticism of the relevance of recent Local Government financial sustainability reviews, given that many of them have primarily focussed on the application of the financial indicators used for credit rating purposes, rather than investigating the underlying issues driving financial sustainability outcomes at the micro level.

Dollery, Byrnes and Crase (2007) have produced a number of critiques of the PwC (2006) and Access Economics (2006a, 2006b, 2007) studies, with a paper produced in 2007 providing a good summary of their arguments. Dollery *et al* (2007, p.2) noted:

> *"A fundamental problem faced by all these attempts at tackling financial sustainability in Local Government resides in providing a precise definition for the concept and determining how to measure financial sustainability from available data."*

Of the five Local Government financial sustainability studies reviewed, the authors Dollery *et al* (2007, p.20), noted that four of the five studies used the methodology developed by Access Economics (2006a, 2006b) without question:

> *"A notable feature of our review of the five inquiries into Local Government financial sustainability is that four of the five reports relied heavily on the work of Access Economics. The approach adopted by Access Economics sought to define financial sustainability in terms of accounting measures by identifying inevitably arbitrary financial ratios to delineate between sustainable and unsustainable councils. The fact that the four Access Economics-dependent inquiries still reached somewhat different conclusions serves to underline how easily even basic ratios can be modified through the politicised process of public inquiries."*

The authors Dollery *et al* (2007, p.20) claimed that LGAQ's *Size, Shape and Sustainability* (2006) process took a broader view of Local Government financial sustainability:

> *"It is also striking that the now defunct Size, Shape and Sustainability (LGAQ, 2006) inquiry generated a much broader view of sustainability without Access Economics input.*
>
> *Three further unfortunate features of excessive reliance on a single commercial consulting firm seem evident.*
>
> *Firstly, a purported strength of a federal system of Government is the competition for ideas it introduces between different State and Local Government jurisdictions. However, in the present case this has largely been nullified by the use of Access Economics in four of the inquiries.*
>
> *Secondly, the comparatively uncritical acceptance of the 'accounting' approach advanced by Access Economics has allowed 'ideology' to masquerade as objective 'analysis' in some instances. For example, if we employ operating deficits in which financial capacity plays a key role – as in the WA report – then obviously this will identify small rural councils as unsustainable due to their unavoidably low rate base, itself an artifact of non-discretionary factors, like demographic trends. Indeed, it is precisely because of this problem that State Local Government grants commissions were established long ago by a wiser previous generation of Australians.*
>
> *Thirdly, Access Economics has ignored the growing academic literature on the problem of Australian Local Government unsustainability that focuses on the predictive capacity of KPIs."*

3.3.3 Issues Requiring Further Research

Identified issues requiring further research from the literature review include:

- The need for an appropriate definition of financial sustainability in a Local Government context, in addition to the establishment of predictive and performance measures that enable the identification of financially unsustainable operating practices and policy settings (both at the local level and from other levels of Government).

- The need for research into community capacity to pay and overall tax take from the economy at the local level (i.e. fiscal capacity) is essential in ensuring that Local Government policy settings are set at an appropriate level.
- The need to determine the specific financial sustainability factors influencing different types of Local Governments, and the relative level of reliance on grant funding from other levels of Government by each of these types of Local Governments (e.g. very limited own source revenue for Indigenous Local Governments).

This study provides some guidance in relation to the last point and is thought to be the first time that a comprehensive analysis of various Local Government segments has been undertaken in this manner.

3.4 Natural Disasters & Climate Change

Natural disasters and climate change represent significant risk to financial sustainability outcomes for all levels of Government, including Local Government. The National Climate Change Adaptation Research Facility (NCCARF) has undertaken a significant program of research to assist Governments in the role of policy and regulatory frameworks for adaptation to climate change, to ensure that decisions made today in the planning and provision of infrastructure take into account that infrastructure will need to withstand changes in climate anticipated for fifty or more years into the future. Monitoring and further work will be required to keep pace with the implications of climate change in relation to managing infrastructure and Local Government financial sustainability.

3.5 Conclusion & Identified Financial Sustainability Factors

It is evident that Local Governments have faced considerable financial viability and sustainability issues since inception, yet rarely, if ever, have any Local Governments become bankrupt in Australia (although they have in other jurisdictions). However, this is no cause for complacency, and there is nothing stopping Local Governments becoming bankrupt in the future as a result of ineffective management and/or financial shocks (including volatility in, and the removal of, grants and subsidies given that many Local Governments are extremely vulnerable to the withdrawal of such essential funds).

Thirteen State and national based inquiries have been undertaken over the past decade, with the general conclusions being that the Local Government sector is financially stressed, with anywhere from one third to 50% of Local Governments deemed to be unsustainable, weak or distressed. The following high-level issues in relation to financial sustainability are evident:

- *Asset renewal*: Funding shortfalls have resulted in a massive backlog of infrastructure provision, maintenance and renewal given that Local Governments have 36% of public non-financial assets yet only 3% of public sector tax income.
- *Increasing responsibilities*: Cost shifting from other levels of Government has added to the financial sustainability issues of Local Governments.
- *Own source revenue streams*: Local Governments have limited revenue raising capacity, and many are heavily (and some totally) reliant on stable grant funding from other levels of Government.
- *Community capacity to pay*: Urban developed Local Governments tend to draw relatively lightly on their fiscal capacity (in terms of tax take as a share of household income and economic output), whereas rural and remote Local Governments tend to draw more heavily.
- *Regional factors*: A relatively high proportion of 'unsustainable' Local Governments have been found to be rural and remote Local Governments, while regional Local Governments appear to feature mixed sustainability outcomes.
- *Growth driven infrastructure*: Growth can place significant pressure on the financial sustainability of larger Local Governments.

It is acknowledged that Indigenous Local Governments differ markedly from other Queensland Local Governments. A previous study undertaken in 2009 highlighted the specific challenges faced by these Local Governments.

4. The Local Government View

KEY POINTS

Local Government Financial Sustainability Survey

An online survey of Queensland Local Governments was undertaken in August 2012, with 53 responses received (a response rate of 72.6%).

Financial Sustainability Outlook

Each Local Government selected a financial sustainability rating based on a subjective assessment of their medium to long-term financial sustainability and ability to manage assets moving forward:

- Around **half** of all Local Governments nominated an **acceptable** rating for their financial sustainability.
- Only **6%** of all Local Governments nominated a **very strong** rating for their financial sustainability, with a further **21%** nominating a **strong** rating.
- **23%** of all Local Governments nominated either a **challenged** or **severely challenged** rating for their financial sustainability.

Factors Impacting Financial Sustainability

Each Local Government was requested to list out the biggest issues/impediments facing them from a financial sustainability perspective. A range of factors were identified, including (but not limited to):

- Individual circumstances (e.g. remoteness, economics, resource sector, natural disasters).
- Ability to fund the renewal/replacement of ageing infrastructure.
- Limited own source revenue and reliance on external funding.
- Devolution of responsibilities to Local Government.
- Limited capacity for significant ongoing rate increases.
- Difficulty in attracting and retaining appropriately skilled employees.
- Compliance burden and a one size fits all approach by higher levels of Government.
- Ability to plan, deliver and fund growth infrastructure with limited funding.
- Commitment to long-term financial sustainability and asset management planning.

The top two issues across all council segments were identified as being:

- **Asset Renewal**: Ability to source appropriate levels of internal and external funding, ageing infrastructure, funding depreciation, demand for new assets at the expense or renewing existing assets, more significant issues in smaller communities and ability to rationalise infrastructure given competing political and community priorities.
- **Queensland & Commonwealth Government Funding**: Constrained and reduced funding assistance, funding uncertainty of the level and stability of grants, high dependence on funding by smaller Local Governments, devolution of financial and other responsibilities and the lack of constitutional recognition.

Analysis by council segment revealed the following major issues/impediments and concerns:

- **Indigenous**: lack of own source revenue streams and the ability to fund infrastructure renewal.
- **Rural/Remote**: the level of economic activity to support the local rate base and community capacity to pay, along with the ability to fund infrastructure renewal.
- **Rural/Regional**: appropriate long-term financial and asset management planning, and the ability to fund infrastructure renewal given the lack of Queensland Government subsidies.
- **Resources**: impact of high levels of economic activity on infrastructure capacity and service delivery, ability to attract and retain appropriate resources in competition with the mining sector, and the ability to recoup sufficient revenue from the mining sector.
- **Coastal**: the need to fund growth-driven infrastructure faced with infrastructure renewal pressures and capped infrastructure charges, devolution of (and therefore increasing) responsibilities, and the impact of policy and regulation on resourcing.
- **SEQ**: the ability to effectively manage, plan, deliver and fund growth-driven infrastructure when faced with infrastructure renewal pressures, capped infrastructure charges, removal of State Government funding assistance for major infrastructure and pressure on debt balances.

4.1 Introduction

AEC*group* administered an online survey[7] of Queensland Local Governments in August 2012 to obtain an insight into current and anticipated financial sustainability issues, in addition to potential policy solutions. A total of 53 responses to the survey were received out of a total of 73 Local Governments across Queensland, representing a response rate of 72.6%.

A summary of the aggregated outcomes by council segment relating to self-selected financial sustainability ratings and identified issues impacting medium to long-term financial sustainability, in addition to potential policy solutions to each issue (where provided) are reported below. A more detailed analysis of the survey results profiles is contained in a separate report titled *Queensland Local Government Financial Sustainability Survey* (AEC*group*, 2013b), which was prepared exclusively for LGAQ.

4.2 Financial Sustainability Outlook

Each Local Government was requested to select a financial sustainability rating based on a subjective assessment of their medium to long-term financial sustainability and ability to manage community assets moving forward. The available ratings included very strong, strong, acceptable, challenged and severely challenged. Table 4.1 provides a summary of the self-selected financial sustainability ratings within each council segment.

Table 4.1: Self-Selected Financial Sustainability Rating by Council Segments

Rating	Very Strong	Strong	Acceptable	Challenged	Severely Challenged	Total	*Average Rating*
	(5)	(4)	(3)	(2)	(1)		*5 highest*
Indigenous	0 (0.0%)	0 (0.0%)	2 (25.0%)	2 (25.0%)	4 (50.0%)	**8**	*1.8*
Rural/Remote	1 (12.5%)	4 (50.0%)	3 (37.5%)	0 (0.0%)	0 (0.0%)	**8**	*3.8*
Rural/Regional	1 (12.5%)	1 (12.5%)	4 (50.0%)	2 (25.0%)	0 (0.0%)	**8**	*3.1*
Resources	0 (0.0%)	2 (18.2%)	6 (54.5%)	2 (18.2%)	1 (9.1%)	**11**	*2.8*
Coastal	0 (0.0%)	0 (0.0%)	10 (90.9%)	1 (9.1%)	0 (0.0%)	**11**	*2.9*
SEQ	1 (14.3%)	4 (57.1%)	2 (28.6%)	0 (0.0%)	0 (0.0%)	**7**	*3.9*
Total	**3** (5.7%)	**11** (20.8%)	**27** (50.9%)	**7** (13.2%)	**5** (9.4%)	**53**	***3.0***

Notes: It is noted that these ratings are somewhat different from the current rating categories applied by QTC when monitoring the creditworthiness of Local Governments (i.e. ability to repay credit if there is a financial shock), which include very strong, strong, sound, moderate, weak, very weak and distressed (see Table 2.5).
Source: AEC*group*

In relation to aggregated outcomes across Queensland:

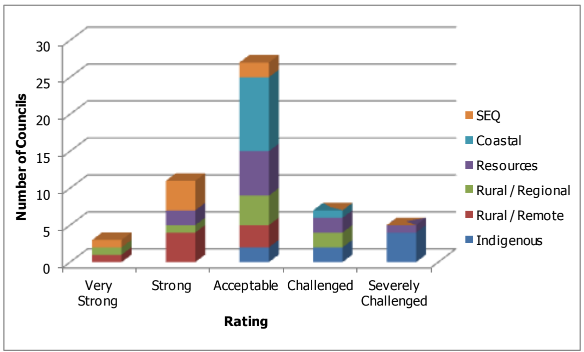
- Around half of all Local Governments responding to the survey nominated an acceptable rating for their financial sustainability.
- Only 6% of all Local Governments responding to the survey nominated a very strong rating for their financial sustainability, with a further 21% nominating a strong rating.
- 23% of all Local Governments responding to the survey nominated either a challenged or severely challenged rating for their financial sustainability.

[7] Relevant project background information and an online survey link were distributed via email by LGAQ to the Chief Executive Officers of all Queensland Local Governments.

In relation to outcomes by council segment:

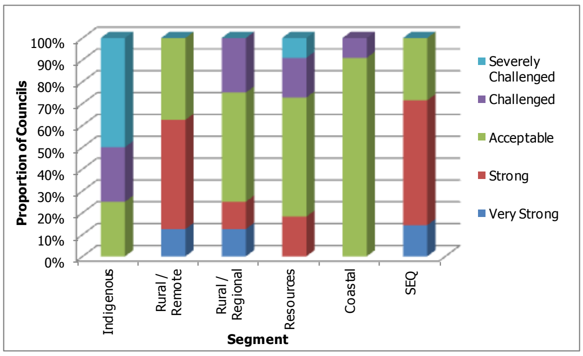
- No **Indigenous** Local Governments nominated a sustainability rating above acceptable, with 25% selecting a challenged rating and a concerning 50% selecting a severely challenged rating.
- No **Rural/Remote** Local Governments feature a rating below acceptable, with more selecting strong and very strong than acceptable.
- The **Rural/Regional** Local Government segment features varied ratings from challenged to very strong.
- Just over half of **Resources** Local Governments nominated an acceptable rating, with two selecting a strong rating, but three selecting either challenged or severely challenged.
- The majority of **Coastal** Local Governments nominated an acceptable rating for their financial sustainability, with one selecting a challenged rating.
- No **SEQ** Local Governments feature a rating below acceptable, with over 70% nominating their financial sustainability as either strong or very strong.

Figure 4.1: Self-Selected Financial Sustainability Rating by Council Segment



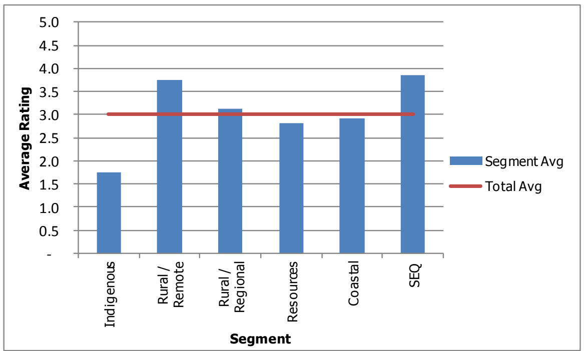
Source: AEC*group*

Figure 4.2: Proportion of Local Governments Selecting Each Rating by Council Segment



Source: AEC*group*

Figure 4.3: Average Financial Sustainability Rating by Council Segment



Note: 5=very strong, 4=strong, 3=acceptable, 2=challenged and 1=severely challenged
Source: AEC*group*

4.3 Financial Sustainability Issues & Potential Policy Solutions

Each Local Government was requested to list out, in order of importance, the biggest issues/impediments facing them from a financial sustainability perspective, in addition to potential policy solutions that may help their Local Government to overcome each of the identified issues/impediments (if able to be identified).

4.3.1 Prominent Issues Identified by All Queensland Local Governments

Table 4.2 provides a breakdown of the survey responses by theme and priority.

Table 4.2: Financial Sustainability Issue by Theme and Priority

Theme	Priority							Total
	1	2	3	4	5	6	7	
INTERNAL FACTORS								
Asset Renewal	10	4	7	4	3	0	0	**28**
Own Source Revenue Streams	4	7	1	4	3	2	0	**21**
Long Term Planning	5	6	4	3	1	0	0	**19**
Community Service Expectations	0	1	1	5	1	1	0	**9**
Sub-Total Internal Factors	***19***	***18***	***13***	***16***	***8***	***3***	***0***	***77***
EXTERNAL FACTORS								
State and Commonwealth Funding	7	5	12	3	4	2	1	**34**
Resourcing	1	5	5	4	2	5	2	**24**
Government Policy	2	5	4	3	3	1	5	**23**
Economic Activity	6	1	5	1	6	0	1	**20**
Community Capacity to Pay	4	5	2	2	2	2	2	**19**
Growth Driven Infrastructure	5	7	2	2	1	1	0	**18**
Increasing Responsibilities	1	3	5	4	3	2	0	**18**
Weather/Environmental	5	1	0	1	0	3	1	**11**
Community Social Infrastructure	1	1	2	3	0	2	0	**9**
Cost Pressures	2	0	0	1	1	1	0	**5**
Sub-Total External Factors	***34***	***33***	***37***	***24***	***22***	***19***	***12***	***181***
Total	**53**	**51**	**50**	**40**	**30**	**22**	**12**	**258**

Notes: 1 = highest priority, 7 = lowest priority.
Source: AEC*group*

Table 4.3 outlines the financial sustainability issues raised by Local Governments participating in the survey, with the top three issues (including ties) for each council segment also highlighted.

Table 4.3: Financial Sustainability Issue by Theme and Council Segment

Theme	Indigenous	Rural / Remote	Rural / Regional	Resources	Coastal	SEQ	Total
INTERNAL FACTORS							
Asset Renewal	**5**	**4**	**6**	3	**6**	**4**	**28**
Own Source Revenue Streams	**8**	1	1	**5**	4	2	**21**
Long-Term Planning	1	2	**8**	1	3	**4**	**19**
Community Service Expectations	1	1	2	1	2	2	**9**
Sub-Total Internal Factors	***15***	***8***	***17***	***10***	***15***	***12***	***77***
EXTERNAL FACTORS							
State and Commonwealth Funding	**6**	**6**	**6**	**5**	**6**	**5**	**34**
Resourcing	4	**4**	1	**10**	2	3	**24**
Government Policy	1	3	5	**5**	**7**	2	**23**
Economic Activity	3	**5**	1	**8**	2	1	**20**
Community Capacity to Pay	1	**4**	2	4	**6**	2	**19**
Growth Driven Infrastructure	0	0	1	2	**6**	**9**	**18**
Increasing Responsibilities	2	3	2	4	**6**	1	**18**
Weather/Environmental	1	**4**	1	2	3	0	**11**
Community Social Infrastructure	1	3	0	**5**	0	0	**9**
Cost Pressures	1	1	0	0	3	0	**5**
Sub-Total External Factors	***20***	***33***	***19***	***45***	***41***	***23***	***181***
Total	**35**	**41**	**36**	**55**	**56**	**35**	**258**

Source: AEC*group*

Table 4.4 outlines the financial sustainability issues raised for the top two common themes across the State, being the ability to fund required infrastructure renewal and replacement, and the level of, and uncertainties associated with, Queensland and Commonwealth Government funding, in addition to suggestions regarding potential policy solutions associated with the identified issues.

Table 4.4: Top Two Common Financial Sustainability Themes for Queensland Local Governments

Theme	Identified Issues	Potential Policy Solutions
Asset Renewal	• Concerns over the ability to source appropriate levels of internal and external funding for effective infrastructure renewal and replacement (particularly for water, sewerage and roads, as well as for other assets initially constructed using grant funding). • Ageing infrastructure. • Funding depreciation. • Demand for new assets at the expense of renewing existing assets. • Provision, maintenance and replacement of infrastructure in smaller communities. • Realistic ability to rationalise infrastructure given competing political and community priorities.	• Continued focus on asset sustainability and longer-term planning. • Greater focus on asset renewal and replacement as opposed to new works (i.e. looking after what is already built). • Fully consider and evaluate lifecycle costs before investing in new assets (as well as the replacement of assets). • Preparation of AMPs to more accurately identify renewal and replacement needs over time, as well as required funding mechanisms to ensure that assets are appropriately maintained over time. • Increase own source revenue where possible. • Queensland and Commonwealth Government funding arrangements to assist with the renewal of infrastructure (e.g. reinstatement of water and sewerage subsidy program, specific purpose grant pools for mass renewals). • Increased focus on renewals expenditure rather than depreciation charges based on a revalued asset base.
Queensland and Commonwealth Government Funding	• Constrained and reduced Queensland and Commonwealth Government funding assistance. • Uncertainty surrounding the level and stability of grants and subsidies moving forward. • Dependence of smaller Local Governments on Queensland and Commonwealth Government funding given limited own source revenues. • Devolution of financial and other responsibilities from other tiers of Government. • Lack of Local Government recognition in the Australian Constitution.	• Recognition of the long-term need for grants and subsidies. • Increased capital funding from the Queensland and Commonwealth Governments. • Reintroduction of capital subsidy scheme for essential infrastructure demonstrating a high level of community benefit. • Return to the levels of assistance grants previously experienced. • Long-term funding commitments from the Queensland and Commonwealth Governments to allow greater certainty in relation to financial sustainability outcomes for those Local Governments dependent on external revenue sources. • Constitutional recognition of Local Government and the provision of funding linked to taxation revenue (e.g. GST). • Potential for regional partnership funding arrangements.

Source: AEC*group*

4.3.2 Most Significant Financial Sustainability Issues & Potential Policy Solutions

Table 4.5 provides a summary of the most significant financial sustainability issues and potential policy issues for each Local Government segment as identified during the survey. It is evident that:

- The **Indigenous** segment is concerned with the lack (or non-existence) of own source revenue streams and subsequent reliance on the level of Queensland and Commonwealth Government funding, along with the ability to fund infrastructure renewal.
- The **Rural/Remote** segment is concerned with the heavy reliance on Queensland and Commonwealth Government funding, the level of economic activity to support the local rate base and community capacity to pay, along with the ability to fund infrastructure renewal.

- The **Rural/Regional** segment is concerned with appropriate long-term financial and asset management planning, along with the ability to fund infrastructure renewal given the lack of available Queensland Government subsidies.
- The **Resources** segment is concerned with the impact of high levels of economic activity on infrastructure capacity and service delivery, the ability to attract and retain appropriate resources in competition with the mining sector, and the ability to recoup sufficient revenue from the industry sectors placing the greatest pressure on infrastructure capacity and service delivery.
- The **Coastal** segment is concerned with the need to fund growth-driven infrastructure when faced with infrastructure renewal pressures and capped infrastructure charges, in addition to the devolution of (and therefore increasing) responsibilities from other levels of Government and the impact of policy and regulation on resourcing.
- The **SEQ** segment is concerned with the ability to effectively manage, plan, deliver and fund growth-driven infrastructure when faced with infrastructure renewal pressures, capped infrastructure charges and the removal of funding assistance for major infrastructure by the Queensland Government, in addition to the associated pressure on debt balances.

Table 4.5: Reported Financial Sustainability Issues and Potential Policy Solutions by Council Segment

	Identified Issues	Potential Policy Solutions
Indigenous	1. Lack of own source revenue streams and subsequent reliance on the level of Queensland and Commonwealth Government funding made available (which is constrained and reducing).	• Appropriate capital and operational long-term funding commitments from the Queensland and Commonwealth Governments. • Establish a rate base through private land ownership and valuation. • Ability to rate social housing and the removal of exemptions.
	2. Extent and means of funding for community infrastructure renewal and maintenance.	• Government funding to assist with major infrastructure renewal and replacement. • Review appropriateness of asset base.
	3. Inability to attract and retain appropriately skilled employees.	• None provided.
	4. Limited capacity for increased economic activity to enhance financial sustainability outcomes.	• Seek funding to facilitate business growth and employment opportunities.
	5. Devolution of responsibilities to Local Government, in addition to the delivery of community services normally provided by other tiers of Government or private sector.	• Advocacy to prevent the devolution of any more responsibilities to Local Government.
Rural/Remote	1. Heavy reliance on the level of Queensland and Commonwealth Government funding made available (which is constrained and reducing), due to the limited capacity to pay of communities and declining population bases.	• Appropriate capital and operational long-term funding commitments from the Queensland and Commonwealth Governments. • Constitutional recognition of Local Government and the provision of funding linked to taxation revenue (e.g. GST).
	2. Extent and means of funding for the replacement of significant ageing infrastructure across numerous small, remote communities.	• Government funding to assist with major infrastructure renewal and replacement.
	3. Impact of natural disasters/flooding and disaster mitigation on the financial and resourcing capacity of smaller Local Governments.	• Appropriate Government funding for disaster recovery and mitigation.
	4. Limited growth and heavy reliance on specific industries for economic activity and community well-being leaves regions open to significant external shocks.	• Regional economic development initiatives and Government incentives for business in rural/remote areas. • Removal of impediments to growth.
	5. Attraction and retention of appropriately skilled employees due to location and competition with higher paying industries.	• Further tax incentives to attract skilled workers to rural/remote areas. • Strengthening regional networks and associations to address resourcing issues.
	6. One-size fits all approach to Queensland and Commonwealth Government regulation and compliance requirements (reporting, environmental, etc.).	• Common sense 'fit for purpose' approach to policy making for rural/remote Local Governments with small populations.
	7. Devolution of responsibilities to Local Government, in addition to the delivery of community services normally provided by other tiers of Government or private sector.	• Advocacy to prevent the devolution of any more responsibilities to Local Government and to ensure appropriate funding of community service provision in rural/remote areas.

	Identified Issues	Potential Policy Solutions
Rural/Regional	1. Management of operating results and debt levels, and focussing on long-term planning and financial sustainability outcomes.	• Long-term financial and asset management planning linked to the annual budget cycle. • Reduction in expenditure where possible.
	2. Extent and means of funding for the replacement of significant ageing infrastructure (particularly for water and sewerage assets initially constructed using grant funding or constructed in the same period).	• Continued focus on asset sustainability and longer-term planning. • Government funding to assist with major infrastructure renewal and replacement.
	3. Withdrawal of capital subsidies from other tiers of Government and uncertainty surrounding the level and stability of grants and subsidies moving forward.	• Reinstatement of the Queensland Government capital subsidy scheme for essential infrastructure demonstrating a high level of community benefit. • Long-term funding commitments from the Queensland and Commonwealth Governments.
	4. Compliance burden on management and administrative overheads to meet the multitudes of legislative requirements, in addition to uncertainty regarding potential further structural change of Local Governments.	• Improved consultation on new legislation, covering impacts on Local Governments and communities, prior to decision making and implementation.
Resources	1. Significant resource sector pressure on Local Government infrastructure and operations, and high financial risk associated with the provision of infrastructure to meet resource sector demands.	• More appropriate funding assistance from Resources for Regions. • Rating of the resource sector that more closely reflects the demands placed on infrastructure and service delivery. • Improved income security via appropriate development contributions from the resource sector.
	2. Attraction and retention of appropriately skilled employees due to location and competition with higher paying industries.	• Further tax incentives to attract skilled workers to rural/remote areas. • Strengthening regional networks and associations to address resourcing issues.
	3. Heavy reliance on the level of Queensland and Commonwealth Government funding made available (which is constrained and reducing), given that limited populations and low socio-economic profiles (outside of the mining sector) restrict the revenue raising capacity of rural/remote and regional areas relative to urban areas.	• Appropriate capital and operational long-term funding commitments from the Queensland and Commonwealth Governments. • Provision of funding linked to taxation revenue (e.g. GST). • Develop partnerships with resource companies for provision of infrastructure and services. • Look for productivity opportunities.
	4. Ability to rate the resource and energy sectors at the same level relative to economic output as for other industry sectors.	• Appropriate rating of resource and energy properties relative to the demands place on infrastructure and service delivery. • Queensland Government to issue rateable property valuations at the same time as exploration permits are issued.
	5. One-size fits all approach to legislative requirements and infrastructure standards.	• Take into account capacity to pay and 'fit for purpose' service standards when setting infrastructure requirements. • Review reporting requirements. • Reduce/streamline requirements, particularly for smaller Local Governments.
	6. Affordable housing for those employed outside of the mining sector.	• Working in partnership to ensure an adequate supply of affordable housing exists for all community sectors. • Tax incentives.
	7. Devolution of responsibilities to Local Government, in addition to the delivery of community services normally provided by other tiers of Government or private sector.	• Advocacy to prevent the devolution of any more responsibilities to Local Government without supporting funding and to ensure appropriate funding of community service provision in rural/remote areas.
	8. Extent and means of funding for the replacement of ageing infrastructure (particularly for water, sewerage and roads assets), with demand for new assets to meet resource sector demands adding to funding pressures.	• Government funding to assist with major infrastructure renewal and replacement. • Greater commitment of funded depreciation and reserves for asset replacement. • Continuation of Regional Roads and Transport Groups (RRTGs).
	9. Inconsistent funding for Queensland Government contract works.	• Greater certainty and stability in workflow for Queensland Government contract works (e.g. Transport and Main Roads) to enable the forward planning of works and resourcing.

	Identified Issues	Potential Policy Solutions
Coastal	1. Extent and means of funding for the replacement of ageing infrastructure (particularly for water, sewerage and roads assets).	• Government funding to assist with major infrastructure renewal and replacement. • Prioritise asset renewal and replacement over investment in new assets. • Fully consider lifecycle costs before investing in new infrastructure.
	2. Infrastructure funding pressures for growth assets with limited funding (including limited capacity for additional debt) and capped infrastructure charges.	• Removal of the cap on infrastructure charges to allow the basis of charges to reflect the true cost of trunk infrastructure provision. • Queensland Government partnership in funding major growth infrastructure. • Reinstate Government subsidies and grants schemes for growth assets.
	3. Devolution of responsibilities to Local Government.	• Advocacy to prevent the devolution of any more responsibilities to Local Government without supporting funding.
	4. Increasing complexity and resourcing demands imposed by Queensland and Commonwealth Government legislation and other requirements, including environmental compliance for infrastructure assets (e.g. sewerage treatment plant, landfills).	• Reduce the onerous compliance and reporting requirements for Local Governments. • Streamline/synchronise reporting to multiple Government Departments. • Greater partnership with the Queensland and Commonwealth Governments regarding policy and infrastructure decisions.
	5. Reduced Queensland and Commonwealth Government operational and capital funding is placing pressure on limited own source revenues, given limited additional capacity to pay by the community.	• Appropriate capital and operational long-term funding commitments from the Queensland and Commonwealth Governments. • Reinstatement of the Queensland Government capital subsidy scheme. • Constitutional recognition of Local Government and the provision of funding linked to taxation revenue (e.g. GST). • Review organisational efficiencies and service levels.
	6. Cost increases well above inflation.	• Greater use of joint purchasing arrangements.
	7. Impacts of natural disasters on local economies and Local Government capacity, and uncertainty regarding the ability to access ongoing natural disaster funding.	• Simplified natural disaster funding arrangements.
SEQ	1. Ability to effectively manage, plan, deliver and fund infrastructure to cater for high growth, given capped infrastructure charges, the requirement to provide much of the infrastructure upfront and the reduced availability of external funding for such infrastructure.	• Removal of the cap on infrastructure charges to allow the basis of charges to reflect the true cost of trunk infrastructure provision. • Easing of regulatory restrictions around Local Government financing to allow innovative structuring of infrastructure partnerships with developers. • Multi-year borrowing approvals to provide greater certainty and improve the value in infrastructure delivery contracts. • Timely receipt of infrastructure charges to help facilitate infrastructure delivery. • Queensland Government to include impacted Local Governments in infrastructure agreement negotiations with developers in priority development areas to developers funding identified infrastructure needs both within and external to the relevant development.
	2. Demand for new assets at the expense of appropriately maintaining existing assets, and the rising cost of asset maintenance and rehabilitation.	• Continued focus on asset management and the sustainability of new asset additions.
	3. Devolution of financial responsibility for the funding of major infrastructure to Local Governments as a result of the removal of Government funding assistance, and consequential implications for debt levels.	• Reinstate grants and subsidies at levels previously experienced. • Constitutional recognition of Local Government and the allocation of a percentage of GST to Local Governments.
	4. Commitment to long-term financial and asset management outcomes, and controlling debt levels.	• Continued improvement in AMPs and systems. • Continued focus on long-term financial sustainability outcomes, including the meeting of relevant credit metrics.

Source: AEC*group*

4.4 Other Identified Issues

Each Local Government was requested to provide feedback regarding any other specific issues that they would like raised or considered in the study. The following additional comments were provided by survey respondents:

- Cost shifting has occurred by the removal of services from other levels of Government, in addition to the legislating of additional responsibilities. LGAQ and Local Governments must be vigilant about cost shifting from the Queensland Government to minimise further impacts on financial sustainability.
- Local Government would be greatly benefited by the provision of:
    - Productivity tools and examples to assist in the identification of potential improvements in operational efficiency and cost minimisation.
    - "How to..." guides for best practice management for areas such as waste and recycling, carbon emissions and credits, etc.
    - Greater information on the methods of calculating sustainability measures and ratios, and appropriate inputs and assumptions underlying ratio calculations[8].
- Too many internal audit guidelines tend to recreate external audit requirements, and there is a need for more definitive guidelines for the system improvement requirements of internal audit.
- It is essential for Local Governments to adopt the most efficient and least cost governance and operational structure for its business units.
- More flexible debt arrangements to better manage cash flow and minimise debt levels (e.g. flexibility surrounding debt applications and approval timeframes/lapses, multi-year borrowing approvals).
- Any downgrading of the Queensland Government credit rating may impact proposed borrowing programs and financial sustainability outcomes.
- Flood damage grants and subsidies should allow the inclusion of day labour cost components.
- For Indigenous Councils, a unified approach to funding service delivery would provide the most appropriate model to deliver services to these communities.

4.5 Conclusion and Identified Financial Sustainability Factors

The Local Government financial sustainability survey has shown that whist there are specific regional (e.g. remoteness, economic circumstances, resource sector pressures) and other circumstances (e.g. impacts of natural disasters on operations) faced by individual Local Governments, there are many financial and resourcing issues/challenges that are common to Local Government financial sustainability. Those most common factors are:

- *Asset renewal*: Ability to fund the renewal/replacement of ageing infrastructure.
- *Own source revenue streams*: Limited own source revenue and reliance on external funding assistance for operations.
- *Increasing responsibilities*: Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').
- *Community capacity to pay*: Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.
- *Resourcing*: Difficulty in attracting and retaining appropriately skilled employees.

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[8] It should be noted here that the Financial (Management) Sustainability Guideline 2013 was not released at the time of the survey, with this updated Guideline addressing many of the identified issues.

- *Government policy*: Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.
- *Growth driven infrastructure*: Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).
- *Governance*: Commitment to long-term financial sustainability and asset management planning.

5. Factors Influencing Financial Sustainability

KEY POINTS

Demographic, Economic & Social

- **Demographics**: In terms of population growth, the Rural/Regional, Coastal, Resources and SEQ segments are forecast to grow the fastest, while the Rural/Remote and Indigenous segments are forecast to grow the slowest. The population is ageing in all council segments but is most dramatic in the SEQ and Coastal segments.

  Economic: The Resources segment has the highest but most volatile GRP per capita. The Rural/Remote segment is experiencing the strongest per capita economic growth rates whilst the Indigenous segment is recording negative growth per capita. The Indigenous, Rural/Remote and Rural/Regional segments are less economically diverse and rely heavily on public sector expenditure. The Indigenous segment has the lowest employment (and highest unemployment) rate, while the Resources, SEQ and Rural/Remote segments have the highest employment (and lowest unemployment) rates. Average household incomes are highest in the Resources segment (30% above the State average) and lowest in the Rural/Regional segment (29% below the State average). Average household incomes in the Rural/Remote, Indigenous and Coastal segments are lower than the State average by 21%, 17% and 10%, respectively. SEQ households featured average incomes 4% higher than the State average. Meanwhile, average individual incomes are the lowest in the Indigenous segment.

- **Social**: The Rural/Regional segment has relatively high levels of mortgage stress and rental stress, while the SEQ and Coastal segments have relatively high levels of rental stress.

Financial Capital

- **Operating result**: Persistent operating deficits have the potential to result in intergenerational inequity and will ultimately threaten financial sustainability, and exist for many Local Governments particularly in the Indigenous and SEQ segments.
- **Liquidity**: All council segments record an acceptable working capital ratio and sufficient cash holdings to fund operations, and therefore liquidity is not a factor at present.
- **Debt**: Manageable debt levels historically, but growth demands are placing significant (and unsustainable) pressure on future borrowing capacity in the Coastal, SEQ and Resources segments.

Infrastructure Capital

- **Value of the asset base**: All council segments feature an increasing asset base, with the asset value per capita indicator on an unsustainable, increasing trend.
- **Asset management practices**: The need for appropriate asset management is more acute for Queensland Local Governments than other jurisdictions, and all segments have the capacity to significantly improve asset management practices.
- **Maintenance of the asset base**: The Resources and SEQ segments have been renewing assets at a rate less than their depreciation.
- **Depreciation**: There are practical issues associated with incorporating depreciation charges in determining financial sustainability, and the treatment of depreciation charges for contributed assets needs revisiting.
- **Capital expenditure**: The Resources, Coastal and SEQ segments are facing significant expenditure burdens due to high growth demands.

Revenue Composition

- **Composition of revenue**: Rates and charges/user fees and charges (own source revenue) provide less than 50% of revenue across Queensland, with the Coastal and SEQ segments the only segments above this level and all other segments being highly dependent on grants and subsidies and recoverable works.
- **Taxation/rating effort**: Average rating levels across Queensland Local Governments are at the upper limit of ratepayers' capacity to pay and continuing significant rate increases are likely to be unsustainable, particularly for the Rural/Regional, Coastal and SEQ segments.
- **External funding support**: The Indigenous segment is almost entirely reliant on Queensland and Commonwealth Government operational grant funding, while the Rural/Remote and Resources segments are also very heavily reliant on such grant funding in addition to recoverable works contracts revenue.

Expenditure Composition

- Expenditure per capita is rising at a rapid rate for the Rural/Remote, Resources, Rural/Regional and Coastal segments.
- Expenditure on road assets is generally the most prominent operating expenditure item.
- For most council segments, there appears to have been some rationalisation in expenditure on general operation and administration.
- Labour costs appear to be reducing relative to other expenditure items for most council segments (except the SEQ segment and possibly the Rural/Regional segment depending on recent impacts of flood reconstruction works).
- The importance of materials and services costs is increasing for those segments featuring smaller Local Governments, and effective purchasing practices are becoming increasingly important in those segments.
- Financing costs have been increasing at a rapid rate for the SEQ and Coastal segments, in line with the significant jump in debt balances in recent years.

Human Resources

- It would appear that many council segments have experienced a deterioration in economies of scale in service provision from their indoor workforce, suggesting increased administration and compliance pressures.
- It is possible that Local Government reforms have enabled some rationalisation in outdoor staff for selected segments (SEQ, Coastal and Rural/Regional), but with the exception of the SEQ segment this has been offset by increased internal workforce resourcing requirements.
- While there appears to have been some improvement in skilled employee attraction and retention in recent years, the Indigenous, Resources, Rural/Remote and Rural/Regional segments still have difficulties in filling the necessary positions with the problem of extreme concern for the Indigenous segment.

Service Levels

- Limited time series data exists in relation to service levels, although the determination of appropriate current and desired levels of service does appear to be an issue for all Local Government segments across the majority of asset classes.
- However, the provision of services to a mandatory standard that assumes a 'one size fits all' approach creates additional cost, reporting and compliance burdens for councils.

Recent Queensland Government Policy Decisions

- **Local Government reforms**: Overall, there does not yet appear to be a material change in the vulnerability of Queensland Local Governments in the detailed data analysis pre and post reforms, with the only noticeable trend possibly assisted by the reform process being a consolidation of staffing levels and associated costs for selected segments. With the recent decision to de-amalgamate certain Local Governments, it is possible that the de-amalgamation costs and associated resourcing adjustments could offset, or worsen, any potential efficiencies achieved for those affected Local Governments.
- **Reduction & removal of capital grants & subsidies**: There is little doubt that the spike in debt levels, particularly in the Coastal and SEQ segments, has been impacted by the decision to remove capital grants and subsidies. The removal of these grants and subsidies has also placed considerable financing pressures on all other segments and could possibly be considered the as the most significant funding withdrawal for Queensland Local Governments in our history.
- **Capping of infrastructure charges**: The capping of infrastructure charges has contributed to, and will continue to contribute to, increasing debt levels across Local Governments in growth areas in addition to the need for substantial increases in rating levels to ensure operating deficits do not persist. Any further reductions in infrastructure charges will place additional pressure on Queensland Local Governments to finance infrastructure provision.
- **SEQ water reforms**: There has been a significant reduction in own-source revenues as a proportion of total revenues in affected Local Governments along with a one-off reduction in debt due to compensation payments. Asset values per capita appear to have stabilised and in some instances reduced post transfer.

5.1 Introduction

There are many factors that influence financial sustainability. This chapter looks at each of those in turn by council segment. As the analysis is data intensive the chapter is supported by further detailed financial analysis in **Appendix A**.

5.2 Demographic, Economic & Social Factors

Queensland Local Governments are not homogenous and council segments feature significantly different demographic, economic and social characteristics which must be appropriately considered when assessing the factors impacting their sustainability. A summary of selected demographic, economic and social characteristics of each council segment is provided below. Further, more detailed demographic, economic & social analysis a separate separate report titled *Review of LGAQ Advocacy Segments* (AEC*group*, 2013a).

5.2.1 Demographic Indicators

Table 5.1 provides a snapshot of key demographic indicators for each council segment.

Table 5.1: Key Demographic Indicators by Council Segment

Segment	Population 2012	Av Annual Growth 2011-2031	Av Age		Persons/ Household 2011	Population Density
			2011	2031		
Indigenous	27,765	1.1%	26.8	28.4	3.7	0.41
Rural/Remote	28,903	0.3%	37.0	40.1	2.4	0.05
Rural/Regional	230,613	2.2%	39.3	42.0	2.5	1.75
Resources	228,061	2.1%	34.4	37.3	2.7	0.28
Coastal	915,405	2.2%	37.5	40.9	2.5	10.09
SEQ	3,129,312	1.9%	37.1	40.5	2.6	133.71
Queensland	**4,560,059**	**2.0%**	**37.1**	**40.4**	**2.6**	**2.63**

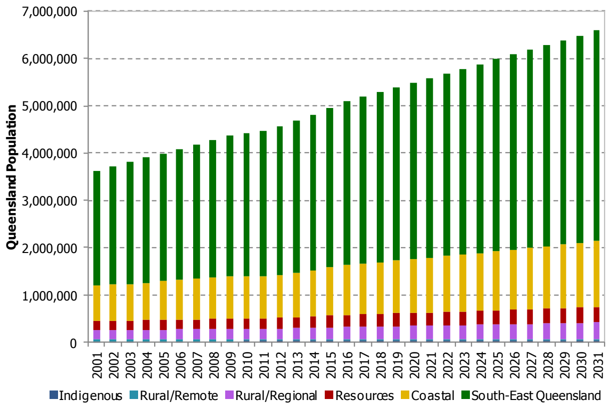
Source: ABS (2013a), OESR (2013), AEC*group*

It is evident from the above table that the Rural/Remote segment has the lowest population density (i.e. the average number of persons per square kilometre serviced) with an average of 0.05 persons per square kilometre, followed by the Resources segment at 0.28 persons per square kilometre.

Figure 5.1 shows actual and projected population growth in Queensland by Local Government segment through to 2031. By 2031, it is currently estimated that the Queensland population will be 6.6 million, with average annual growth of 2.0% expected between 2011 and 2031.

The Rural/Regional and Coastal segment populations are forecast to grow the fastest at 2.2% per annum, followed by the Resources and SEQ segment populations (at average annual growth rates of 2.1% and 1.9%, respectively). The Rural/Remote segment population is forecast to experience the slowest growth at 0.3% per annum and the Indigenous segment population is only expected to grow by 1.1% per annum.

Figure 5.1: Queensland Population Projections by Council Segment, 2001 to 2031

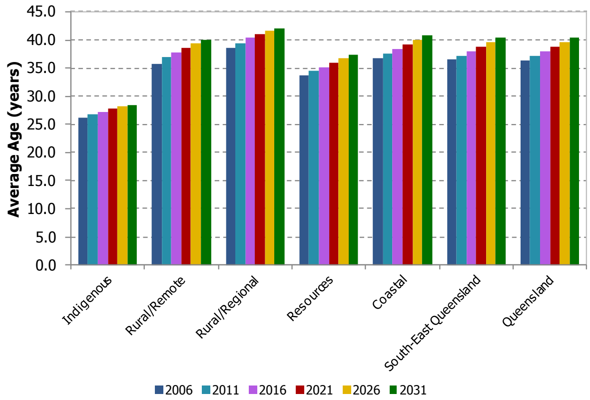


Source: OESR (2013)

Figure 5.2 shows the actual and projected average age in Queensland by Local Government segment through to 2026. By 2026, it is forecast that the average age in Queensland will be 3.1 years older (40.4) than it was in 2011 (37.1).

The Coastal and SEQ segments are predicted to have the most dramatic ageing trend through to 2031, although the Rural/Regional segment is still expected to have the highest average age of 42.0 years. The average age within the Resources segment is expected to remain relatively low at 37.3 years, while the lowest average age is expected to remain within the Indigenous segment at 28.4 years[9].

Figure 5.2: Median Average Age by Council Segment, 2006 to 2031

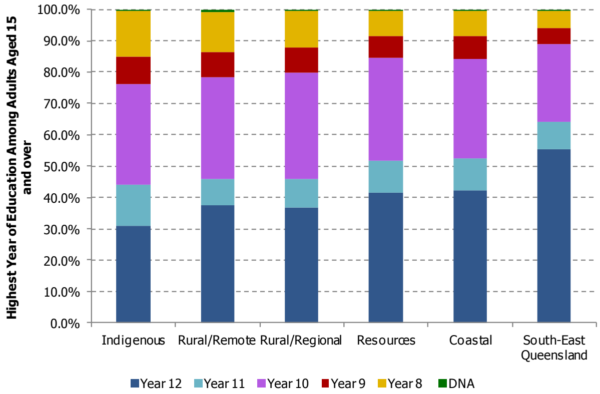


Source: OESR (2013)

Figure 5.3 shows the distribution of educational achievement in Queensland by council segment in 2011. The Indigenous segment had the lowest, and the SEQ segment the largest, proportion of the population completing Year 12 or equivalent education. In general, residents of the Resources, Coastal and SEQ segments are more likely to have completed Year 12.

[9] It should be recognised that Indigenous communities have a lower than average age due to the fact that there is a lower than average life expectancy in these communities, resulting in lower percentages of elderly people.

Figure 5.3: Distribution of Educational Achievement by Council Segment, 2011



Note: Only includes persons aged 15 years and older at time of Census, DNA = Did not attend.
Source: ABS (2012)

5.2.2 Economic Indicators

Table 5.2 provides a snapshot of key economic indicators for each council segment.

Table 5.2: Key Economic Indicators by Council Segment

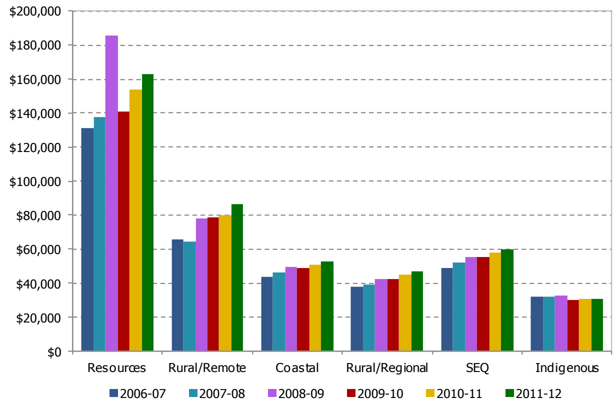
Segment	GRP ($M) 2011/12	GRP per Capita 2011/12	Labour Force Participation 2012	Employment Rate 2012	Household Wkly Income 2011
Indigenous	$870	$31,000	59.5%	84.9%	$1,058
Rural/Remote	$2,495	$86,317	84.0%	94.9%	$997
Rural/Regional	$10,796	$47,071	66.3%	93.3%	$901
Resources	$36,834	$163,217	77.4%	95.8%	$1,643
Coastal	$47,661	$52,574	67.2%	93.3%	$1,139
SEQ	$184,926	$59,675	68.6%	94.8%	$1,314
Queensland	**$283,581**	**$62,778**	**68.8%**	**94.5%**	**$1,268**

Note: GRP = Gross Regional Product. Preliminary estimates used for 2011/12 GRP.
Source: ABS (2012), DEEWR (2013), AEC*group*

Figure 5.4 shows the level of economic activity (as measured by GRP) per capita in Queensland by council segment between 2006/07 and 2011/12. It is evident that:

- The Resources segment had the highest median GRP per capita of $163,217 in 2011/12, although it is important to note that there is a wide range of outcomes within the segment with a minimum outcome of $47,805 per capita and a maximum outcome of $665,782 per capita.
- Local Governments in the Resources segment also recorded the largest volatility in GRP per capita outcomes from year to year.
- The Rural/Remote segment recorded the greatest relative average increase in median GRP per capita (31.9%) between 2006/07 and 2011/12, while the Indigenous segment recorded a 2.8% decrease.

Figure 5.4: GRP per Capita by Council Segment, 2006-07 to 2011-12



Note: The significant jump in GRP per capita in 2008/09 for the Resources segment is a result of commodity prices being at historical highs. Preliminary estimates used for 2011/12 GRP.
Source: AEC*group*

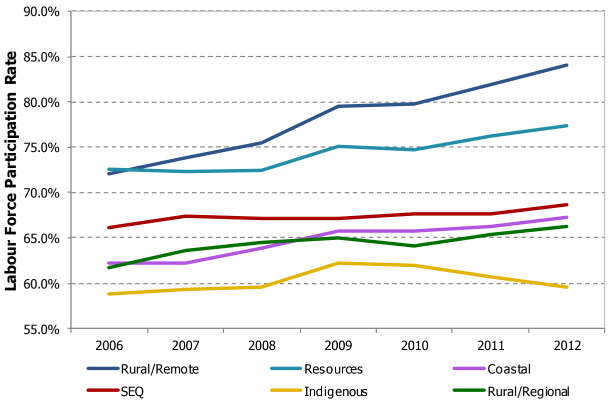
In terms of economic diversity:

- The local economies within the Indigenous segment are heavily reliant on public sector expenditure in the areas of public administration, health services and education and training.
- The local economies within the Rural/Remote segment are heavily reliant on agricultural activities, in addition to public sector expenditure in the areas of public administration.
- The local economies within the Rural/Regional segment are relatively more reliant on agricultural activities and public sector expenditure.
- The local economies within the Resources segment are heavily reliant on resource projects and agricultural activities.
- The local economies within the Coastal segment are relatively more reliant on retail trade and accommodation services, but have some economic diversification in areas such as agriculture, manufacturing, construction, real estate services and arts and recreation, in addition to public and private sector expenditure on health services.
- The local economies within the SEQ segment are the most diversified on average and are relatively more reliant on areas such as construction, manufacturing, wholesale trade, retail trade, accommodation services, housing market and real estate services and administrative and support services, in addition to public and private sector expenditure on health services and education/training.

Figure 5.5 shows the labour force participation rate by council segment. Labour force participation rates relate the proportion of residents aged 15 years and over who are engaged in the labour market, including those in work (i.e. employed) and those actively seeking work (i.e. unemployed).

Labour force participation rates increased in all segments between 2006 and 2012, with the extent of the increase largest for the Rural/Remote and Coastal segments. The Rural/Remote segment has the highest labour force participation rate (84.0%) and the Indigenous segment has the lowest (59.5%). The Resources segment also features a relatively high labour force participation rate (77.4%).

Figure 5.5: Labour Force Participation Rate Council Segment, 2006-2012



Source: ABS (2012), DEEWR (2013)

In relation to the level of employment in each segment:

- Between 2006 and 2012, all segments recorded a decrease in the employment rate (i.e. an increase in the unemployment rate) with the exception of the Resources segment which was unchanged.
- The Indigenous segment has the lowest employment (and highest unemployment) rate.
- The Resources, SEQ and Rural/Remote segments have the highest employment (and lowest unemployment) rates.

In relation to household incomes:

- Household incomes are highest in the Resources segment, with household incomes being 30% above the State average.
- Household incomes in the SEQ segment are 4% above the State average.
- Household incomes in the Rural/Regional segment are 29% below the State average, while household incomes in the Rural/Remote, Indigenous and Coastal segments are lower than the State average by 21%, 17% and 10%, respectively.
- Average individual incomes are the lowest in the Indigenous segment, with a much higher number of persons residing in each household than the other segments.

5.2.3 Social Indicators

Table 5.3 provides a snapshot of key social indicators for each council segment.

Table 5.3: Key Social Indicators by Council Segment

Segment	Households in Mortgage Stress 2011	Households in Rental Stress 2011	Doctors per 1,000 Residents	Broadband Internet Households	Travel to Work by Car	Volunteering
Indigenous	0.0%	4.9%	0.9	24.9%	80.5%	16.2%
Rural/Remote	8.6%	9.3%	0.9	58.5%	87.4%	30.9%
Rural/Regional	13.5%	28.9%	1.2	63.8%	91.2%	24.8%
Resources	6.3%	10.0%	1.2	68.1%	88.9%	24.7%
Coastal	9.8%	25.6%	2.9	68.5%	90.1%	19.7%
SEQ	9.7%	26.7%	3.5	76.3%	82.4%	19.9%
Queensland	**9.8%**	**25.3%**	**3.1**	**73.3%**	**84.6%**	**20.4%**

Note: Data not available for all areas. Households are considered to experience mortgage stress when they are in the bottom 40% of income distribution (with less than 80% of median income) and spending more than 30% of income on mortgage payments. Households are considered to experience rental stress when they are in the bottom 40% of income distribution (with less than 80% of median income) and spending more than 30% of income on rental payments. The outcomes for all indicators are reflective of the aggregate position within each segment.
Source: PHIDU (2012), ABS (2012), DEEWR (2013), AEC*group*

The following outcomes are noted in relation to the social indicators:

- The Rural/Regional segment has relatively high levels of mortgage stress and the Rural/Regional, SEQ and Coastal segments have relatively high levels of rental stress.
- Coastal and SEQ residents have access to more than twice as many doctors per capita as the other segments combined.
- The proportion of Queensland households with broadband internet access increased substantially between 2006 and 2011 in all segments (40.7% vs. 73.3%).
- The SEQ segment has the highest proportion of households with broadband internet access, while the Indigenous segment has the lowest proportion of households with internet broadband access.
- Only the Coastal and Rural/Regional segments have more than 90% of residents who travelled to work by car, with the Indigenous segment having the lowest proportion.
- Residents in the Rural/Remote, Rural/Regional and Resources segments are more likely to volunteer.

5.3 Financial Capital

5.3.1 Operating Result

Persistent operating deficits have the potential to result in intergenerational inequity and will ultimately threaten financial sustainability.

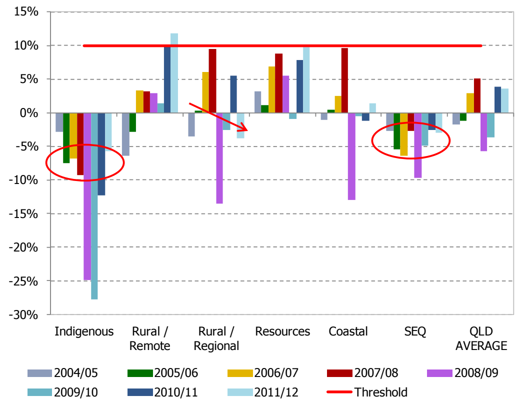
Figure 5.6 outlines the operating surplus/(deficit) ratio for each council segment based on the average of the ratios recorded within each segment and Figure 5.7 outlines the proportion of Local Governments within each segment recording an operating deficit.

Ignoring the volatile outcomes in 2007/08 and 2008/09 resulting from the abnormal reporting periods during the Local Government reform process, the following outcomes are noted:

- Just less than 50% of all Queensland Local Governments (of the 63 where data was made available) recorded an operating deficit in 2011/12.
- The majority of Indigenous Local Governments record a persistent, significant operating deficit.
- A large proportion of SEQ Local Governments feature a persistent, moderate operating deficit, although it would appear that there has been some improvement in recent years.
- The performance of the Coastal and Rural/Regional segments has been mixed, although there appears to be an increasing number of Local Governments recording operating deficits (with more than half recording a deficit in 2011/12).
- On average, the Rural/Remote and Resources segments feature an operating surplus, although roughly one third of Local Governments within each segment still feature an operating deficit that requires addressing.

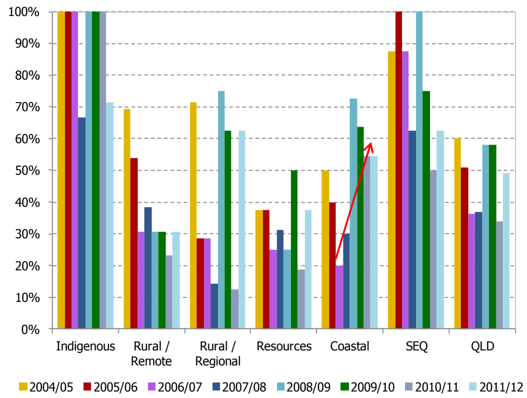
It is difficult to clearly determine any improvement in performance following Local Government reforms.

Figure 5.6: Operating Surplus / (Deficit) Ratio (Average)



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

Figure 5.7: Proportion of Local Governments with an Operating Deficit



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

5.3.2 Liquidity

All council segments record an acceptable working capital ratio and sufficient cash holdings to fund ongoing operations, and therefore Queensland Local Governments do not appear to have a liquidity problem yet. The SEQ and Coastal segments feature the lowest working capital ratios.

5.3.3 Debt

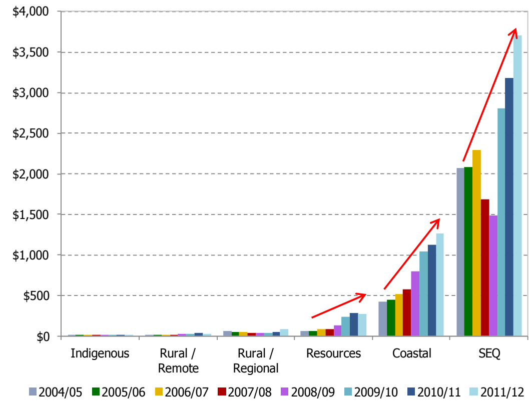
Figure 5.8, Figure 5.9, and Figure 5.10 outline aggregate debt holdings, debt per capita and debt as a proportion of GRP for each council segment. The reduction in debt in 2007/08 for the SEQ segment (and for Queensland as a whole) corresponds with the compensation payments made by the Queensland Government for bulk water assets. Between 2007/08 and 2011/12, total Local Government debt more than doubled from $2.4 billion to $5.4 billion, with this trend forecast to continue. Local Government debt per capita across Queensland is well in excess of $1,000 and rising at a rapid rate having doubled in the past few years.

In 2011/12, 93% of debt was held by the SEQ and Coastal segments, and debt levels for these two segments are on a steep incline, reflective of the financial demands imposed by population growth and the need for Local Governments to fund infrastructure upfront. The removal of water and sewerage capital subsidies, combined with the capping of infrastructure charges, has definitely contributed to the increasing debt burden faced by Local Governments in growth areas. The Resources segment also has relatively fast growing aggregate debt holdings due to the pressure placed on essential infrastructure in those regions and along transport corridors by resource sector projects.

Figure 5.11 shows the net financial liabilities ratio for each council segment. A ratio of greater than 60% indicates higher than recommended debt levels that will potentially limit capacity for future borrowings and may lead to issues in servicing current debt, i.e. persistent breaching of the net financial liabilities ratio will create funding issues through the medium to long term. A few SEQ and Coastal Local Governments are already in breach of this threshold, with more likely to join them in the next few years if borrowing levels continue on their current trend. This risk exists despite the compensation payments made for bulk water assets by the Queensland Government having temporarily reduced debt holdings for the SEQ segment a few years ago.

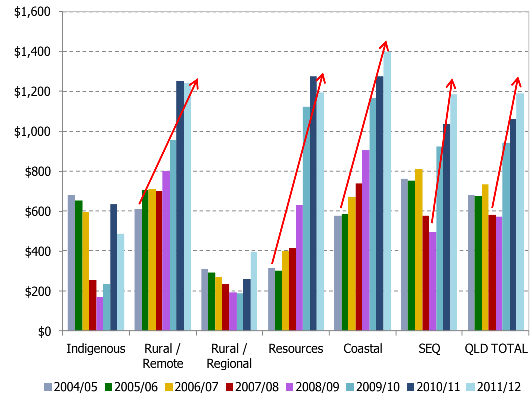
Overall, it is evident from the debt figures that while there have historically been manageable debt levels for the overwhelming majority of Local Governments, growth demands are placing significant pressure on future borrowing capacity for many Local Governments in the Coastal and SEQ segments and resource sector demands are placing significant pressure on future borrowing capacity for many Local Governments in the Resources segment. Other segments appear to have controllable debt levels, with average outcomes suggesting current assets in excess of total liabilities.

Figure 5.8: Debt Holdings, $ Million (Aggregate)



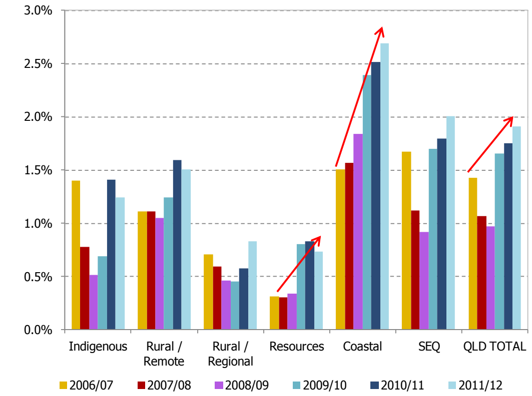
Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

Figure 5.9: Debt Holdings per capita (Aggregate)



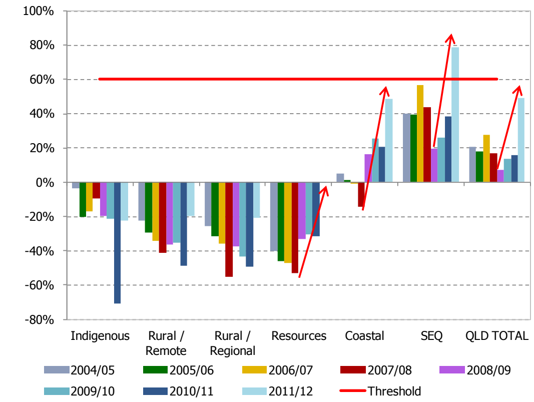
Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

Figure 5.10: Debt Holdings as % of GRP (Aggregate)



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

Figure 5.11: Net Financial Liabilities Ratio (Aggregate)



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

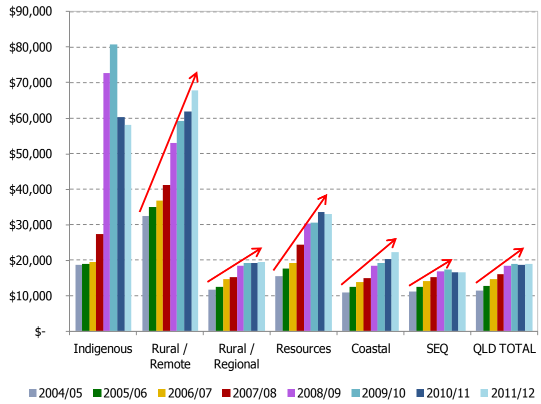
5.4 Infrastructure Capital

5.4.1 Value of the Asset Base

Figure 5.12 and Figure 5.13 outline the value of non-current assets per capita and as a percentage of GRP for each council segment. The Indigenous, Rural/Remote and Resources segments feature the highest per capita asset values due to their significantly lower population bases and geographic characteristics.

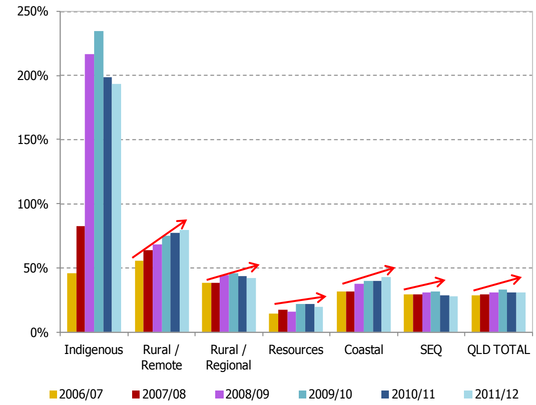
All council segments feature an increasing asset base, with the asset value per capita indicator appearing to be on an unsustainable, increasing trend. This is particularly the case for those Local Governments with a limited rate base and stagnant growth outcomes given that an increasing asset base means increased depreciation charges and increased pressure on the operating result. The SEQ segment (and to a lesser extent the Rural/Regional segment) dipped in 2010/11 as a result of water and sewerage assets across SEQ being transferred to external entities.

Figure 5.12: WDV of Non-Current Assets per capita (Aggregate)



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

Figure 5.13: WDV of Non-Current Assets as % GRP (Aggregate)



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

5.4.2 Asset Management Practices

The need for appropriate asset management is more acute for Local Governments in Queensland than in many other jurisdictions given their service functions are much more asset intensive. The implication of this difference is that Queensland Local Government policy makers need to have a greater focus on the provision, maintenance and renewal of long-term infrastructure than is typical Local Governments in other jurisdictions.

A comparison was undertaken of Local Government asset management practices between 2009/10 and 2011/12 based on responses to the DLGCRR Asset Management data return (DLGCRR, unpublished). Overall, it was found that all council segments have the capacity to significantly improve asset management practices, with the Indigenous segment requiring the most improvement and the SEQ segment requiring the least improvement.

While it appears that there is a reasonable (not great) level of compliance for water, sewerage and roads infrastructure across most Local Government segments, the following outcomes are noted:

- The determination of appropriate current and desired levels of service is an issue for all Local Government segments across the majority of asset classes.
- The Indigenous, Rural/Remote, Rural/Regional and Resources segments need to focus on preparing AMPs for the majority of asset classes and on incorporating forward projections for required capital investments and related operating and maintenance cost implications in financial sustainability models.
- Between 2010 and 2012, there has been a deterioration in asset management practices within the Indigenous segment but a noticeable improvement in practices within the Rural/Remote, Rural/Regional and Resources segments.

5.4.3 Maintenance of the Asset Base

The focus of asset maintenance rests on the level of depreciation charges recouped for asset renewal and the actual level of expenditure on asset renewal on an ongoing basis. Information on depreciation charges and renewal expenditure was collated for the period 2009/10 and 2011/12 based on responses to the DLGCRR Asset Management data return (DLGCRR, unpublished).

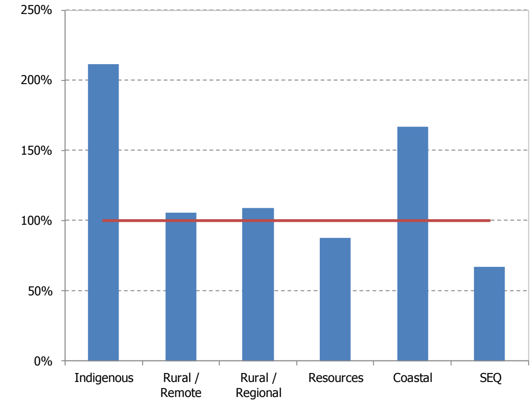
In terms of the importance of each asset class, the following is noted:

- Roads is the most significant asset class in terms of depreciation charges for all council segments except the Indigenous segment, and accounts for more than half of total depreciation charges for the Rural/Remote, Rural/Regional and Resources segments.
- Community facilities is the asset class most significant in terms of depreciation charges for the Indigenous segment.

- Depreciation charges for the water and sewerage asset classes are significant for all council segments, while stormwater drainage depreciation charges are also significant for Local Governments representing urban areas (included within the SEQ and Coastal segments).
- For council segments servicing smaller populations, the corporate buildings asset class is also relatively significant in terms of its contribution towards depreciation charges.

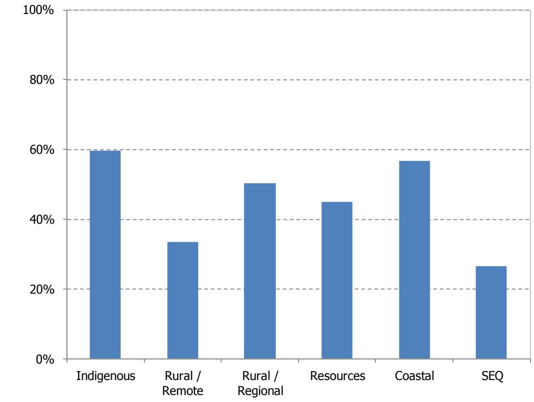
Figure 5.14 outlines renewals expenditure as a proportion of depreciation charges, while Figure 5.15 outlines renewals expenditure as a proportion of total capital expenditure.

Figure 5.14: Renewals Expenditure as % of Depreciation, 2009/10-2011/12



Source: AEC*group*, DLGCRR (unpublished)

Figure 5.15: Renewals Expenditure as % of Total Capital Expenditure, 2009/10-2011/12



Source: AEC*group*, DLGCRR (unpublished)

The following outcomes are noted in relation to the above figures:

- The Indigenous segment has experienced asset renewal pressures in recent years for most asset classes, although there have still been significant asset additions.
- The Rural/Remote segment has been renewing assets at a level comparable to annual depreciation (focussed on roads, water, sewerage and recreation facility infrastructure), although significant new asset additions have also occurred with only one third of total capital expenditure being on asset renewal – this may be unsustainable given the lack of growth in many areas.
- The Rural/Regional segment has been renewing assets at a level comparable to annual depreciation (greater for water and sewerage than for its other key asset classes of roads and community and corporate buildings), and has also been spending a similar amount on new asset additions.
- The Resources segment has been renewing assets at a level less than annual depreciation, and has been allocating more funds towards new asset additions, possibly a result of funding pressures associated with meeting additional infrastructure pressures from resources sector demands.
- The Coastal segment has experienced asset renewal pressures in recent years, particularly for roads and bridges, water, sewerage and community and corporate buildings, but has also been spending a considerable amount on new asset additions for water, sewerage, stormwater drainage and recreation facilities (a result of balancing the need for appropriate asset renewal and servicing infrastructure demands associated with growth).
- The SEQ segment has been renewing assets at a rate significantly less than depreciation, possibly a result of funding pressures associated with meeting additional infrastructure demands due to strong growth with significant new asset additions – in fact, just one quarter of capital funds have been allocated towards asset replacement, with the remaining three quarters spent on new asset additions.

5.4.4 A Note on Depreciation

5.4.4.1 Purpose of Depreciation

From a conceptual perspective, depreciation charges under the International and Australian Accounting Standards[10] (AASB, 2009 & 2011) are recognised to estimate the *consumption* of Local Government assets each year. Including depreciation charges in the Operating (Income) Statement shows whether or not the Local Government is recovering all costs from its ratepayers and other customers, including the consumption of assets over time. Depreciation charges can be a significant expenditure item in a Local Government's operations, but are a calculated figure rather than a tangible expense.

5.4.4.2 Practical Issues with Depreciation Charges

There are both conceptual and practical problems with incorporating depreciation charges in determining the financial sustainability of Local Governments, including:

- Depreciation charges are often unrelated to asset renewal/replacement requirements.
- Accounting Standards (AASB13) require accounting treatments relating to estimating the consumption of assets which are not relevant to the expected cost of renewing those assets.
- Including depreciation charges in the Operating (Income) Statement does not show whether Local Governments can sustain the renewal and/or replacement of assets.
- Some assets *may* never be replaced (e.g. ageing, but rarely used, community halls), while other assets are maintained in perpetuity rather than replaced (such as sewer relining and road pavements).
- From a practical perspective, depreciation is very difficult to measure, given many assets are out of sight (e.g. water and sewerage mains) and it is therefore difficult to assess their condition. Many assets have very long lives and their economic life cannot be known for certain. Residual values are difficult to know for certain given they more often than not cannot be market tested.

In the early days of introducing accrual accounting, many Local Governments had their financial statements qualified by the Auditor-General because they were unable to verify the assumptions underpinning depreciation calculations. Therefore, there was a tendency for Local Governments to apply very conservative assumptions to pass audit tests. However, this increased the amount of depreciation expense and often created an operating deficit.

In Queensland Local Government, the concept of 'unfunded depreciation' was developed to quantify the proportion of depreciation which related to the operating deficit and could therefore not be put aside for future replacement.

5.4.4.3 Identifying the True Intent of the Asset (Equity) Consumption Principle

A preferable approach would be to only use depreciation charges in the manner in which it is intended by the Accounting Standards (AASB, 2009 & 2011). That is, to show whether current ratepayers and consumers are covering all costs, including consumption of assets.

Determining financial sustainability should be based on a Local Government's asset renewal/replacement needs, and whether sufficient surplus cash revenues are being generated to meet these requirements. Of course, such an assessment requires quality asset management systems in each Local Government to be effective.

5.4.4.4 Implications for Financial Sustainability Ratios

The *Asset Renewal Funding Ratio* compares the Net Present Value (NPV) of budgeted and forecast asset renewals compared with the optimal level shown in the AMPs. The

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[10] AASB116 – Property, Plant and Equipment and AASB13 – Fair Value.

benchmark ratio is expected to be 90%. Again, this of course requires the development of robust AMPs and this is one reason why it is currently not calculated.

Although this ratio addresses the concern surrounding depreciation charges distorting financial sustainability ratio outcomes, depreciation charges will remain a problem in the calculation of the operating surplus/margin ratio. One alternative would be to calculate the operating surplus/margin using a 'renewals annuity' instead of depreciation charges. Renewals annuity is the annual amount (annuity) required to provide the optimal level of asset renewal. It is conceptually similar to the approach proposed for the *Asset Renewal Funding Ratio*.

The problem with using depreciation charges to measure sustainability is that they are a measure of the consumption of existing assets, whereas sustainability depends on the ability to ensure ongoing service provision (i.e. the appropriate renewal of essential assets). Further, 'unfunded depreciation' provides a common excuse for operating deficits, and the optional use of renewals annuity for financial sustainability calculations would not allow any excuse to 'unfund' renewals.

Following the introduction of the *Asset Renewal Funding Ratio*, it may be preferable for the operating margin/surplus to be amended to be calculated with renewals annuity outcomes instead of depreciation charges. This is particularly important for Local Governments that feature a high incidence of subsidised, contributed and/or donated assets (refer below).

5.4.4.5 Treatment of Depreciation on Subsidised/Contributed/Donated Assets

The recovery of capital costs associated with contributed assets is an ongoing issue with respect to cost reflective recovery for Local Governments. For Local Government business activities, this relates to whether prices should be set in a manner to recover a return on capital on the asset base in addition to a return of capital (i.e. depreciation charges). For other Local Government community service functions, capital cost recovery specifically relates to the recovery of depreciation charges and debt servicing costs.

Specific pricing provisions contained in the *Local Government Regulation 2012* (Qld) outline the costs that can be recovered by Local Government business activities and other service functions. This includes the recovery of depreciation charges incurred by Local Governments on a progressive basis.

There are also broader pricing principles and methodologies at the State and national level that outline more specifically what should or should not be recovered by Governments, particularly with respect to contributed assets. For example, the National Water Initiative best practice pricing principles (Australian Government Department of Sustainability, Environment, Water, Population and Communities, 2010, p.8) recommend that when setting water and wastewater prices, the 'return of' (i.e. depreciation charges) and 'return on' contributed assets should be excluded from price setting (or cost recovery) arrangements.

The general argument for this approach is that the asset has essentially been contributed for the benefit of the community – in particular, for the purposes of mitigating price (or rate) increases with respect to the capital recovery associated with the asset. Essentially, had a Local Government constructed the asset it would be required to recover the financing costs associated with the asset from its ratepayers or customers, but given it did not fund that portion of the asset then there is no requirement to recover the capital invested). In fact, its ratepayers and customers have already provided the funds for the asset either via other forms of taxation in the event of Government grants and subsidies or via land payments to developers in the event of developer contributions.

Accounting Standards (AASB, 2009 & 2011) currently require Local Governments to recognise the value of a contributed asset as capital revenue in the financial accounts in the particular financial year the asset is gifted to the Local Government. Therefore, the Local Government's equity and performance is boosted artificially by the value of the donated asset, with depreciation charges in relation to the consumption of the donated asset realised over a progressive basis over time and therefore artificially deteriorating the operating result.

This current accounting treatment of contributed assets as one-off capital revenues when received does not appear to appropriately reflect that the assets are contributed with the purpose of ensuring that Local Governments (and communities) are not required to fund upfront development infrastructure and to avoid a significant cost imposition (or price shock) from the provision of growth-related or subsidised assets.

An alternative approach (which does not appear to be allowable under current Accounting Standards) would be one where the value of the contributed assets is utilised on a progressive basis to offset the depreciation charges incurred annually (in accounting terms) to recognise the consumption of the contributed asset value. This treatment would more appropriately recognise that on an ongoing basis there is no real cost at all with respect to the consumption of contributed assets and costs are only incurred following the renewal and/or replacement of the relevant assets.

On this basis, it would be more appropriate to exclude the funding of depreciation on contributed assets from a financial sustainability evaluation perspective[11], which is more akin to the renewals annuity approach to ensuring sustainability moving forward. Essentially, the issues could still be managed under existing accounting requirements, with Local Governments setting revenues on the basis of an 'adjusted' operating result after 'unfunding' a portion of depreciation relating to the consumption of contributed assets.

Of course, there are related issues for Local Governments when evaluating the appropriateness of gearing ratios if significant contributed assets are included in their asset base. Local Governments may in fact have much higher gearing ratios if the value of contributed assets is excluded (or the liability relating to the future consumption of the contributed assets is taken into account), although this would provide a more accurate picture of their financial sustainability from an ongoing service provision standpoint.

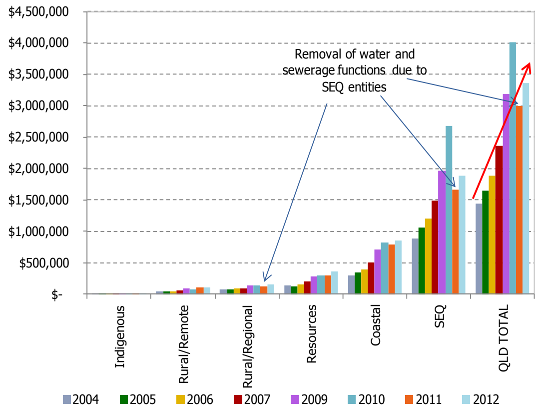
It is recommended that this approach be further discussed with DLGCRR, QTC and AASB to ensure that current accounting standards are complied with in the adoption of any alternative treatment to the current requirements.

5.4.5 Capital Expenditure

Figure 5.16 outlines the aggregate capital expenditure by council segment. It is evident that capital expenditure commitments for all segments are growing at a rapid rate. Those council segments with high growth demands are facing significant capital expenditure burdens, and even those with low growth outcomes are recording significant ongoing increases in capital expenditure.

Most capital funding pressures across all segments are in the lead infrastructure areas of roads and water and sewerage infrastructure, in addition to community buildings relating to various service functions.

Figure 5.16: Capital Expenditure ($'000)



Source: AEC*group*, DLGCRR (unpublished)

[11] It should be noted that if a renewals annuity approach is adopted in place of straight-line depreciation, then it should include provision for replacement of contributed assets should they lie within the 'renewal' window.

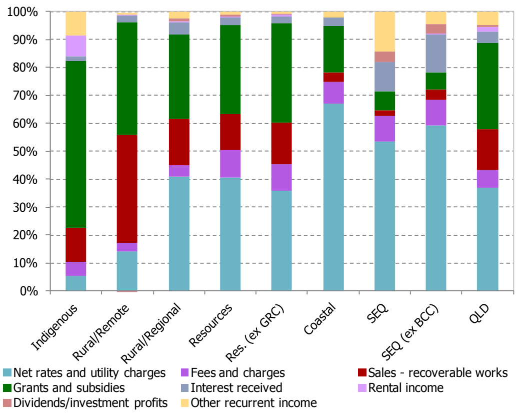
5.5 Revenue Composition

5.5.1 Composition of Revenue

Figure 5.17 details the composition of operating revenue by type of revenue item[12] and Figure 5.18 provides the composition of rates and charges and user fees and charges revenue, with the following outcomes noted:

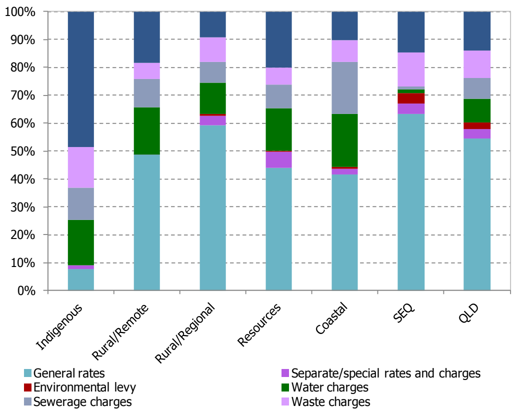
- Of the rates and charges and user fees and charges collected (i.e. controllable revenues), general rates represent the most significant revenue item for each council segment with the exception of the Indigenous segment where user fees and charges are most prominent.
- The Indigenous segment is almost entirely reliant on Queensland and Commonwealth Government operational grant funding.
- The Rural/Remote segment is very heavily reliant on Queensland and Commonwealth Government operational grant funding and recoverable works contracts revenue (which is increasing in prominence), with rates and utility charges and fees and charges revenues accounting for less than 20% of total operating revenue on average.
- The Rural/Regional segment is heavily reliant on recoverable works revenue and quite reliant on Queensland and Commonwealth Government operational grant funding, with rates and utility charges and fees and charges revenues accounting for around 45% of total operating revenue on average.
- The Resources segment is very heavily reliant on Queensland and Commonwealth Government operational grant funding in addition to recoverable works contracts revenue, with the reliance on these two revenue items even more pronounced when excluding the impact of Gladstone Regional Council (which dominates the Resources segment in terms of size).
- The Coastal segment features a more diverse revenue base on average, with rates and utility charges and user fees and charges comprising three quarters of operating revenue. Still, it should be noted that the segment still has a degree of reliance on Queensland and Commonwealth Government operational grant funding, particularly for the smaller Local Governments within the segment.
- The SEQ segment features a relatively high reliance on rates and utility charges and user fees and charges (accounting for 60% of operating revenue) and dividends and interest revenue associated with payments from the external entities responsible for water and sewerage service provision (although noting that this will change to some extent moving forward as a result of the disestablishment of Allconnex).

Figure 5.17: Operating Revenue by Type, 2011/12



Source: AEC*group*, DLGCRR (unpublished)

Figure 5.18: Composition of Rates and Charges and User Fees and Charges Revenue, 2011/12



Source: AEC*group*, DLGCRR (unpublished)

[12] Revenue outcomes in 2010/11 and 2011/12 for selected Local Governments were impacted by the recognition of disaster funding for infrastructure repairs and replacement as operating revenue.

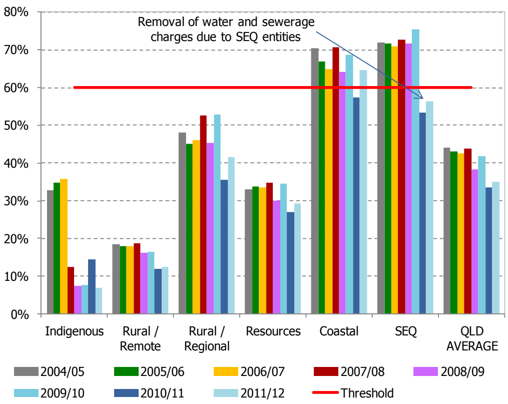
5.5.2 Own Source Revenue

Figure 5.19 outlines the own source revenue ratio for each council segment[13], which is used to determine the reliance on rate and charges revenue compared with other sources of revenue. A higher ratio is indicative of a Local Government having greater control over its revenue streams to recoup costs and therefore of its own destiny.

The Rural/Remote, Indigenous and Resources segments have very low levels of own source revenues and are therefore reliant on external funding from operational grants and recoverable works contracts for financial sustainability outcomes. Essentially, these segments will never be able to achieve the desired ratio of 60%.

The Coastal and SEQ segments have the highest own source revenue levels and therefore a reduced reliance on external (and uncontrollable) sources of operating revenue. However, own source revenues declined for the SEQ segment in 2010/11 (and to a lesser extent for the Rural/Regional segment) as a result of Local Governments no longer being directly responsible for the levying of water and sewerage utility charges. With the disestablishment of Allconnex, this will change from 2012/13 for three Local Governments in the SEQ segment. While selected SEQ Local Governments receive dividends from water and sewerage entities, they have less control over the extent of these dividends from year to year.

Figure 5.19: Own Source Revenue Ratio (Average)



Source: AEC*group*, DLGCRR (unpublished), QTC (unpublished)

5.5.3 Taxation/Rating Effort

Taxation or rating effort refers to the level of taxation on the economy, and can be measured in a number of ways. For the purposes of this study, three key measures are considered, being: taxation effort per capita, taxation effort as a proportion of household income, and taxation effort as a percentage of GDP, GSP or GRP, whichever is relevant.

Figure 5.20 compares the taxation revenue collected by each level of Government, and shows that Local Governments in aggregate collected just 3.4% of all taxation revenue in 2011/12. Figure 5.21 also shows that the tax take by Local Governments relative to economic output is also very minor when compared to the State and Commonwealth Governments.

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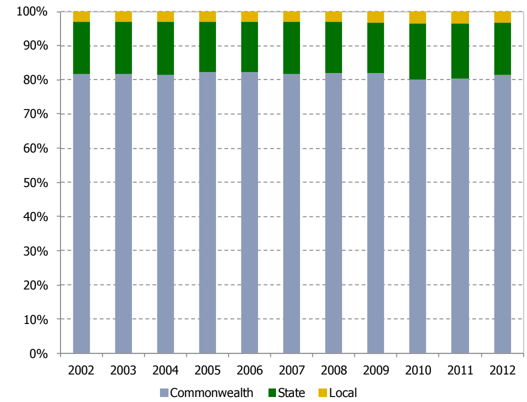
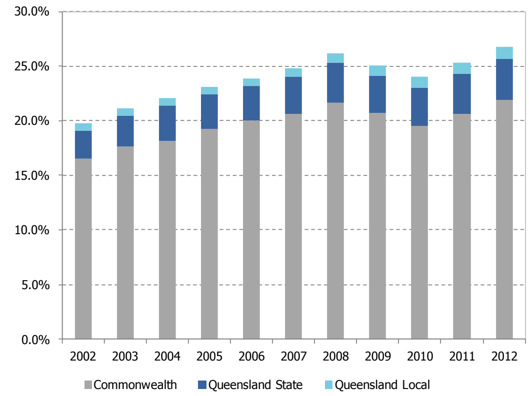
[13] Revenue outcomes in 2010/11 and 2011/12 for selected Local Governments were impacted by the recognition of disaster funding for infrastructure repairs and replacement as operating revenue.

Figure 5.20: Taxation Revenue by Level of Government



Source: AEC*group,* ABS (2013b)

Figure 5.21: Taxation Effort as % of GSP/GDP by Level of Government – Queensland

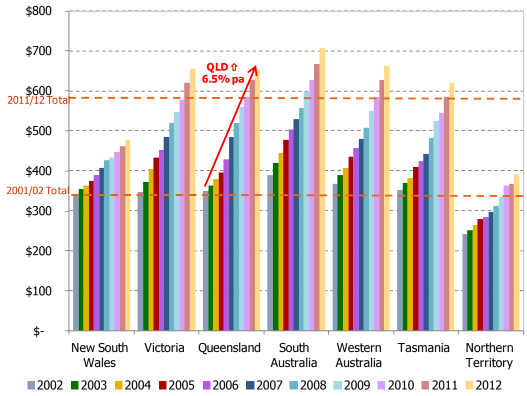


Source: AEC*group,* ABS (2013b)

Warren and Mangioni (2012) showed that Local Governments in Australia raise a similar proportion of GDP from taxing property values as the average of OECD countries, with OECD Local Government property tax having remained fairly steady at or below 1% of GDP since data became available in the 1970s. This implies that the high visibility and lump sum nature of Local Government rates (as noted in Jones (1981)) creates a natural limit of ratepayers' capacity to pay of around 1% of GDP for such property taxes.

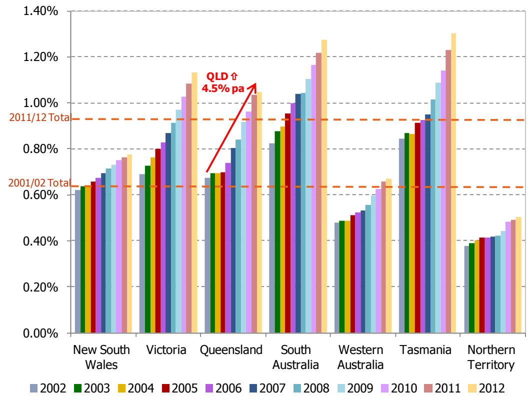
Figure 5.22 and Figure 5.23 compare the taxation revenue collected by Local Governments in each State/Territory on a per capita basis and as a percentage of GSP, with the Queensland outcome being well above the national average and growing at a rapid rate. It is important to note that the current average level of taxation by Queensland Local Governments as a proportion of GSP is in excess of the 1% upper limit of ratepayers' capacity to pay referenced above.

Figure 5.22: Local Government Taxation Revenue per capita by State/Territory



Source: AEC*group,* ABS (2013b)

Figure 5.23: Local Government Taxation Revenue % of GSP by State/Territory



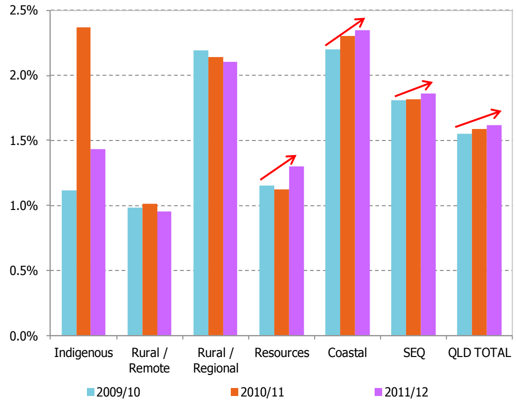
Source: AEC*group,* ABS (2013b)

Figure 5.24 and Figure 5.25 outline the level of general, separate and special rates and total rates and charges as a proportion of median household income. On average, general rates and other separate and special rates currently account for 1.6% of household income. It would appear that the Rural/Remote and Resources segments have some capacity to increase rating levels (although noting that rate increases have a marginal impact on overall revenue levels for these segments given the heavy reliance on external funding sources), while the Coastal and Rural/Regional segments have limited capacity to increase rating levels. The increasing trend in rating effort as a proportion of household income is unsustainable.

On average, utility charges directly levied by Queensland Local Governments account for a further 1.7% of household income, although this would be much higher if SEQ water and sewerage charges were included (noting that they were levied by external entities for the vast majority of the SEQ segment in 2011/12). In fact, when including the water and sewerage charges levied by the external authorities in the SEQ region (per Figure 5.26), utility charges account for 2.1% of household income on average in addition to the 1.6% levied via general rates and other separate and special rates.

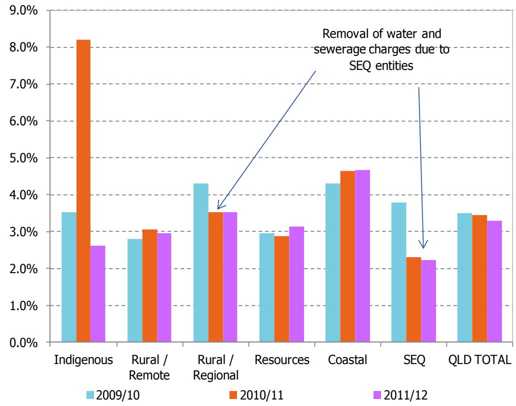
The Coastal segment takes a much higher proportion of household income in total rates and charges than other council segments, with the ratio appearing to be trending upwards. The Rural/Regional outcome is also well above average.

Figure 5.24: General, Separate and Special Rates as % of Household Income (Average)



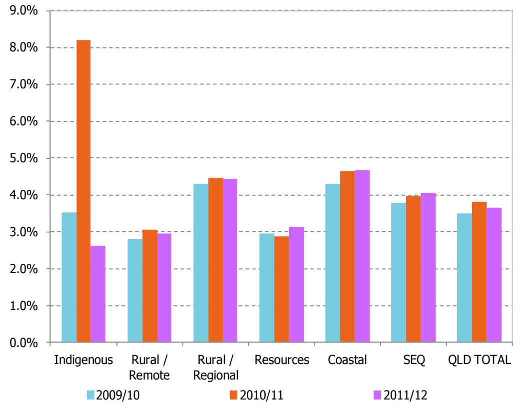
Source: AEC*group*, DLGCRR (unpublished)

Figure 5.25: Total Rates and Charges as % of Household Income (Average)



Source: AEC*group*, DLGCRR (unpublished)

Figure 5.26: Total Rates and Charges (inc. SEQ entities) as % of Household Income (Average)

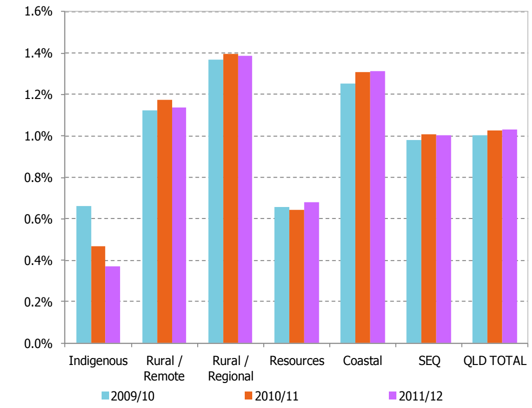


Source: AEC*group*, DLGCRR (unpublished)

Figure 5.27 and Figure 5.28 outline the level of level of general, separate and special rates and total rates and charges as a percentage of GRP. The average tax take from rates and charges (when allowing for the exclusion of SEQ water and sewerage charges from 2010/11) from the economy has been increasing at a rapid rate, with the level of rating effort most significant for the Coastal segment. The Rural/Regional segment is also extracting much more from the regional economy in general, separate and special rates than other segments.

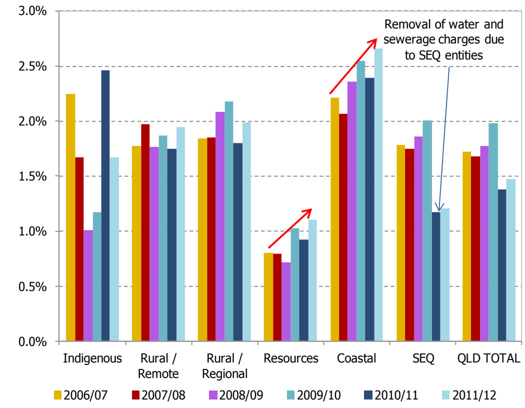
It would appear that there is scope for additional rating effort for the Resources segment, particularly on the resource sector, even though it is acknowledged that the rating level is definitely increasing as preliminary steps are taken to ensure appropriate rating strategies are adopted.

Figure 5.27: General, Separate and Special Rates as % of GRP (Aggregate)



Source: AEC*group*, DLGCRR (unpublished)

Figure 5.28: Total Rates and Charges as % of GRP (Aggregate)



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

Overall, the following outcomes are noted in relation to the level of rating effort currently applied by each council segment:

- Average rating levels across Queensland Local Governments are currently at the upper limit of ratepayers' capacity to pay and continuing significant rate increases are likely to be unsustainable, particularly for the Rural/Regional, Coastal and SEQ segments, highlighting the limited additional own-source revenue raising capacity within the Queensland Local Government sector.
- The Rural/Remote and Resources segments appear to have some capacity for rate increases relative to other segments, although the socio-economic profile within each Local Government jurisdiction needs to be considered in addition to the fact that any increase in own-source revenue in these segments is unlikely to significantly influence financial sustainability given their very limited rate base.
- The Resources segment appears to have additional rating capacity from the resource sector given that property valuations do not reflect the true impact on infrastructure and service provision, and guidelines for the appropriate levying of rates based on demands/needs of the resources sector may be useful given past uncertainties regarding the legality of charging based on second best means (e.g. employment numbers) – the availability of GRP data may assist in providing a useful benchmark in ensuring that rating levels are appropriate.

5.5.4 External Funding Support

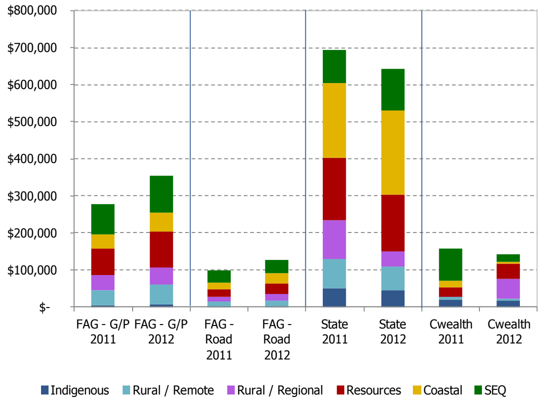
Figure 5.17 highlighted that the Indigenous segment is almost entirely reliant on Queensland and Commonwealth Government operational grant funding, while the Rural/Remote and Resources segments are also very heavily reliant on such grant funding in addition to recoverable works contracts revenue (often funded by the Queensland and Commonwealth Governments). Figure 5.29 details the extent of operational grants and subsidies provided in 2010/11 and 2011/12 for those responding to the DLGCRR Consolidated Data return[14] (unpublished).

Figure 5.30 and Figure 5.31 detail the composition of capital revenue for those responding to the DLGCRR Consolidated Data return (unpublished). The majority of capital revenue for most segments is for roads infrastructure, with the exception being the Indigenous segment where capital revenues are focussed towards community services and community planning infrastructure. With the removal of water and sewerage subsidies, the extent of capital revenues for those service functions has declined considerably in recent years, particularly for the Coastal and SEQ segments which represent the majority of the growth areas within Queensland.

[14] The operational grants data is skewed in 2010/11 and 2011/12 due to the recognition of disaster funding for infrastructure repairs and replacement as operating revenues for certain council segments. Further, the limited sample for the Indigenous segment means that the level of operational grants for that segment is likely to be understated in the figure.

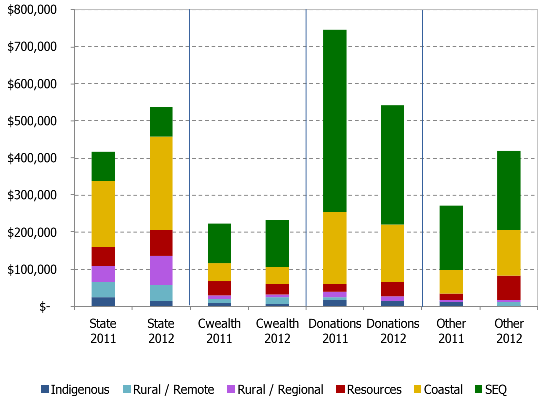
The capital revenues received by the SEQ segment are primarily in the form of assets acquired without cost (e.g. developer donated assets) and other capital revenues. The Coastal segment also receives significant capital funding through these two sources.

Figure 5.29: Operating Grants and Subsidies by Type ($'000)



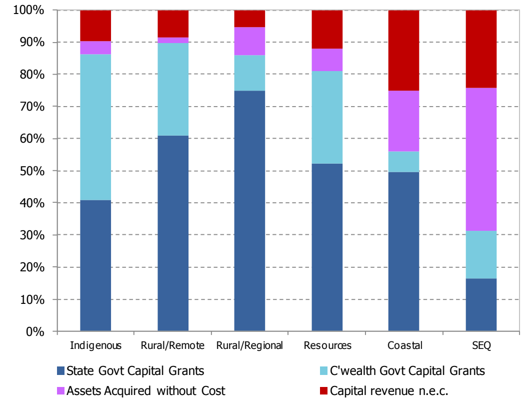
Source: AEC*group,* DLGCRR (unpublished)

Figure 5.30: Capital Revenues by Type ($'000)



Source: AEC*group,* DLGCRR (unpublished)

Figure 5.31: Composition of Capital Revenue (Average)



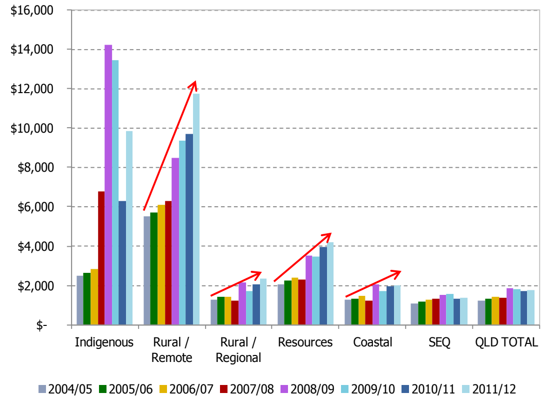
Source: AEC*group,* DLGCRR (unpublished)

5.6 Expenditure Composition

Figure 5.32[15] outlines the level of expenditure per capita and shows that expenditure is rising at a rapid rate for a number of council segments, particularly the Rural/Remote, Resources, Rural/Regional and Coastal segments. The SEQ segment outcomes declined in 2010/11 as a result of the transfer of water and sewerage expenditure to external entities.

[15] Spikes in the expenditure per capita levels in 2010/11 and 2011/12 can in part be attributed to flood reconstruction works for certain segments.

Figure 5.32: Operating Expenditure per capita (Aggregate)



Source: AEC*group,* DLGCRR (unpublished), QTC (unpublished)

Figure 5.33 and Figure 5.34 outline the composition of operating expenditure by operating item and by service function.

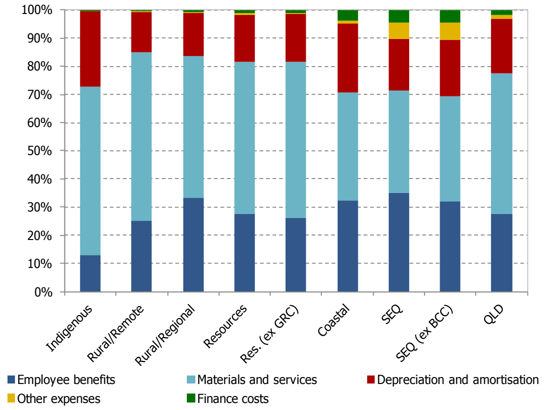
Roads expenditure is generally the most prominent operating expenditure item for Queensland Local Governments, with the exception of the Indigenous segment and the SEQ segment (to a lesser extent). The prominence of roads expenditure appears to be increasing for most council segments, but is particularly noticeable for the Rural/Remote segment. For most council segments, there appears to have been some rationalisation in operating expenditure on general services (primarily Local Government operation and administration), although the relatively low outcomes for the Rural/Remote segment (and possibly the Coastal segment) may actually be reflective of a lack of appropriate resources within this function.

The following council segment outcomes are noted:

- The Indigenous segment features a relatively low incidence of labour costs and a significantly greater reliance on materials and services costs (which account for 60% of expenditure), with expenditure most prevalent in the general services and community services functions.
- The Rural/Remote segment features a high and increasing proportion of expenditure on materials and services costs (at 60% in 2011/12 from 45% five years prior), and a declining proportion of labour costs (at 25% in 2011/12 from 33% five years prior) and expenditure on general service functions (possibly highlighting constrained management and administration resources), with expenditure most prevalent in the roads function and a relatively high level of expenditure on community services.
- The Rural/Regional segment features a relatively greater proportion of expenditure on labour costs, although these costs accounted for a declining proportion expenditure at one third in 2011/12 (down from 40% in 2009/10). Materials and services costs have increased in prominence in recent years, accounting for half of all costs incurred, possibly a reflection of expenditure on roads being on an increasing trend.
- The Resources segment features a relatively high and increasing proportion of expenditure on materials and services costs (at 54% in 2011/12 from 40% five years prior), with labour costs account for a declining proportion of expenditure (at 28% in 2011/12 from 34% five years prior). Expenditure on roads is most significant, with the prominence of expenditure on this function showing an increasing trend.
- The Coastal segment features a relatively greater proportion of expenditure on labour costs (at 32% of expenditure in 2011/12), a relatively greater proportion of expenditure on depreciation charges and a relatively greater proportion of expenditure on interest costs (at 4% of expenditure in 2011/12, an increase of nearly 40% from the outcome five years prior). Expenditure on water, sewerage, waste management and parks is more prominent than most other council segments.
- The SEQ segment features a relatively greater proportion of expenditure on labour costs (on an increasing trend at 35% of expenditure in 2011/12 and up from 30% five years prior, possibly due to the considerable loss of scale from the transfer of

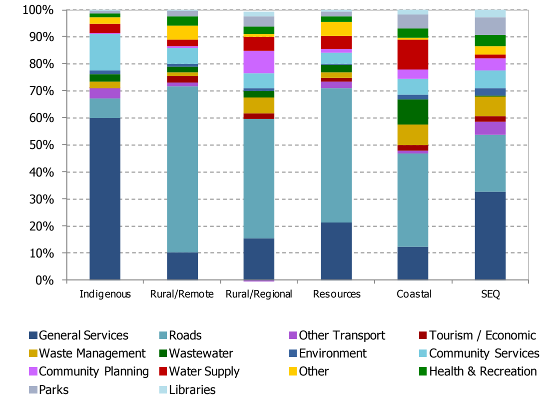
water and sewerage functions to external entities in recent years) and a relatively greater proportion of expenditure on interest costs (in excess of 4% of expenditure, up 130% from the level recorded following the compensation payments made for bulk water assets a few years prior), with materials and services costs accounting for a reducing proportion of expenditure.

Figure 5.33: Operating Expenditure Composition by Type, 2011/12



Source: AEC*group,* DLGCRR (unpublished)

Figure 5.34: Operating Expenditure by Function, 2011/12



Source: AEC*group,* DLGCRR (unpublished)

Overall, it is evident that:

- Labour costs appear to be reducing relative to expenditure items for most segments, with the exception of the SEQ segment and possibly the Rural/Regional segment (depending on the impacts of flood reconstruction works in 2010/11 and 2011/12).
- The importance of materials and services costs is increasing for those segments featuring smaller Local Governments, and effective purchasing practices are becoming increasingly important in those segments.
- Finance costs have been increasing at a rapid rate for the SEQ and Coastal segments in recent years.

5.7 Human Resources

Figure 5.35 and Figure 5.36 outline the ratio of population serviced per outdoor full-time equivalent (FTE) employee and per indoor FTE[16].

The council segments servicing greater populations and with higher population densities (e.g. the SEQ and Coastal segments) are able to benefit from greater economies of scale in service provision. Conversely, the council segments servicing small populations and with very low population densities (e.g. Rural/Remote, Indigenous and Resources segments) suffer from significant diseconomies of scale.

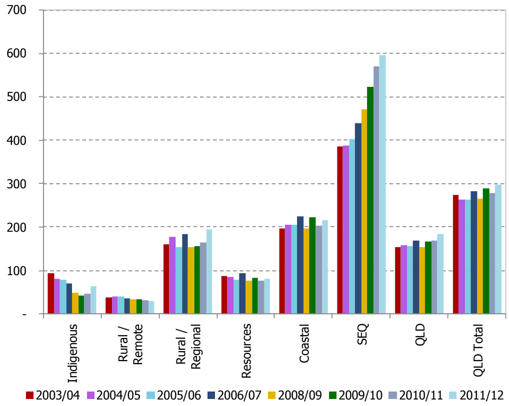
The SEQ segment has been able to leverage off increasing economies of scale in service provision from a labour perspective in recent years, with most of the increasing economies of scale occurring in the outdoor workforce. (Some degree of caution must be given to the analysis given that it does not take into consideration the impact of any change in service delivery such as the use of contractors.) However, no other segment appears to have been able to enhance economies of scale and, in fact, the Rural/Remote and Resources segments have experienced a consistent deterioration in economies of scale, largely due to the indoor workforce increasing at a greater rate than the population served.

It would appear that many council segments have experienced a deterioration in economies of scale in service provision from their indoor workforce, suggesting increased administration and compliance pressures. It is possible that Local Government reforms

[16] The "*QLD*" outcome in the figures represents the average outcome for all Local Governments responding to the data return, whereas the "*QLD Total*" outcome represents the weighted average outcome across the State (with the SEQ segment obviously featuring a greater weighting given its high share of total State population).

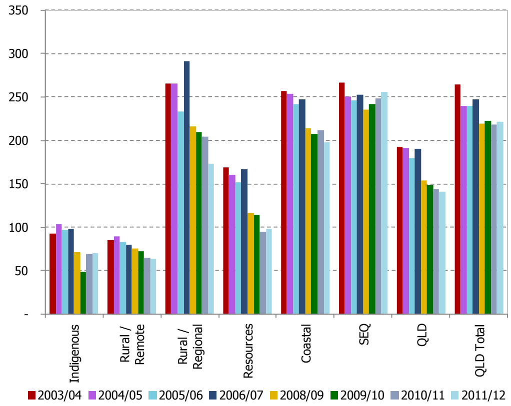
have enabled some rationalisation in outdoor staff for selected segments (SEQ, Coastal and Rural/Regional), but with the exception of the SEQ segment this has been offset by increased internal workforce resourcing requirements.

Figure 5.35: Ratio of Population Serviced to Outdoor FTE



Source: AEC*group,* DLGCRR (unpublished)

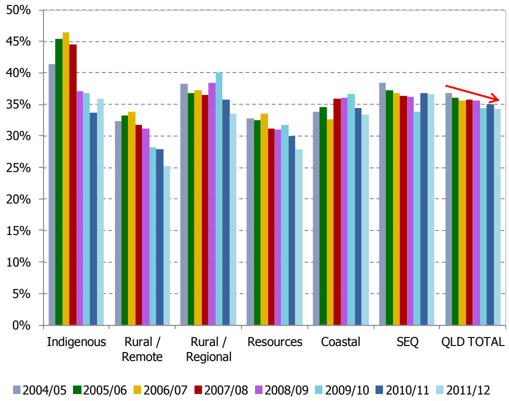
Figure 5.36: Ratio of Population Serviced to Indoor FTE



Source: AEC*group,* DLGCRR (unpublished)

Figure 5.37 outlines the proportion of operating expenditure represented by labour costs. A noticeable declining trend is evident, particularly for the Indigenous, Rural/Remote and Resources segments. The Coastal and Rural/Regional segments appear to have made some improvements in recent years, although this could be a result of a spike in flood reconstruction works (and materials and services expenditure) and additional time series data is required before making a definitive determination.

Figure 5.37: Employee Costs as % of Operating Expenditure

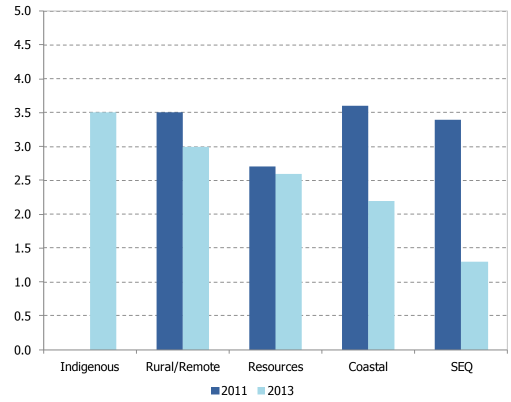


Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

Regarding skills attraction and retention, LGAQ undertakes a skills survey of Queensland Local Governments and reports outcomes based on its Advocacy segments.

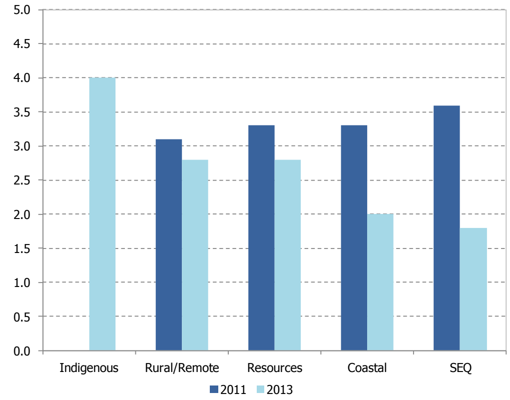
Figure 5.38 and Figure 5.39 show that there has been an improvement in skills attraction in recent years, with the number of months required to fill job vacancies reducing particularly for the Coastal and SEQ segments. However, attracting employees in the Indigenous, Rural/Remote and Resources segments remains an issue, consistent with the outcomes of the financial sustainability survey. Figure 5.40 indicates that while there has been a general reduction in employee turnover in recent years, turnover remains very high in the Indigenous segment, followed by the Resources and Rural/Remote segments.

Figure 5.38: Average Number of Months to Fill Professional Job Vacancies, 2011 vs. 2013



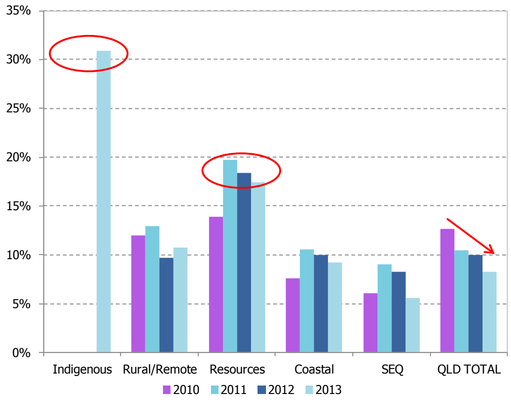
Source: LGAQ (unpublished)

Figure 5.39: Average Number of Months to Fill Skilled Technical Job Vacancies, 2011 vs. 2013



Source: LGAQ (unpublished)

Figure 5.40: Average Employee Turnover, 2010-2013



Source: LGAQ (unpublished)

5.8 Service Levels

Limited time series data exists in relation to service levels. Analysis of road lengths per capita and the areas of parks maintained suggest that there does not appear to be any increase in service levels per capita in relation to these two indicators. However, as noted in section 5.4.2, the determination of appropriate current and desired levels of service is an issue for all Local Government segments across the majority of asset classes. Further, the provision of services to a mandatory standard that assumes a 'one size fits all' approach creates additional cost, reporting and compliance burdens for councils.

5.9 Impacts of Recent Queensland Government Policy Decisions

Whilst many of the factors impacting on Local Government financial sustainability are internal, Local Government is also impacted by external factors that it cannot control. Below are a few recent examples of Queensland Government policy decisions and their apparent impact on Local Governments and Local Government financial sustainability.

5.9.1 Local Government Reforms

The issue of Local Government reforms relates largely to the resulting changes to Local Government from the recommendations of the Local Government Reform Commission (2007). Primarily, these reforms resulted in a reduction of the number of Queensland Local Governments from 157 to 73 at the March 2008 Local Government elections.

The following trends are evident when looking at the financial and non-financial data-sets pre and post Local Government reforms:

- There is no noticeable trend regarding the operating result for Local Government segments pre and post reforms.
- Growth in Local Government staffing levels per capita appear to have stalled and the proportion of costs attributable to employee expenses have reduced as a proportion of total operating expenditure, although it is unclear whether this can be attributed to the reforms.
- Debt has been on a steep upward trend, with this trend unaltered post reforms.
- Asset values per capita appear to have stabilised and in some instance reduced post reforms for the Rural/Regional and SEQ segments, although it is difficult to attribute this to the reforms and some of the Local Governments in these segments have been affected by the transfer of water and sewerage assets to separate entities.

Overall, there does not yet appear to be a material change in the vulnerability of Queensland Local Governments pre and post reforms, with the only noticeable trend possibly assisted by the reform process being a consolidation of staffing levels and associated costs for selected segments. With the recent decision to de-amalgamate certain Local Governments, it is possible that the de-amalgamation costs and associated resourcing adjustments could offset, or worsen, any potential efficiencies achieved for those affected Local Governments.

5.9.2 Reduction & Removal of Capital Grants and Subsidies

The *2009-10 State Budget* (Queensland Treasury, 2009) removed a number of Local Governments subsidies including the street lighting subsidy and the 40% capital grants for water and sewerage infrastructure.

It is obvious from the Local Government Financial Sustainability Survey results (AEC*group*, 2013b) that most Local Governments are concerned about their ability to not only renew and replace assets initially constructed with grant and subsidy funding, but also to provide essential service infrastructure to facilitate growth in the absence of the previously available external funding assistance. There is little doubt that the spike in debt levels, particularly in the Coastal and SEQ segments, has been impacted by the decision to remove capital grants and subsidies (in conjunction with other policy decisions). The removal of these subsidies has also placed considerable financing pressures on all other segments.

DLGP (2001) released a paper outlining *A History of the Local Governing Bodies' Capital Works Subsidy Scheme 1932-2001*. From the paper, it is evident that since 1932, considerable grants and subsidies have been made available by the State Government for Local Government capital works on essential infrastructure provision. These grants and subsidies were primarily offered in the form of a percentage contribution to capital costs, but during some periods were in the form of a percentage of interest and redemption payments.

In fact, the only time that grants and subsidies were unavailable (temporarily suspended) during the period was in the latter years of World War 2. Grants and subsidies were still offered even during the Great Depression, a period in which there were much more adverse economic conditions than experienced in recent years in Queensland. It is therefore evident that the removal of the Local Government capital grants and subsidies scheme from the State Government is possibly the most significant funding withdrawal for Queensland Local Governments in our history.

Even a move back to the reimbursement of a percentage of interest and redemption payments rather than upfront cash payments would be better than a complete removal of financing assistance. Such an option may be easier for the State Government to fund while it is repairing its finances.

5.9.3 Capping of Infrastructure Charges

In April 2012, the Queensland Government announced the capping of standard maximum residential charges at $28,000 for a home with three or bedrooms, and $20,000 for one and two-bedroom dwellings.

The Local Government Financial Sustainability Survey results (AEC*group*, 2013b) highlighted that many Local Governments believe that there should not be a cap on infrastructure charges. Combined with the removal of capital grants and subsidies, the capping of infrastructure charges has contributed, and will continue to contribute, to increasing debt levels across Local Governments in growth areas in addition to the need for substantial increases in rating levels to ensure operating deficits are not maintained.

The Department of State Development, Infrastructure and Planning (DSDIP) (2013) recently released a discussion paper relating to a review of the current infrastructure planning and charging framework. The discussion paper includes a range of alternative options in the determination and levying of infrastructure charges, most of which would result in a further reduction in infrastructure charges and increased pressure on operating deficits, debt holdings and the ability of Queensland Local Governments to finance infrastructure provision.

5.9.4 SEQ Water Reforms

Significant water industry reforms occurred in SEQ in 2007/08. This saw the transfer of bulk water assets from Local Government to the State and the establishment of merged water retailing businesses jointly owned by multiple Local Governments.

The following trends are evident when looking at the financial and non-financial data-sets pre and post-SEQ water reforms:

- There has been a significant reduction in own-source revenues as a proportion of total revenues in the Rural/Regional and SEQ segments, given that water and sewerage charges are now levied by separate entities for some of the Local Governments in these segments. While relevant SEQ Local Governments receive dividends from water and sewerage entities, they have less control over the extent of these dividends from year to year.
- Debt reduced considerably for the SEQ segment post reforms due to some level of compensation being paid for the transfer of assets to the Queensland Government, but has since increased sharply.
- Asset values per capita appear to have stabilised and in some instances reduced post reforms for the Rural/Regional and SEQ segments, assisted by the fact that the Local Governments in these segments have been affected by the transfer of water and sewerage assets to separate entities.

5.10 Conclusion & Identified Financial Sustainability Factors

In conclusion, there are numerous factors impacting Local Government financial sustainability. Those related to the internal environment include: demographics, economic, social, financial and infrastructure capital, revenues, expenditures, human resources and service levels. Some of these are well understood and others such as service levels less so. Those related to the external environment are the performance of the Queensland, national and global economies, as well as policy decisions by other levels of Government. Local Government have very little control over these.

Policy decisions such as the removal of the capital works grants and subsidies scheme have a significant, long-lasting impact across the Local Government sector that should not be ignored.

The identified factors affecting Local Government financial sustainability should be seen as challenges to be addressed by all key stakeholders working together. A financially sustainable Local Government sector is in everyone's interest. The embodiment of these challenges and broad strategies and policies to address them are the subject of the next two chapters.

It is important to note here that there is currently limited data collected from Indigenous Local Governments for effective time series analysis. What is evident from this segment from the available data is that they are entirely dependent on appropriate support from other levels of Government and therefore their financial sustainability for the most part rests with the decisions of others (beyond good governance and operational efficiency). The *Indigenous Council Task Force Report* (2009) provides a good summary of the issues facing the Indigenous segment.

6. Financial Sustainability Challenges

KEY POINTS

Financial Sustainability 'Game Changers' by Council Segments

- **Indigenous**
  - ***Internal:*** reduce operating deficits; resource sharing for administration, compliance and specialist functions; workforce strategies to better manage and build capability of the local workforce; review assets, services and service standards; focus on funding asset renewals; commitment to long-term financial sustainability and asset management planning.
  - ***External:*** appropriate operational and grant funding assistance; reduce compliance burden; and cease devolution of responsibilities.
- **Rural/ Remote**
  - ***Internal:*** resource sharing for administration, compliance and specialist functions; workforce strategies to attract and retain skilled employees; review assets, services and service standards; focus on funding asset renewals; and commitment to long-term financial sustainability and asset management planning.
  - ***External:*** appropriate operational and grant funding assistance; stable contract works arrangements; reduce compliance burden; and cease devolution of responsibilities.
- **Rural/ Regional**
  - ***Internal:*** reduce operating deficits; monitor appropriateness of rating levels and review rating efficiency; review assets, services and service standards; focus on funding asset renewals; and commitment to long-term financial sustainability and asset management planning.
  - ***External:*** appropriate operational and grant funding assistance; reduce compliance burden; and cease devolution of responsibilities.
- **Resources**:
  - ***Internal:*** appropriate direct funding of infrastructure required to service resources sector; resource sharing for administration, compliance and specialist functions; workforce strategies to attract and retain skilled employees; review assets, services and service standards; focus on funding asset renewals; and commitment to long-term financial sustainability and asset management planning.
  - ***External:*** appropriate facilitation and funding of infrastructure required to service resource sector from other levels of Government; appropriate operational and grant funding assistance; reduce compliance burden; and cease devolution of responsibilities.
- **Coastal**
  - ***Internal:*** reduce operating deficits; monitor impact of providing growth infrastructure on future borrowing capacity; monitor appropriateness of rating levels and review rating efficiency; review assets, services and service standards; focus on funding asset renewals; and commitment to long-term financial sustainability and asset management planning.
  - ***External:*** appropriate external funding assistance for growth infrastructure; removal of infrastructure charges caps; and cease devolution of responsibilities.
- **SEQ**
  - ***Internal:*** reduce operating deficits; monitor impact of providing growth infrastructure on future borrowing capacity; and commitment to long-term financial sustainability and asset management planning.
  - ***External:*** appropriate external funding assistance for growth infrastructure; removal of infrastructure charges caps; and cease devolution of responsibilities.

6.1 Introduction

The purpose of this chapter is to summarise the most significant challenges stemming from the factors impacting financial sustainability for each council segment identified in previous chapters and to assess the impact of each of these factors on financial sustainability.

6.2 Challenges & Impact Assessment

Each of the previous chapters has concluded with identified factors impacting financial sustainability. Each of these presents a challenge to Local Government financial sustainability moving forward. These challenges have been grouped into three areas:

- **Regional** – demographic, economic and social factors that impact revenues and expenditure.
- **Financial** – financial factors that impact revenues, expenditures, finance and infrastructure capital.
- **Resourcing** – factors that impact on human resources and service delivery.

6.2.1 Identified Financial Sustainability Challenges

The identified financial sustainability challenges are summarised in Table 6.1, Table 6.2 and Table 6.3 along with a description of their impact and in which section of this report they have been identified as a factor or challenge.

Table 6.1: Identified Regional Challenges

Regional Challenge	Impact on Financial Sustainability	Identified
1. Economic activity is heavily reliant on public expenditure.	A heavy reliance on public expenditure places the local economy (and household wellbeing) at risk from inappropriate public funding or funding withdrawal by other levels of Government.	5.2.2
2. Lower population density.	Lower population density generally means a higher cost of infrastructure provision and maintenance, combined with a limited rate base over which such costs can be recouped (outside of external funding assistance).	5.2.1
3. Lower household incomes.	Lower household incomes mean a reduced ability to levy rates and charges due to ability to pay and affordability issues.	5.2.2
4. Housing shortages and a lack of affordable housing.	A lack of affordable housing places increased pressure on household budgets and also impacts the ability of Local Governments to attract and retain staff.	4.3.2
5. Ageing population.	An ageing population may reduce the community's ability to afford ongoing rate increases and has the potential to impact local economic output and place stress on Local Government services.	5.2.1
6. Remoteness (increased cost of living, reduced access to services).	Remoteness generally results in an increased cost of goods and services and a reduced access to essential services, with Local Governments often stepping in to provide services normally the responsibility of other levels of Government or provided by the private sector. It also hinders a Local Government's ability to attract and retain skilled staff.	4.3.2

Source: AEC*group*

Table 6.2: Identified Financial Challenges

Financial Challenge	Impact on Financial Sustainability	Identified
1. Prominence of operating deficits.	Persistent operating deficits have the potential to result in intergenerational inequity and will ultimately threaten financial sustainability.	2.6 5.3.1
2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.	Given the high visibility of Local Government rates and charges, and the need to appropriately consider household affordability in setting public policy, already high rating levels relative to household incomes and regional economic output limits the extent to which rate increases can occur into the future.	5.2.2 5.5.3

Financial Challenge	Impact on Financial Sustainability	Identified
3. Limited own source revenue and reliance on external funding assistance for operations.	A heavy reliance on external funding assistance places the local economy (and household wellbeing) at risk from changes in the level of operational and capital grants and subsidies from other levels of Government.	3.4 4.3.2 5.5.2 5.5.4
4. Reliance on revenues derived from contract works for other levels of Government.	A high degree of reliance on contract works arrangements means that the workforce and overall financial sustainability are at risk from changes in the means by which such works are undertaken by other levels of Government (e.g. contestable environment).	4.3.2 5.5.1
5. Ability to fund the renewal/replacement of ageing infrastructure.	The inability to fund necessary renewal and replacement works places service levels and community safety in considerable risk.	4.3.2 5.4.3
6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).	The lack of ability to plan, deliver and fund growth infrastructure has the capacity to limit the capacity to undertake works necessary to support growth demands, thereby stalling development and/or placing the community at risk.	3.4 4.3.2 5.4.3 5.4.5 5.5.4
7. High and increasing debt levels that may limit future borrowing capacity moving forward.	Increasing debt levels place the capacity to borrow at risk moving forward, thus threatening the ability to fund growth infrastructure and service new developments and/or renew and replace essential assets for existing ratepayers.	2.4.3 5.3.3
8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.	Resources Local Governments generally feature relative low population bases and significant demands on infrastructure and services by resources sector projects place considerable operational and funding pressures on resource-constrained communities. Reacting to these pressures without appropriate consideration of long-term needs could see infrastructure being delivered to meet short-term peak demands, with a potential inability to recover these costs from those creating the demands.	4.3.2
9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').	Additional responsibilities undertaken by Local Governments involve additional costs, which must be borne by the local community in the form of higher rates and charges, or persistent operating deficits.	4.3.2
10. Impact of natural disasters and climate change on operations and financial sustainability.	The uncertainty and financial and resourcing costs associated with natural disasters and climate change significantly impact Local Government operations, given the need for an immediate response potentially at the expense of long-term financial strategies.	4.3.2

Source: AEC*group*

Table 6.3: Identified Resourcing Challenges

Resourcing Challenge	Impact on Financial Sustainability	Identified
1. Difficulty in attracting and retaining appropriately skilled employees.	The inability to attract and retain skilled resources means that the core functions of Local Government may not be able to be delivered effectively at least cost and consistent with long-term financial sustainability outcomes. High staff turnover will seriously impede a Local Government's ability to maintain effective service provision and best practice governance and financial management.	4.3.2 5.7
2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.	Requiring small Local Governments servicing minor populations to comply with the same regulation, reporting and infrastructure standards creates a high cost of governance and service provision which needs to be borne by the local community, placing increased pressure on financial sustainability outcomes and the reliance on external funding assistance.	4.3.2

Resourcing Challenge	Impact on Financial Sustainability	Identified
3. Lack of economies of scale for management, administration and technical support costs.	Smaller Local Governments are unable to benefit from the economies of scale of larger Local Governments and are therefore unlikely to be able to provide the level of management, administration and technical support that larger Local Governments can.	4.3.2 5.7
4. Commitment to long-term financial sustainability and asset management planning.	A lack of commitment to long-term financial sustainability and asset management planning will likely result in intergenerational inequities, with today's decisions being felt by future communities as a result of increasing debt and a growing infrastructure renewal backlog.	4.3.2 5.4.2
5. Risk management and internal audit procedures.	Inappropriate risk management and internal audit procedures place financial sustainability outcomes at risk by not ensuring appropriate controls on decision-making, procurement and service delivery.	2.4.3

Source: AEC*group*

6.2.2 Impact Assessment

Each challenge is assessed on a qualitative scale as follows:

Table 6.4: Impact Assessment Scale

Impact	Description
Not Applicable	The identified challenge does not apply to the council segment.
Not Identified	No impact is identifiable from the challenge given the information presented and reviewed.
Negligible	The identified challenge is not considered a material influencing factor on financial sustainability for the council segment.
Minor	The identified challenge has a minor impact on financial sustainability, but should still be addressed to avoid becoming a moderate impact in the short to medium term.
Moderate	The identified challenge has a moderate impact on financial sustainability for the council segment, but is still considered a critical issue that requires addressing in the short term. If not addressed, the challenge could escalate to a significant impact in the short to medium term.
Significant	The identified challenge has a significant impact on financial sustainability for the council segment and needs to be addressed as a matter of immediate priority in the short term.

Source: AEC*group*
Note: It is acknowledged that many of the demographic, socio-economic and geographic challenges are unable to be overcome and therefore the impact assessment scale is more relevant to the financial and resourcing challenges.

6.2.2.1 Indigenous

Table 6.5: Identified Financial Sustainability Challenges on the Indigenous Council Segment

Challenge	Assessment	Explanation
Regional Characteristics		
1. Economic activity is heavily reliant on public expenditure.	Significant	The segment has a much greater reliance on public sector expenditure for economic prosperity than other council segments.
2. Lower population density.	Significant	Very low population density, with an average of 0.41 persons per square kilometre.
3. Lower household incomes.	Significant	Average household incomes are 83% of the State average, and individual incomes are the lowest of all segments when compared to the State average, indicating low levels of affordability within relatively large group households.
4. Housing shortages and a lack of affordable housing.	Significant	While housing shortages and a lack of affordable housing were not identified as significant issues in responses to the Local Government survey, discussions with individual Local Governments within the segment suggest that housing is in fact a major issue.
5. Ageing population.	Negligible	While the average age is expected to increase, it is still expected to remain significantly below the State average at below 30 years in 2031. It should be recognised that Indigenous communities have a lower than average age due to the fact that there is a lower than average life expectancy in these communities, resulting in lower percentages of elderly people.

Challenge	Assessment	Explanation
6. Remoteness (increased cost of living, reduced access to services).	Significant	Located significant distances from major population centres, airports and ports, thus reducing the access to services and increasing the cost of sourcing most materials and services.
Financial Pressures		
1. Prominence of operating deficits.	Significant	In its 2011/12 risk assessment, QAO found 11 Indigenous Local Governments to be higher risk due to persistent and significant operating deficits, with an additional two deemed to be of moderate risk and only two deemed to be of lower risk.
2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.	Not Applicable	Not applicable given the lack of a rate base for most Indigenous Local Governments. For those with a limited rate base, the low level of economic activity and low incomes means that there are considerable affordability issues that must be considered when setting rates and charges.
3. Limited own source revenue and reliance on external funding assistance for operations.	Significant	Almost complete reliance on external funding assistance for operations.
4. Reliance on revenues derived from contract works for other levels of Government.	Moderate	Reasonable degree of reliance on recoverable works.
5. Ability to fund the renewal/replacement of ageing infrastructure.	Significant	The ability to fund infrastructure renewal was identified as a significant area of concern in responses to the Local Government survey. There have been considerable renewal pressures in recent years, with capital expenditure on renewals being more than twice that accounted for in depreciation. However, in 2011/12, QAO indicated that more than half of Indigenous Local Governments featured a capital replacement ratio of less than 0.9.
6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).	Negligible	Minimal impact from growth for the majority of Local Governments.
7. High and increasing debt levels that may limit future borrowing capacity moving forward.	Negligible	Debt is presently not of concern for the majority of Local Governments.
8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.	Not Applicable	Not applicable.
9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').	Significant	The devolution of responsibilities to Local Government, including the devolution of infrastructure funding obligations as a result of the removal of grants and subsidies, was identified as a significant area of concern in responses to the Local Government survey. The issue is pronounced in the Indigenous segment given that Local Governments often need to act in their role of service provider of last resort where service gaps exist.
10. Impact of natural disasters and climate change on operations and financial sustainability.	Moderate	Whilst not identified as a significant area of concern in responses to the Local Government survey, recent natural disasters have highlighted their significant impact on Local Governments and climate change will remain an issue to be adequately addressed.

Challenge	Assessment	Explanation
Resourcing Issues		
1. Difficulty in attracting and retaining appropriately skilled employees.	Significant	The inability to attract and retain skilled resources was identified as a significant area of concern in responses to the Local Government survey, and Indigenous Local Governments were identified as having extreme difficulties in not only attracting professional and skilled technical employees but also in retaining them in the LGAQ skills survey. Turnover is also a significant issue for Indigenous Local Governments which is substantially impacting sustainability through higher costs of operation and increased risk attached to appropriate governance and management.
2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.	Significant	The compliance burden on smaller Local Governments was identified as a significant area of concern in responses to the Local Government survey, given their inability to leverage off economies of scale in management and administration and their location restricts the ability to attract and retain appropriately skilled resources.
3. Lack of economies of scale for management, administration and technical support costs.	Significant	Service provision per head of population is more labour intensive for smaller Local Governments servicing larger areas, and therefore more costly to respond to increasing compliance requirements.
4. Commitment to long-term financial sustainability and asset management planning.	Significant	Need to significantly improve asset management practices and the incorporation of forward projections for required capital investments and associated operating expenditure implications in financial sustainability models.
5. Risk management and internal audit procedures.	Moderate	Common issues in the areas of information security, risk management practices and procurement non-compliance, in addition to specific issues in the areas of asset valuation and management and internal controls.

Source: AEC*group*

6.2.2.2 Rural/Remote

Table 6.6: Identified Financial Sustainability Challenges on the Rural/Remote Council Segment

Challenge	Assessment	Explanation
Regional Characteristics		
1. Economic activity is heavily reliant on public expenditure.	Significant	The majority of Local Government areas have a greater reliance on public sector expenditure for economic prosperity than most other Local Government areas across the State.
2. Lower population density.	Significant	Lowest population density of all council segments, with an average of 0.05 persons per square kilometre.
3. Lower household incomes.	Significant	Average household incomes are just 79% of the State average.
4. Housing shortages and a lack of affordable housing.	Not Identified	Housing shortages and a lack of affordable housing were not identified as significant issues in responses to the Local Government survey.
5. Ageing population.	Minor	The average age is expected to increase at a comparable pace to the State average, to be 40 years in 2031.
6. Remoteness (increased cost of living, reduced access to services).	Significant	Located significant distances from major population centres, airports and ports, thus reducing the access to services and increasing the cost of sourcing most materials and services – specifically identified as an issue in responses to the Local Government survey.
Financial Pressures		
1. Prominence of operating deficits.	Minor	In its 2011/12 risk assessment, QAO found 1 Rural/Remote Local Government to be higher risk due to persistent and significant operating deficits, with an additional one deemed to be of moderate risk and ten deemed to be of lower risk.
2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.	Minor	Despite relatively low household incomes, it would appear that there may be some scope – on average – for Local Governments to increase the rating effort on an average residential property when compared with other segments, although it should be noted that overall rating levels relative to economic output are relatively high suggesting reasonable rating of non-residential properties. It should be noted, however, that the limited rate base dilutes the effectiveness of rate increases.
3. Limited own source revenue and reliance on external funding assistance for operations.	Significant	Very heavy reliance on external funding assistance for operations.
4. Reliance on revenues derived from contract works for other levels of Government.	Significant	Significant reliance on recoverable works, with the loss of such works likely to significantly impact operational sustainability and resourcing levels.
5. Ability to fund the renewal/replacement of ageing infrastructure.	Significant	The ability to fund infrastructure renewal was identified as a significant area of concern in responses to the Local Government survey.
6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).	Negligible	Minimal impact from growth for the majority of Local Governments.
7. High and increasing debt levels that may limit future borrowing capacity moving forward.	Negligible	Debt is presently not of concern for the majority of Local Governments.
8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.	Not Applicable	Not applicable.

Challenge	Assessment	Explanation
9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').	Significant	The devolution of responsibilities to Local Government, including the devolution of infrastructure funding obligations as a result of the removal of grants and subsidies, was identified as a significant area of concern in responses to the Local Government survey. The issue is pronounced in the Rural/Remote segment given that Local Governments often need to act in their role of service provider of last resort where service gaps exist.
10. Impact of natural disasters and climate change on operations and financial sustainability.	Moderate	The impact of natural disasters on local economies and the resourcing and financial capacity of Local Governments was identified as a significant area of concern in responses to the Local Government survey and climate change will remain an issue to be adequately addressed.
Resourcing Issues		
1. Difficulty in attracting and retaining appropriately skilled employees.	Significant	The inability to attract and retain skilled resources due to location and in competition with higher paying industries was identified as a significant area of concern in responses to the Local Government survey, and Rural/Remote Local Governments were identified as having difficulties in attracting and retaining skilled employees in the LGAQ skills survey.
2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.	Significant	The compliance burden on smaller Local Governments was identified as a significant area of concern in responses to the Local Government survey, given their inability to leverage off economies of scale in management and administration and their location restricts the ability to attract and retain appropriately skilled resources.
3. Lack of economies of scale for management, administration and technical support costs.	Significant	Service provision per head of population is more labour intensive for smaller Local Governments servicing larger areas, and therefore more costly to respond to increasing compliance requirements.
4. Commitment to long-term financial sustainability and asset management planning.	Significant	Need to significantly improve asset management practices and the incorporation of forward projections for required capital investments and associated operating expenditure implications in financial sustainability models.
5. Risk management and internal audit procedures.	Moderate	Common issues in the areas of information security, risk management practices and procurement non-compliance, in addition to specific monitoring and control issues.

Source: AEC*group*

6.2.2.3 Rural/Regional

Table 6.7: Identified Financial Sustainability Challenges on the Rural/Regional Council Segment

Challenge	Assessment	Explanation
Regional Characteristics		
1. Economic activity is heavily reliant on public expenditure.	Minor	Local Government areas have a reasonable degree of reliance on public sector expenditure for economic prosperity, but feature a greater degree of diversity across industry sectors than smaller Local Governments.
2. Lower population density.	Moderate	Relatively low population density, with an average of 1.75 persons per square kilometre, compared with 133.71 for the SEQ segment and 10.09 for the Coastal segment.
3. Lower household incomes.	Significant	Average household incomes are just 71% of the State average.
4. Housing shortages and a lack of affordable housing.	Not Identified	Housing shortages and a lack of affordable housing were not identified as significant issues in responses to the Local Government survey.
5. Ageing population.	Moderate	The average age is expected to increase at a comparable pace to the State average, but will remain the highest amongst all council segments at 42 years in 2031.
6. Remoteness (increased cost of living, reduced access to services).	Minor	Located within reasonable proximity of major population centres, airports and ports, thus enhancing the access to services and minimising the cost of sourcing most materials and services.
Financial Pressures		
1. Prominence of operating deficits.	Moderate	In its 2011/12 risk assessment, QAO found five Rural/Regional Local Governments to be of moderate risk with minor operating deficits and three deemed to be of lower risk. The average operating result within the segment has been deteriorating in recent years.
2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.	Significant	With low household incomes and an already high rating effort relative to household income and economic output, it would appear that there is limited scope for further significant rate increases.
3. Limited own source revenue and reliance on external funding assistance for operations.	Moderate	Considerable reliance on external funding assistance for operations.
4. Reliance on revenues derived from contract works for other levels of Government.	Moderate	Reasonable degree of reliance on recoverable works.
5. Ability to fund the renewal/replacement of ageing infrastructure.	Significant	The ability to fund infrastructure renewal was identified as a significant area of concern in responses to the Local Government survey.
6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).	Moderate	The removal of capital subsidies was identified as a significant area of concern in responses to the Local Government survey.
7. High and increasing debt levels that may limit future borrowing capacity moving forward.	Negligible	Debt is presently not of concern for the majority of Local Governments.
8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.	Not Applicable	Not applicable.
9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').	Significant	The devolution of responsibilities to Local Government, including the devolution of infrastructure funding obligations as a result of the removal of grants and subsidies, was identified as a significant area of concern in responses to the Local Government survey.

Challenge	Assessment	Explanation
10. Impact of natural disasters and climate change on operations and financial sustainability.	Moderate	Whilst not identified as a significant area of concern in responses to the Local Government survey, recent natural disasters have highlighted their significant impact on Local Governments and climate change will remain an issue to be adequately addressed.
Resourcing Issues		
1. Difficulty in attracting and retaining appropriately skilled employees.	Moderate	Not identified as a significant area of concern in responses to the Local Government survey, but raised during discussions with selected Local Governments and Rural/Remote Local Governments (as categorised by LGAQ – which include Rural/Regional Local Governments as categorised in this report) were identified as having difficulties in attracting and retaining skilled employees in the LGAQ skills survey.
2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.	Moderate	The compliance burden to meet multitudes of legislative requirements was identified as a significant area of concern in responses to the Local Government survey.
3. Lack of economies of scale for management, administration and technical support costs.	Minor	While many Rural/Regional Local Governments are able to benefit from economies of scale in administration, management and service provision, some are still relatively small and therefore unable to benefit from economies of scale.
4. Commitment to long-term financial sustainability and asset management planning.	Significant	Need to significantly improve asset management practices and the incorporation of forward projections for required capital investments and associated operating expenditure implications in financial sustainability models.
5. Risk management and internal audit procedures.	Moderate	Common issues in the areas of information security, risk management practices and procurement non-compliance, in addition to specific control environment issues.

Source: AEC*group*

6.2.2.4 Resources

Table 6.8: Identified Financial Sustainability Challenges on the Resources Council Segment

Challenge	Assessment	Explanation
Regional Characteristics		
1. Economic activity is heavily reliant on public expenditure.	Minor	Local Government areas have a reasonable degree of reliance on public sector expenditure for economic prosperity, but the prominence of resource sector activity significantly dilutes this reliance when compared with the Indigenous and Rural/Remote segments.
2. Lower population density.	Significant	Very low population density, with an average of 0.28 persons per square kilometre.
3. Lower household incomes.	Negligible	Average household incomes are 130% of the State average, although it should be noted that caution should still be exercised in policy setting given the varying incomes for those employed by the resources industry and those in other industries.
4. Housing shortages and a lack of affordable housing.	Significant	Housing shortages and a lack of affordable housing were identified as significant issues in responses to the Local Government survey.
5. Ageing population.	Negligible	The average age is expected to increase at a comparable pace to the State average, but will remain well below all other council segments except the Indigenous segment at 37 years in 2031.
6. Remoteness (increased cost of living, reduced access to services).	Significant	Generally located significant distances from major population centres, airports and ports, thus reducing the access to services and increasing the cost of sourcing most materials and services – specifically identified as an issue in responses to the Local Government survey.
Financial Pressures		
1. Prominence of operating deficits.	Minor	In its 2011/12 risk assessment, QAO found two Resources Local Governments to be higher risk due to persistent and significant operating deficits, with an additional three deemed to be of moderate risk and ten deemed to be of lower risk.
2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.	Minor	With high average household incomes and a low rating effort relative to household income and especially economic output, it would appear that there is some scope for rate increases particularly on the resource sector. Appropriate consideration of the widely varying household incomes in each Local Government area is required when setting rates and charges. In addition, it should be noted that the limited rate base dilutes the effectiveness of rate increases.
3. Limited own source revenue and reliance on external funding assistance for operations.	Moderate	Heavy reliance on external funding assistance for operations.
4. Reliance on revenues derived from contract works for other levels of Government.	Moderate	Reasonable degree of reliance on recoverable works.
5. Ability to fund the renewal/replacement of ageing infrastructure.	Significant	The ability to fund infrastructure renewal was identified as a significant area of concern in responses to the Local Government survey, particularly given the significant pressure placed on infrastructure from resource sector demands.
6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).	Significant	The issue of being able to appropriately meet the infrastructure demands of the resource sector with constrained funding and at a high risk was identified as a significant area of concern in responses to the Local Government survey.
7. High and increasing debt levels that may limit future borrowing capacity moving forward.	Minor	Debt is presently not of concern for the majority of Local Governments, although there has been a noticeable increase in debt holdings in recent years which will need to be continually monitored moving forward.

Challenge	Assessment	Explanation
8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.	Significant	The issue of being able to appropriately meet the infrastructure and operational service demands of the resource sector and being able to appropriately recoup such costs in rates and charges from the resource sector were identified as significant areas of concern in responses to the Local Government survey.
9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').	Significant	The devolution of responsibilities to Local Government, including the devolution of infrastructure funding obligations as a result of the removal of grants and subsidies, was identified as a significant area of concern in responses to the Local Government survey. The issue is pronounced in the Resources segment given that Local Governments often need to act in their role of service provider of last resort where service gaps exist.
10. Impact of natural disasters and climate change on operations and financial sustainability.	Moderate	Whilst not identified as a significant area of concern in responses to the Local Government survey, recent natural disasters have highlighted their significant impact on Local Governments and climate change will remain an issue to be adequately addressed.
Resourcing Issues		
1. Difficulty in attracting and retaining appropriately skilled employees.	Significant	The inability to attract and retain skilled resources due to location and in competition with higher paying industries was identified as a significant area of concern in responses to the Local Government survey, and Resources Local Governments were identified as having difficulties in attracting and retaining skilled employees them in the LGAQ skills survey.
2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.	Significant	The compliance burden on smaller Local Governments was identified as a significant area of concern in responses to the Local Government survey, given their inability to leverage off economies of scale in management and administration and their location restricts the ability to attract and retain appropriately skilled resources.
3. Lack of economies of scale for management, administration and technical support costs.	Significant	Service provision per head of population is more labour intensive for smaller Local Governments servicing larger areas, and therefore more costly to respond to increasing compliance requirements.
4. Commitment to long-term financial sustainability and asset management planning.	Significant	Need to significantly improve asset management practices and the incorporation of forward projections for required capital investments and associated operating expenditure implications in financial sustainability models.
5. Risk management and internal audit procedures.	Moderate	Common issues in the areas of information security, risk management practices and procurement non-compliance, in addition to specific control environment and monitoring and control issues.

Source: AEC*group*

6.2.2.5 Coastal

Table 6.9: Identified Financial Sustainability Challenges on the Coastal Council Segment

Challenge	Assessment	Explanation
Regional Characteristics		
1. Economic activity is heavily reliant on public expenditure.	Minor	Local Government areas have some reliance on public sector expenditure for economic prosperity, but generally feature a greater degree of diversity across industry sectors than smaller and inland Local Governments.
2. Lower population density.	Negligible	Population density above the State average.
3. Lower household incomes.	Minor	Average household incomes are 90% of the State average.
4. Housing shortages and a lack of affordable housing.	Not Identified	Housing shortages and a lack of affordable housing were not identified as significant issues in responses to the Local Government survey.
5. Ageing population.	Moderate	The average age is expected to increase at a comparable pace than the State average, and will remain higher than the State average at 41 years in 2031.
6. Remoteness (increased cost of living, reduced access to services).	Minor	Generally located within reasonable proximity of major population centres, airports and ports, thus enhancing the access to services and minimising the cost of sourcing most materials and services.
Financial Pressures		
1. Prominence of operating deficits.	Moderate	In its 2011/12 risk assessment, QAO found seven Coastal Local Governments to be of moderate risk with minor operating deficits and three deemed to be of lower risk. The number of Local Governments with an operating deficit has been increasing in recent years.
2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.	Significant	With slightly lower than average household incomes and an already high rating effort relative to household income and economic output, it would appear that there is limited scope for further significant rate increases.
3. Limited own source revenue and reliance on external funding assistance for operations.	Minor	Reasonable reliance on external funding assistance for operations.
4. Reliance on revenues derived from contract works for other levels of Government.	Minor	Minor reliance on recoverable works.
5. Ability to fund the renewal/replacement of ageing infrastructure.	Significant	The ability to fund infrastructure renewal was identified as a significant area of concern in responses to the Local Government survey. There have been considerable renewal pressures in recent years, with capital expenditure on renewals being well in excess of 1.5 times that accounted for in depreciation.
6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).	Significant	The issue of being able to appropriately meet the infrastructure demands of growth with constrained funding and capped infrastructure charges was identified as a significant area of concern in responses to the Local Government survey. Debt levels for the Coastal segment are also on an unsustainable, increasing trend.
7. High and increasing debt levels that may limit future borrowing capacity moving forward.	Moderate	Debt is becoming of increasing concern for many Local Governments, with debt holdings on a noticeable and steep increase within the segment. QAO noted in 2011/12 that two Local Governments had a net financial liability ratio in excess of 60%, with one of these being in excess of 80%.
8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.	Not Applicable	Not applicable.

Challenge	Assessment	Explanation
9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').	Significant	The devolution of responsibilities to Local Government, including the devolution of infrastructure funding obligations as a result of the removal of grants and subsidies, was identified as a significant area of concern in responses to the Local Government survey.
10. Impact of natural disasters and climate change on operations and financial sustainability.	Moderate	The impact of natural disasters on local economies and the resourcing and financial capacity of Local Governments was identified as a significant area of concern in responses to the Local Government survey and climate change will remain an issue to be adequately addressed.
Resourcing Issues		
1. Difficulty in attracting and retaining appropriately skilled employees.	Moderate	Not identified as a significant area of concern in responses to the Local Government survey, but raised during discussions with selected Local Governments.
2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.	Moderate	The compliance burden to meet multitudes of legislative requirements for operations and infrastructure was identified as a significant area of concern in responses to the Local Government survey.
3. Lack of economies of scale for management, administration and technical support costs.	Minor	While many Coastal Local Governments are able to benefit from economies of scale in administration, management and service provision, some are still relatively small and therefore unable to benefit from economies of scale.
4. Commitment to long-term financial sustainability and asset management planning.	Moderate	Need to further improve asset management practices.
5. Risk management and internal audit procedures.	Minor	Common issues in the areas of information security, risk management practices and procurement non-compliance.

Source: AEC*group*

6.2.2.6 SEQ

Table 6.10: Identified Financial Sustainability Challenges on the SEQ Council Segment

Challenge	Assessment	Explanation
Regional Characteristics		
1. Economic activity is heavily reliant on public expenditure.	Negligible	Local Government areas benefit from the greatest economic diversity and therefore have a reduced reliance on public expenditure when it comes to economic prosperity.
2. Lower population density.	Negligible	The highest population density of all segments.
3. Lower household incomes.	Negligible	Average household incomes are 104% of the State average.
4. Housing shortages and a lack of affordable housing.	Negligible	Housing shortages and a lack of affordable housing were not identified as significant issues in responses to the Local Government survey, and housing stock is developed to meet the market.
5. Ageing population.	Minor	The average age is expected to increase at a comparable pace to the State average, to be 41 years in 2031.
6. Remoteness (increased cost of living, reduced access to services).	Negligible	All Local Governments are major population centres, and there is a high degree of access to airports and ports, thus enhancing the access to services and minimising the cost of sourcing most materials and services.
Financial Pressures		
1. Prominence of operating deficits.	Significant	In its 2011/12 risk assessment, QAO found two SEQ Local Governments to be higher risk due to persistent and significant operating deficits, with an additional three deemed to be of moderate risk and just three deemed to be of lower risk.
2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.	Moderate	With a reasonably high rating effort relative to household income and economic output, it would appear that there is limited scope for further significant rate increases.
3. Limited own source revenue and reliance on external funding assistance for operations.	Negligible	Minimal reliance on external funding assistance for operations.
4. Reliance on revenues derived from contract works for other levels of Government.	Negligible	Minimal reliance on recoverable works.
5. Ability to fund the renewal/replacement of ageing infrastructure.	Moderate	The ability to fund growth demands is competing with the need to fund infrastructure renewal.
6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity (and often at the expense of the renewal/replacement of existing assets).	Significant	The issue of being able to appropriately meet the infrastructure demands of growth with constrained funding, a lack of external funding assistance and capped infrastructure charges was identified as a significant area of concern in responses to the Local Government survey. Debt levels for the SEQ segment are also on an unsustainable, increasing trend.
7. High and increasing debt levels that may limit future borrowing capacity moving forward.	Significant	Debt is of significant concern for many Local Governments, with debt holdings on a noticeable and steep increase within the segment. QAO noted in 2011/12 that two Local Governments had a net financial liability ratio in excess of 80%.
8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.	Not Applicable	Not applicable.
9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').	Significant	The devolution of responsibilities to Local Government, including the devolution of infrastructure funding obligations as a result of the removal of grants and subsidies, was identified as a significant area of concern in responses to the Local Government survey.

Challenge	Assessment	Explanation
10. Impact of natural disasters and climate change on operations and financial sustainability.	Moderate	Whilst not identified as a significant area of concern in responses to the Local Government survey, recent natural disasters have highlighted their significant impact on Local Governments and climate change will remain an issue to be adequately addressed.
Resourcing Issues		
1. Difficulty in attracting and retaining appropriately skilled employees.	Minor	Not identified as a significant issue given the proximity of these Local Governments to the State's primary labour (and population) base, although there has been periods in which it has been difficult to fill professional and skilled technical job vacancies (as indicated in the LGAQ skills survey outcomes over time).
2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.	Minor	Not identified as a significant issue given the ability of Local Governments to leverage off economies of scale, but has been identified in discussions with a number of SEQ Local Governments as an area of concern to be addressed.
3. Lack of economies of scale for management, administration and technical support costs.	Negligible	SEQ Local Governments are able to benefit from economies of scale in service provision given their large population bases.
4. Commitment to long-term financial sustainability and asset management planning.	Moderate	Need to further improve asset management practices.
5. Risk management and internal audit procedures.	Minor	Common issues in the areas of information security, risk management practices and procurement non-compliance.

Source: AEC*group*

6.3 Challenge Summary

Section 6.2 presented identified financial sustainability challenges by council segment. Those challenges considered to be 'game changers' over the next two election terms are outlined in Table 6.11, and are categorised as either internal or external pressures.

Table 6.11: Key Financial Sustainability 'Game-Changers' by Council Segment

<table>
<tr><th>Segment</th><th>Internal</th><th>External</th></tr>
<tr><td>Indigenous</td><td>Reduce the prominence of operating deficits.
Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure:
More cost effective administration and compliance functions; and
Appropriate access to specialist management and technical expertise.
Workforce strategies to better manage and build capability of the local workforce.
Commitment to long-term financial sustainability and asset management planning.
Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.</td><td>Ensure appropriate external operational and grant funding assistance given sustainability is entirely dependent on such funding.
Reduce compliance burden.
No additional devolution of responsibilities.
Explore alternative options for the delivery of government services with greater utilisation of local providers.
Explore long-term strategies to improve skill levels of local people to fill local, State and Commonwealth jobs.
Recognition of the broader role performed by Indigenous councils in providing a range of services in their communities and appropriately fund for these services.</td></tr>
<tr><td>Rural/ Remote</td><td>Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure:
More cost effective administration and compliance functions; and
Appropriate access to specialist management and technical expertise.
Workforce strategies to assist in the attraction and retention of professional and skilled technical employees, either at the local or regional level.
Commitment to long-term financial sustainability and asset management planning.
Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.</td><td>Ensure appropriate external operational and grant funding assistance given sustainability is heavily dependent on such funding.
Ensure that contract works arrangements with other levels of Government remain in place or begin making arrangements to amend resourcing and costs as appropriate if they are at risk.
Reduce compliance burden.
No additional devolution of responsibilities.</td></tr>
<tr><td>Rural/ Regional</td><td>Reduce the prominence of operating deficits.
Continue to monitor the appropriateness of rating levels given that a high rating effort already exists, and review the efficiency of existing rating structures (in terms of the incidence placed on different ratepayer classes).
Commitment to long-term financial sustainability and asset management planning.
Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.</td><td>Ensure appropriate external operational and grant funding assistance given sustainability is influenced by such funding.
No additional devolution of responsibilities.</td></tr>
</table>

Segment	Internal	External

Resources	• Ensure appropriate funding of infrastructure required to service the resources sector through direct contributions, particularly where there is a high risk of that infrastructure becoming stranded in the event of the resources sector exiting from the Local Government area in question.
	• Given the inability to leverage off economies of scale in operation and identified resourcing limitations, consider alternative business models and resource sharing to ensure:
	  ○ More cost effective administration and compliance functions; and
	  ○ Appropriate access to specialist management and technical expertise.
	• Workforce strategies to assist in the attraction and retention of professional and skilled technical employees, either at the local or regional level.
	• Commitment to long-term financial sustainability and asset management planning.
	• Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.
	• Continue to monitor the appropriateness of rating categories and levels applied to the resource sector to ensure adequate revenue is generated to meet the demands placed on infrastructure and service delivery.
		• Appropriate facilitation and funding of infrastructure required to meet resources sector needs by other levels of Government and the resources sector.
		• Ensure appropriate external operational and grant funding assistance given sustainability is influenced by such funding.
		• Reduce compliance burden.
		• No additional devolution of responsibilities.

Coastal	• Reduce the prominence of operating deficits. • Proactively monitor the ongoing impact of providing growth infrastructure on future borrowing capacity given recent significant increases in debt. • Continue to monitor the appropriateness of rating levels given that a high rating effort already exists, and review the efficiency of existing rating structures (in terms of the incidence placed on different ratepayer classes). • Commitment to long-term financial sustainability and asset management planning. • Review of assets, services and service standards/levels to ensure funds can be appropriated towards asset renewal / replacement.	• Appropriate external funding assistance for growth infrastructure, including the removal of infrastructure charges caps. • No additional devolution of responsibilities.
SEQ	• Reduce the prominence of operating deficits. • Proactively monitor the ongoing impact of providing growth infrastructure on future borrowing capacity given recent significant increases in debt and the likelihood for constrained borrowing for a number of Local Governments moving forward. • Commitment to long-term financial sustainability and asset management planning.	• Appropriate external funding assistance for growth infrastructure, including the removal of infrastructure charges caps. • No additional devolution of responsibilities.

Source: AEC*group*, Orion Consulting Network

7. Strategies & Policy Actions

KEY POINTS

Stakeholders

Four key stakeholders **can effect change** in Local Government:

- **Commonwealth Government**: financial assistance grants, specific regional funding programs.
- **Queensland Government**: governing legislation, funding programs, removal of revenue raising restrictions and devolution of responsibility.
- **Local Government**: financial management, revenue, services and levels of service.
- **Local Government Association of Queensland**: representation, advocacy and policy development, and business service offerings to support reductions in operating costs.

Strategies & Policy Actions

The broad recommendations for all council segments are as follows, with specific segment recommendations and actions for other stakeholders in addition to these):

- Challenge the status quo and focus on providing value for money regarding the costs that Local Governments can control, e.g. labour, materials and services procurement, selected service levels (and manage community expectations) and capital works programs.
- Focus budget development, key decision-making and reporting on long-term financial sustainability outcomes.
- Commit resources (either local or shared) to improve asset management planning and integrate outcomes into budgeting and financial forecasting processes.
- Greater commitment towards priority funding for appropriate asset renewal and replacement.
- Fully review service levels, manage community expectations, investigate alternative means of service delivery and undertake business case assessments (including full recognition of lifecycle costs) before investing in the replacement of existing assets, or the addition of new assets.
- Commit to principles of asset management in ensuring that existing infrastructure can be maintained before committing to building new infrastructure.
- Actively seek cost efficiencies and productivity opportunities across all areas of operation.
- Ensure infrastructure charges are levied on an appropriate, timely basis (subject to legislated caps and other restrictions).
- Investigate the financial sustainability implications of providing additional services and higher service levels for non-core activities before committing capital or operational funds.
- Adoption of a 'Centre for Excellence' approach at the ROC level for asset management, risk management and specialist technical expertise for major infrastructure and community service functions (e.g. water, sewerage, waste, roads).
- Consider the consolidation of front office functions (e.g. customer services) and back office functions (e.g. payroll, ICT, information security, compliance and reporting) at state-wide and regional levels and with Local Governments that have similar service areas, to enhance economies of scale and scope and reduce systems requirements (where considered cost effective and beneficial to local communities).
- Improvements in procurement approaches through the greater utilisation of joint procurement contracts (i.e. leveraging off region-wide and State-wide partnerships).
- Seriously evaluate alternative models of service delivery (e.g. Local Buy, LGM, LGW) through state-wide and regional collaboration and resource sharing opportunities, including the ability to leverage off existing arrangements (e.g. ROCs, RRTGs, LGIS, Propel Partnerships).
- Pro-actively manage revenue collection ensuring rates, charges and/or rents are pursued in line with good business practice.
- Ensure an optimal rating structure exists, including the review of rating levels and capacity to increase rates considering household income and economic activity ratio benchmarks.
- Adopt a user pays pricing approach to utility services (where possible).
- Appropriately consider natural disasters and climate change in infrastructure planning and risk management.
- Invest in training and capacity building initiatives for elected members, focussing on improving financial and business acumen skills.

7.1 Introduction

For the identified financial sustainability challenges to be addressed, all relevant stakeholders will need to work together to undertake the necessary actions to address the challenges for each council segment. A one size fits all approach should be avoided where possible.

7.2 Stakeholders

There are four key stakeholders that can effect change in Local Government, with each having different powers and levels of influence.

7.2.1 Australian (Commonwealth) Government

The Australian Government, often referred to as the Commonwealth Government or the Federal Government, passes laws which affect the whole country. Section 51 of the Constitution defines a number of issues that the Commonwealth Government can make laws on. The Commonwealth Government is responsible for general taxation and economic matters, and larger issues like national security, communications and social welfare. As well as providing services and collecting taxes, the Commonwealth Government provides funding to both State and Local Governments.

The Commonwealth Government, through the Department of Regional Australia, Local Government, Arts and Sport, contributes to the prosperity of the economy and the wellbeing of all Australians by assisting Local Governments to manage their own futures, including providing essential services and developing effective planning initiatives.

The Commonwealth Government provides financial assistance grants to Local Government under the *Local Government (Financial Assistance) Act 1995*. However, the actual final allocation of these grants to Queensland Local Governments is determined by the Queensland Local Government Grants Commission (QLGGC).

7.2.2 Queensland Government

State Governments retain the power to make their own laws over matters not controlled by the Commonwealth under Section 51 of the Constitution. State Governments also have their own constitutions, as well as a structure of legislature, executive and judiciary.

In Queensland, Local Government legislation is administered by the Department of Local Government, Community Recovery and Resilience (DLGCRR). The Queensland Government and LGAQ, on behalf of Queensland Local Governments, signed the *Partners in Government agreement* on 4 July 2012 (DLGCRR, 2012). The Agreement details the key principles underlying the relationship between the Queensland and Local Governments and establishes an ongoing process of negotiation and engagement.

7.2.3 Local Government

Local Governments are established by State and Territory Governments to take responsibility for a number of community services. Local Governments have a legislature and an executive but no judiciary. Their powers are defined by the Queensland Government through:

- *Local Government Act 2009* (1 July 2010).
  - Amended by the *Local Government and Other Legislation Amendment Act 2012* (22 November 2012).
- *Local Government Regulation 2012* (14 December 2012).
- *City of Brisbane Act 2010* (1 July 2010).
- *City of Brisbane Regulation 2012* (14 December 2012).
- *Local Government Electoral Act 2011* (1 September 2011).
- *Local Government Electoral Regulation* 2012 (10 February 2012).

The 73 Local Governments in Queensland (to become 77 from 1 January 2014 following the de-amalgamation process) are responsible for making decisions on local, town or city matters, and are responsible for a wide variety of services. While Local Governments collect revenue in the form of rates and charges, fees and fines to pay for the services they provide, they also receive money from both the Queensland and Commonwealth Governments.

Individual Local Governments, whilst they have to comply with legislation and regulations, do have considerable decision making power over how they manage their finances, services provided, levels of service provision and how services are delivered.

Local Governments have no recognition in the Australian Constitution, however, the Commonwealth Government has previously proposed an amendment be made through a referendum to recognise the current funding relationship and practices between the Commonwealth and Local Governments.

7.2.4 Local Government Association of Queensland

LGAQ is the peak body representing Local Government in its dealings with other Governments, unions, business and the community. More specifically, LGAQ helps Local Government as follows:

- **Representative Body**: Facilitates investigation, analysis and action on all matters of interest or concern to members including debating Queensland and Commonwealth Government policy changes to influencing funding arrangements. LGAQ coordinates advisory and reference groups as well as actively seeks member feedback through LG Online and formal survey processes. Resolutions at the LGAQ Annual Conference provide direction for LGAQ policy initiatives.
- **Advocacy**: LGAQ represents member interests on numerous boards and committees including the Industrial Relations Commission (IRC), Government and industry boards, committees and working groups.
- **State and National Voice**: LGAQ acts as a spokesperson for Queensland Local Government in all forms of media and conducts significant campaigns and represents the united front of Local Government
- **Policy**: Policy development, representation, advice and support available to all members through LGAQ's team of managers, advisors and officers.
- **Learning and Development Leaders**: LGAQ and its businesses offer a range of products, services and support to assist Local Governments in addressing their financial sustainability issues.

7.3 Recommended Actions by Stakeholder

7.3.1 Regional Challenges

Strategies and policy actions to address regional challenges are outside the scope of this report.

7.3.2 Financial Challenges

The following tables state the financial sustainability challenges from section 6.2.1, duplicate the impact assessments for each council segment from section 6.2.2 and present actions for each stakeholder to help mitigate or overcome the identified challenges.

Financial Challenge: 1. Prominence of operating deficits.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Significant	Minor	Moderate	Minor	Moderate	Significant

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
All identified actions in response to financial and resourcing challenges will work to improve the operating positions of Local Governments. Challenge the status quo and focus on providing value for money regarding the costs that Local Governments are able to control, e.g. labour, materials and services procurement, selected service levels (and manage community expectations) and capital works programs. Actively seek cost efficiencies and productivity opportunities across all areas of operation. Seriously evaluate alternative models of service delivery (e.g. Local Buy, LGM, LGW) through state-wide and regional collaboration and resource sharing opportunities, including the ability to leverage off existing arrangements (e.g. ROCs, RRTGs, LGIS, Propel Partnerships). Pro-actively manage revenue collection ensuring rates, charges and/or rents are pursued in line with good business practice. Invest in training and capacity building initiatives for elected members, focussing on improving financial / business acumen skills.	All identified actions in response to financial and resourcing challenges will work to improve the operating positions of Local Governments. Enable Local Governments to declare and not fund the depreciation of grant-funded portions of assets and assets that will not be replaced unless grant funded. Allow renewals annuity in lieu of straight line depreciation in determining financial sustainability indicators (e.g. operating surplus), particularly for relevant asset classes that are not revenue generating in nature. Consider a more appropriate treatment of depreciation on contributed assets that does not inappropriately impact the operating position (and financial sustainability ratios) on a year-to-year basis.	All identified actions in response to financial and resourcing challenges will work to improve the operating positions of Local Governments.	All identified actions in response to financial and resourcing challenges will work to improve the operating positions of Local Governments.

Financial Challenge: 2. Limited capacity for significant ongoing rate increases due to already high rating levels (relative to income and economic activity), socio-economic factors, etc.

Indigenous	Rural/Remote	Rural/Regional	Resources	Coastal	SEQ
Not Applicable	Minor	Significant	Minor	Significant	Moderate

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Ensure an optimal rating structure exists, including the review of rating levels and capacity to increase rates considering household income and economic activity ratio benchmarks. Adopt a user pays pricing approach to utility services (where possible). Regional economic development initiatives to help diversify local economies.	None identified.	None identified.	Assistance in relation to guidelines for optimal rating structures and best practice industry benchmarks regarding rating levels.

Financial Challenge: 3. Limited own source revenue and reliance on external funding assistance for operations.

Indigenous	Rural/Remote	Rural/Regional	Resources	Coastal	SEQ
Significant	Significant	Moderate	Moderate	Minor	Negligible

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Ensure an optimal rating structure exists, including the review of rating levels and capacity to increase rates considering household income and economic activity ratio benchmarks. Adopt a user pays pricing approach to utility services (where possible). Regional economic development initiatives to help diversify local economies.	Provide appropriate capital and operational funding commitments to ensure ongoing financial sustainability. Greater certainty in long-term funding commitments. Ensure appropriate community service provision in rural, remote and Indigenous communities to reduce the financial burden placed on Local Governments as the 'service provider of last resort' for services that are the responsibility of other levels of Government (or the private sector). Facilitate the establishment of a rate base for Indigenous Local Governments via private home ownership and land valuation (where possible).	Provide appropriate capital and operational funding commitments to ensure ongoing financial sustainability. Greater certainty in long-term funding commitments. Constitutional recognition of Local Government and provision of direct funding linked to taxation revenue. Ensure appropriate community service provision in rural, remote and Indigenous communities to reduce the financial burden placed on Local Governments as the 'service provider of last resort' for services that are the responsibility of other levels of Government (or the private sector). Increased reliance on advice from elected local leaders on any future investments in communities. Recreate a Community Development Employment Projects (CDEP)-type process and funding (with better controls) to give Indigenous Local Governments more flexible resources and the ability to harness community resources.	Assistance in relation to guidelines for optimal rating structures and best practice industry benchmarks regarding rating levels.

Financial Challenge: 4. Reliance on revenues derived from contract works for other levels of Government.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Moderate	Significant	Moderate	Moderate	Minor	Negligible

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible). Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).	Greater long-term certainty and stability in workflow for contract works (e.g. Transport and Main Roads), given the impacts on Local Government resourcing and administration of lumpy and uncertain works programs. Consider the delegation of additional Queensland Government service provision to Local Governments servicing rural/remote communities on a full cost recovery basis.	None identified.	Lobbying to ensure that the Queensland Government is aware of the importance of contract works to the financial sustainability of Local Governments, particularly those in the Rural/Remote segment.

Financial Challenge: 5. Ability to fund the renewal/replacement of ageing infrastructure.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Significant	Significant	Significant	Significant	Significant	Moderate

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Focus budget development, key decision making and reporting on long-term financial sustainability outcomes. Commit resources (either local or shared) to improve asset management planning and integrate outcomes into budgeting and financial forecasting processes. Greater commitment towards priority funding for appropriate asset renewal and replacement. Fully review service levels (and manage community expectations) and investigate alternative means of service delivery and undertake appropriate business case assessments (including full recognition of lifecycle costs) before investing in the replacement of existing assets. Commit to principles of asset management in ensuring that existing infrastructure can be maintained before committing to building new infrastructure. Improvement in procurement approaches through the greater utilisation of joint procurement contracts (i.e. leveraging off region-wide and State-wide partnerships).	Provision of appropriate capital funding commitments for major essential service infrastructure maintenance, renewal and replacement in regional/remote areas. Reinstatement of the capital subsidy scheme for essential infrastructure demonstrating a high level of community benefit.	Provision of appropriate capital funding commitments for major essential service infrastructure maintenance, renewal and replacement in regional/remote areas.	Assistance with best practice guidelines and toolkits for the preparation and implementation of Asset Management Plans.

Financial Challenge: 6. Ability to plan, deliver and fund growth infrastructure with limited funding given capped infrastructure charges, removal of subsidies and limited debt capacity.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Negligible	Negligible	Moderate	Significant	Significant	Significant

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Ensure infrastructure charges are levied on an appropriate, timely basis (subject to legislated caps and other restrictions). Monitor the ongoing financial sustainability and debt capacity impacts of facilitating growth and servicing new development areas. Fully review service levels (and manage community expectations) and investigate alternative means of service delivery and undertake appropriate business case assessments (including full recognition of lifecycle costs) before investing in new assets. Improvement in procurement approaches through the greater utilisation of joint procurement contracts (i.e. leveraging off region-wide and State-wide partnerships). Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* 2012.	Provision of appropriate capital funding for major growth infrastructure in growth areas. Removal of the cap on infrastructure charges to ensure that such charges are able to be set on the basis of the actual cost of trunk infrastructure provision. Ensure affected Local Governments are included in infrastructure agreement negotiations with developers in priority development areas. Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* 2012.	Provision of appropriate capital funding for major growth infrastructure in growth areas.	Partner with agencies to challenge service and environmental standards (where practicable), and to identify the changes in regulation that have the potential to significantly reduce the growing cost base of Local Governments.

Financial Challenge: 7. High and increasing debt levels that may limit future borrowing capacity moving forward.

Indigenous	Rural/Remote	Rural/Regional	Resources	Coastal	SEQ
Negligible	Negligible	Negligible	Minor	Moderate	Significant

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
All identified actions in response to financial and resourcing challenges will work to improve the financial position of Local Governments. Monitor the ongoing financial sustainability and debt capacity impacts of facilitating growth and servicing new development areas. Introduce strategies to move towards consistent operating surpluses to pay down debt.	All identified actions in response to financial and resourcing challenges will work to improve the financial position of Local Governments.	All identified actions in response to financial and resourcing challenges will work to improve the financial position of Local Governments.	All identified actions in response to financial and resourcing challenges will work to improve the financial position of Local Governments.

Financial Challenge: 8. Resources sector pressure on infrastructure and operations, including risks associated with providing infrastructure to meet resources sector demands which have the potential to exit at any time, and the ability to adequately rate resources and energy sectors without challenge.

Indigenous	Rural/Remote	Rural/Regional	Resources	Coastal	SEQ
Not Applicable	Not Applicable	Not Applicable	Significant	Not Applicable	Not Applicable

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Improved income security via appropriate development contributions from the resources sector (subject to legislated caps and other restrictions). Partnership with the resources sector in the provision of infrastructure and service delivery (e.g. appropriate contributions for directly impacted infrastructure such as airports and roads). Business case and risk assessment prior to major investments in infrastructure and other assets to cater for resources sector demands and needs. Ensure rating levels for the resources sector adequately reflect demands placed on infrastructure and servicing delivery.	Appropriate infrastructure funding commitments in regions heavily impacted by resources sector activity (e.g. Royalties for Regions funding for upgrades to community infrastructure, roads, airports, etc.). Guidelines or legislative clarification regarding the factors that Local Governments may consider when setting rates based on the demands placed on infrastructure and service delivery by the resource and energy sectors, which may also involve the requirement to publish resource license volumes for Local Government consideration in rate setting (as an improved measure over the number of employees). Issuance of rateable property valuations when exploration permits are issued.	Appropriate infrastructure funding commitments in regions heavily impacted by resources sector activity (e.g. upgrades to community infrastructure, roads, airports, etc.).	Assistance in relation to guidelines for optimal rating structures for Resources Local Governments.

Financial Challenge: 9. Devolution of responsibilities to Local Government, including the need to fill gaps in service provision from other levels of Government and the private sector (given Local Government is essentially the 'service provider of last resort').

Indigenous	Rural/Remote	Rural/Regional	Resources	Coastal	SEQ
Significant	Significant	Significant	Significant	Significant	Significant

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Investigate the financial sustainability implications of providing additional services and higher service levels for non-core activities before committing capital and/or operational funds.	Ensure appropriate community service provision in rural, remote and Indigenous communities to reduce the financial burden placed on Local Governments as the 'service provider of last resort' for services that are the responsibility of other levels of Government (or the private sector). No further devolution of responsibilities, roles and functions to Local Governments without associating financial compensation (as per the *Partners in Government Agreement*). Explore alternative options for the delivery of government services with greater utilisation of local providers.	Ensure appropriate community service provision in rural, remote and Indigenous communities to reduce the financial burden placed on Local Governments as the 'service provider of last resort' for services that are the responsibility of other levels of Government (or the private sector). Explore alternative options for the delivery of government services with greater utilisation of local providers.	Advocacy to ensure no further devolution of responsibilities, roles and functions to Local Governments without associated financial compensation (as per the *Partners in Government Agreement*).

Financial Challenge: 10. Impact of natural disasters and climate change on operations and financial sustainability.

Indigenous	Rural/Remote	Rural/Regional	Resources	Coastal	SEQ
Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Appropriately consider natural disasters and climate change in infrastructure planning and risk management.	Appropriately consider natural disasters and climate change in infrastructure planning and risk management. Provision of appropriate capital funding for natural disaster recovery and mitigation works.	Appropriately consider natural disasters and climate change in infrastructure planning and risk management. Provision of appropriate capital funding for natural disaster recovery and mitigation works.	Assistance to Local Governments on their responsibilities in adapting infrastructure planning and risk management to meet ongoing service obligations in light of natural disasters and climate change.

7.3.3 Resourcing Challenges

The following tables state the resourcing challenges from section 6.2.1, duplicate the impact assessments for each council segment from section 6.2.2 and present actions for each stakeholder to help mitigate or overcome the identified challenges.

Resourcing Challenge: 1. Difficulty in attracting and retaining appropriately skilled employees.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Significant	Significant	Moderate	Significant	Moderate	Minor

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Resource sharing at the regional level for skilled/technical positions. Workforce strategies to better manage and build capability of the local workforce, and assist in the attraction and retention of professional and skilled technical employees. Investigate strategies and partnerships to improve affordable housing.	Provision of appropriate funding to ensure liveable communities exist across Queensland with appropriate access to essential infrastructure and community services at an affordable cost. Explore long-term strategies to improve skill levels of local people to fill local, State and Commonwealth jobs.	Provision of appropriate funding to ensure liveable communities exist across Queensland with appropriate access to essential infrastructure and community services at an affordable cost. Consideration of further tax incentives to attract skilled workers to rural/remote areas. Explore long-term strategies to improve skill levels of local people to fill local, State and Commonwealth jobs.	Assist to remove any barriers associated with Local Governments working collaboratively with each other to enhance economies of scale and scope. Promote Local Government as an employer of choice.

Resourcing Challenge: 2. Compliance burden and a one size fits all approach to regulation, reporting and infrastructure standards.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Significant	Significant	Moderate	Significant	Moderate	Minor

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Resource sharing at the regional level for compliance functions. Consider consolidation of front office functions (e.g. customer services) and back office functions (e.g. payroll, ICT, information security, compliance and reporting) at state-wide and regional levels and with councils that have similar service areas, to enhance economies of scale and scope and reduce system requirements (where considered cost effective and beneficial for local communities). Adoption of a 'Centre for Excellence' approach at the ROC level for asset management and specialist technical expertise for major infrastructure and community service functions (e.g. water, sewerage, waste, roads). Improvement in procurement approaches through the greater utilisation of joint procurement contracts (i.e. leveraging off region-wide and State-wide partnerships).	Provide appropriate base level funding to ensure all Local Governments are able to meet compliance requirements. Further streamline Local Government compliance and reporting requirements. Fit for purpose approach to infrastructure service standards and policy making. Appropriate consultation (and review/response timelines) for new/revised legislation impacting Local Government.	Provide appropriate base level funding to ensure all Local Governments are able to meet compliance requirements. Appropriate consultation (and review/response timelines) for new/revised legislation impacting Local Government. Increased reliance on advice from elected local leaders on any future investments in communities.	Assistance with best practice guidelines and toolkits to help meet various compliance requirements. Partner with agencies to review reporting requirements and lobby to improve where possible. Partner with agencies to challenge service and environmental standards (where practicable), and to identify the changes in regulation that have the potential to significantly reduce the growing cost base of Local Governments. Assist to remove any barriers associated with Local Governments working collaboratively with each other to enhance economies of scale and scope.

Resourcing Challenge: 3. Lack of economies of scale for management, administration and technical support costs.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Significant	Significant	Minor	Significant	Minor	Negligible

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Resource sharing at the regional level for management, administration and technical functions. Consider consolidation of front office functions (e.g. customer services) and back office functions (e.g. payroll, ICT, information security, compliance and reporting) at state-wide and regional levels and with Councils that have similar service areas, to enhance economies of scale and scope and reduce system requirements (where considered cost effective and beneficial for local communities).. Adoption of a 'Centre for Excellence' approach at the ROC level for asset management and specialist technical expertise for major infrastructure and community service functions (e.g. water, sewerage, waste, roads).	Provide appropriate base level funding to ensure all Local Governments are able to meet administration and compliance requirements.	Provide appropriate base level funding to ensure all Local Governments are able to meet administration and compliance requirements.	Assistance with best practice guidelines and toolkits to help meet administration and compliance requirements. Assist to remove any barriers associated with Local Governments working collaboratively with each other to enhance economies of scale and scope. Promote LGAQ's information and on-site support services e.g. Total Solutions – business, workforce, training and performance solutions including asset management; Resolute IT; Propel Partnerships and Local Buy. Investigate further opportunities for alternative business models and support services for Local Government, including international best practice models.

Resourcing Challenge: 4. Commitment to long-term financial sustainability and asset management planning.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Significant	Significant	Significant	Significant	Moderate	Moderate

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Focus budget development, key decision making and reporting on long-term financial sustainability outcomes. Commit resources (either local or shared) to improve asset management planning and integrate outcomes into budgeting and financial forecasting processes. Greater commitment towards priority funding for appropriate asset renewal and replacement. Fully investigate alternative means of service delivery and undertake appropriate business case assessments (including full recognition of lifecycle costs) before investing in the replacement of existing assets and the addition of new assets. Invest in training and capacity building initiatives for elected members, focussing on improving financial / business acumen skills.	DLGCRR to work with LGAQ to effectively utilise collected time series data on an ongoing basis to identify financial sustainability trends and issues by Local Government segment and in aggregate.	Provide DLGCRR and LGAQ with access to Local Government data analysis and reporting on individual Local Governments and aggregated Local Government sectors to avoid potential duplication of effort in monitoring financial sustainability and in identifying trends that may threaten financial sustainability.	Assistance with best practice guidelines and toolkits for financial sustainability and asset management planning. Provision of assistance and training in relation to financial sustainability interpretation and implementation. Promote LGAQ's information and on-site support services e.g. Total Solutions – business, workforce, training and performance solutions including asset management; Resolute IT; Propel Partnerships and Local Buy. Investigate further opportunities for alternative business models and support services for Local Government, including international best practice models. Work with DLGCRR to effectively utilise collected time series data on an ongoing basis to identify financial sustainability trends by Local Government segment and in aggregate.

Resourcing Challenge: 5. Risk management and internal audit procedures.					
Indigenous	**Rural/Remote**	**Rural/Regional**	**Resources**	**Coastal**	**SEQ**
Moderate	Moderate	Moderate	Moderate	Minor	Minor

Local Government Actions	Queensland Government Actions	Commonwealth Government Actions	LGAQ Actions
Resource sharing at the regional level for risk management and audit functions. Adoption of a 'Centre for Excellence' approach at the ROC level for risk management and audit expertise.	Provide appropriate base level funding to ensure all Local Governments are able to meet risk management and internal audit procedure requirements.	Provide appropriate base level funding to ensure all Local Governments are able to meet risk management and internal audit procedure requirements.	Assistance with best practice guidelines and toolkits to help meet risk management and audit requirements. Assist to remove any barriers associated with Local Governments working collaboratively with each other to enhance economies of scale and scope.

7.4 Strategies & Policy Actions by Stakeholder

The recommended actions in the tables above have been have been grouped below into broad strategies and policies by stakeholder for ease of reference.

7.4.1 Local Government

7.4.1.1 Broad Strategies for Local Government

Broad strategies for Local Government include:

1. Challenge the status quo and focus on providing value for money regarding the costs that Local Governments can control, e.g. labour, materials and services procurement, selected service levels (and manage community expectations) and capital works programs.
2. Focus budget development, key decision-making and reporting on long-term financial sustainability outcomes.
3. Commit resources (either local or shared) to improve asset management planning and integrate outcomes into budgeting and financial forecasting processes.
4. Greater commitment towards priority funding for appropriate asset renewal and replacement.
5. Fully review service levels (and manage community expectations) and investigate alternative means of service delivery and undertake appropriate business case assessments (including full recognition of lifecycle costs) before investing in the replacement of existing assets, or the addition of new assets.
6. Commit to principles of asset management in ensuring that existing infrastructure can be maintained before committing to building new infrastructure.
7. Actively seek cost efficiencies and productivity opportunities across all areas of operation.
8. Ensure infrastructure charges are levied on an appropriate, timely basis (subject to legislated caps and other restrictions).
9. Investigate the financial sustainability implications of providing additional services and higher service levels for non-core activities before committing capital or operational funds.
10. Adoption of a 'Centre for Excellence' approach at the ROC level for asset management, risk management and specialist technical expertise for major infrastructure and community service functions (e.g. water, sewerage, waste, roads).
11. Consider the consolidation of front office functions (e.g. customer services) and back office functions (e.g. payroll, ICT, information security, compliance and reporting) at state-wide and regional levels and with Local Governments that have similar service areas, to enhance economies of scale and scope and reduce systems requirements (where considered cost effective and beneficial to local communities).
12. Improvements in procurement approaches through the greater utilisation of joint procurement contracts (i.e. leveraging off region-wide and State-wide partnerships).
13. Seriously evaluate alternative models of service delivery (e.g. Local Buy, LGM, LGW) through state-wide and regional collaboration and resource sharing opportunities, including the ability to leverage off existing arrangements (e.g. ROCs, RRTGs, LGIS, Propel Partnerships).
14. Pro-actively manage revenue collection ensuring rates, charges and/or rents are pursued in line with good business practice.
15. Ensure an optimal rating structure exists, including the review of rating levels and capacity to increase rates considering household income and economic activity ratio benchmarks.
16. Adopt a user pays pricing approach to utility services (where possible).

17. Appropriately consider natural disasters and climate change in infrastructure planning and risk management.
18. Invest in training and capacity building initiatives for elected members, focussing on improving financial and business acumen skills.

7.4.1.2 Council Segment Focussed Strategies for Local Government

Indigenous Segment

Specific strategies for the Indigenous segment (in addition to the broad strategies) include:

1. Resource sharing at the regional level (for skilled/technical positions and compliance functions such as asset valuation, asset management planning and risk management and internal controls) and procurement partnerships to help address resourcing issues.
2. Workforce strategies to better manage and build capability of the local workforce.
3. Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible).
4. Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).

Rural/Remote Segment

Specific strategies for the Rural/Remote segment (in addition to the broad strategies) include:

1. Evaluate scope to increase rates (with a relatively low rating effort as a proportion of average household income, but a relatively high rating effort as a proportion of GRP).
2. Resource sharing at the regional level (for skilled/technical positions and compliance functions such as asset valuation, asset management planning and risk management and internal controls) and procurement partnerships to help address resourcing issues.
3. Workforce strategies to assist in the attraction and retention of professional and skilled technical employees.
4. Regional economic development initiatives to help diversify local economies.
5. Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible).
6. Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).

Rural/Regional Segment

Specific strategies for the Rural/Regional segment (in addition to the broad strategies) include:

1. Resource sharing at the regional level (primarily for skilled/technical positions) and procurement partnerships to help address resourcing issues.
2. Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible).
3. Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).

Resources Segment

Specific strategies for the Resources segment (in addition to the broad strategies) include:

1. Ensure rating levels for the resource sector adequately reflect demands placed on infrastructure and service delivery (noting that there has already been some rating policy amendments made in recent years).
2. Business case and risk assessment prior to major investments in infrastructure and other assets to cater for resource sector demands and needs.
3. Improved income security via appropriate development contributions from the resource sector (subject to legislated caps and other restrictions).
4. Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* (2012), e.g. partnership with the resource sector in the provision of infrastructure and service delivery (i.e. contributions for directly impacted infrastructure such as airports and roads).
5. Evaluate the scope to increase rates for other ratepayers (given a relatively low rating effort as a proportion of average household income), although noting the wide variation in socio-economic profiles for those employed in mining and related sectors versus other sectors.
6. Resource sharing at the regional level (for skilled/technical positions and compliance functions such as asset valuation, asset management planning and risk management and internal controls) and procurement partnerships to help address resourcing issues.
7. Workforce strategies to assist in the attraction and retention of professional and skilled technical employees.
8. Investigate strategies and partnerships to improve affordable housing for those outside of the resource sector.
9. Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible).
10. Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).

Coastal Segment

Specific strategies for the Coastal segment (in addition to the broad strategies) include:

1. Monitor the ongoing financial sustainability and debt capacity impacts of facilitating growth and servicing new development areas.
2. Introduce strategies to move towards consistent operating surpluses to pay down debt (although noting the relatively high rating effort already in place as a proportion of both household income and economic activity).
3. Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* (2012), e.g. opening up local infrastructure projects to institutional finance using infrastructure bonds with concessional tax arrangements for investors and other instruments available to higher tiers of government to create the scale of borrowing that will attract investors to local infrastructure projects.
4. Seek out long-term funding arrangements for contract works to increase certainty in resourcing requirements (where possible).
5. Mitigate against any future reduction or removal of contract works by increasing the flexibility of associated resources and costs (where possible).

SEQ Segment

Specific strategies for the SEQ segment (in addition to the broad strategies) include:

1. Monitor the ongoing financial sustainability and debt capacity impacts of facilitating growth and servicing new development areas.
2. Introduce strategies to move towards consistent operating surpluses to pay down debt.
3. Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* (2012), e.g. opening up local infrastructure projects to institutional finance using infrastructure bonds with concessional tax arrangements for investors and other instruments available to higher tiers of government to create the scale of borrowing that will attract investors to local infrastructure projects.

7.4.2 Queensland Government

Broad strategies for the Queensland Government include:

1. DLGCRR to work with LGAQ to effectively utilise collected time series data on an ongoing basis to identify financial sustainability trends and issues by Local Government segment and in aggregate.
2. Provision of longer-term capital and operational funding commitments to support Local Governments in their ability to more effectively plan and monitor financial sustainability outcomes, as well as assisting in the provision of more reliable 10-year financial forecasts as required by State legislation.
3. Utilisation of an allocative model for funding commitments (as opposed to a competitive bid from a nominal funding pool) to provide certainty and stability in financial sustainability outcomes, in addition to enabling Local Governments to take advantage of scheduling, procurement and other efficiencies.
4. The following commitments should be made to promote financially sustainable outcomes across the Local Government sector:
    - Appropriate operational funding to ensure all Local Governments, irrespective of size and location, are able to meet base governance, management, administration and compliance functions.
    - Appropriate capital and operational funding to ensure liveable communities exist across Queensland with appropriate access to essential infrastructure and community services at an affordable cost.
    - Appropriate capital funding to facilitate major growth infrastructure in growth areas.
    - Appropriate capital funding for major infrastructure maintenance, renewal and replacement in regional/remote areas.
    - Appropriate infrastructure funding commitments in regions heavily impacted by resource sector activity (e.g. Royalties for Regions funding for upgrades to community infrastructure, roads, airports, etc.).
    - Appropriate capital funding for natural disaster recovery and mitigation works.
5. Reinstatement of the capital subsidy scheme for essential infrastructure demonstrating a high level of community benefit.
6. Greater long-term certainty and stability in workflow for contract works (e.g. Transport and Main Roads), given the impacts on Local Government resourcing and administration of lumpy and uncertain works programs.
7. Ensure appropriate community service provision in rural, remote and Indigenous communities to reduce the financial burden placed on Local Governments as the 'service provider of last resort' for services that are the responsibility of other levels of Government (or the private sector).
8. Consider the delegation of additional Queensland Government service provision to Local Governments servicing rural/remote communities on a full cost recovery basis.

9. Facilitate the establishment of a rate base for Indigenous areas via private land ownership and valuation (where possible)[17].
10. Further streamline Local Government compliance and reporting requirements.
11. Fit for purpose approach to infrastructure service standards and policy making.
12. In accordance with the *Partners in Government Agreement* between LGAQ and the State Government, undertake appropriate consultation for new/revised legislation impacting Local Government (including reasonable timelines that allow Local Governments to properly consider matters and make decisions).
13. Issuance of rateable property valuations when exploration permits are issued.
14. Guidelines or legislative clarification regarding the factors that Local Governments may consider when setting rates based on the demands placed on infrastructure and service delivery by the resources and energy sectors[18], which may also involve the requirement to publish resource license volumes for Local Government consideration in rate setting (as an improved measure over the number of employees).
15. Removal of the cap on infrastructure charges to ensure that such charges are able to be set on the basis of the actual cost of trunk infrastructure provision.
16. Ensuring affected Local Governments are included in infrastructure agreement negotiations with developers in priority development areas.
17. Consideration of alternative financing arrangements, including consideration of those identified in the Australian Government's discussion paper *Strong foundations for sustainable local infrastructure* (2012).
18. Enable Local Governments to declare and not fund the depreciation of grant-funded portions of assets and assets that will not be replaced unless grant funded.
19. Allow renewals annuity in lieu of straight line depreciation in determining financial sustainability indicators (e.g. operating surplus) for relevant asset classes that are not revenue generating in nature.
20. Consider a more appropriate treatment of depreciation on contributed assets that does not inappropriately impact the operating position (and financial sustainability ratios) on a year-to-year basis.
21. No further devolution of responsibilities, roles and functions to Local Governments without associating financial compensation (as per the *Partners in Government Agreement*).
22. Appropriately consider natural disasters and climate change in infrastructure planning and risk management.

7.4.3 Commonwealth Government

Broad strategies for the Commonwealth Government include:

1. Provision of longer-term capital and operational funding commitments to support Local Governments in their ability to more effectively plan and monitor financial sustainability outcomes, as well as assisting in the provision of more reliable 10-year financial forecasts as required by State legislation.
2. Utilisation of an allocative model for funding commitments (as opposed to a competitive bid from a nominal funding pool) to provide certainty and stability in financial sustainability outcomes, in addition to enabling Local Governments to take advantage of scheduling, procurement and other efficiencies.
3. The following commitments should be made to promote financially sustainable outcomes across the Local Government sector:

[17] A recent media article (Wardill, 2012) suggested that the Queensland Government is "*developing a plan to sell some social housing to long-term tenants, introducing home ownership for the first time in many communities*".

[18] Xstrata v Whitsunday Regional Council cited in Fynes-Clinton (2010).

  - Appropriate operational funding to ensure all Local Governments, irrespective of size and location, are able to meet base governance, management, administration and compliance functions.
  - Appropriate capital and operational funding to ensure liveable communities exist across Queensland with appropriate access to essential infrastructure and community services at an affordable cost.
  - Appropriate capital funding to facilitate major growth infrastructure in growth areas.
  - Appropriate capital funding for major infrastructure maintenance, renewal and replacement in regional/remote areas.
  - Appropriate infrastructure funding commitments in regions heavily impacted by resources sector activity (e.g. upgrades to community infrastructure, roads, airports, etc.).
  - Appropriate capital funding for natural disaster recovery and mitigation works.

4. Constitutional recognition of Local Government and provision of direct funding linked to taxation revenue.
5. Consideration of further tax incentives to attract skilled workers to rural/remote areas.
6. Appropriate consultation for new/revised legislation impacting Local Government, including reasonable timelines that allow Local Governments to properly consider matters, make decisions and provide advice to the State Government.
7. Increased reliance on advice from elected local leaders on any future investments in communities.
8. Ensure appropriate community service provision in rural, remote and Indigenous communities to reduce the financial burden placed on Local Governments as the 'service provider of last resort' for services that are the responsibility of other levels of Government (or the private sector).
9. Provide DLGCRR and LGAQ with access to Local Government data analysis and reporting on individual Local Governments and aggregated Local Government sectors to avoid potential duplication of effort in monitoring financial sustainability and in identifying trends that may threaten financial sustainability.
10. Recreate a Community Development Employment Projects (CDEP) type process and funding (with better controls) to give Indigenous Local Governments more flexible resources and the ability to harness community resources.
11. Appropriately consider natural disasters and climate change in infrastructure planning and risk management.

7.4.4 Local Government Association of Queensland

LGAQ should provide a base level of support to Local Governments in relation to the identified broad and segment-focussed policy recommendations, in addition to advocacy to further the identified potential Queensland Government and Commonwealth Government policy recommendations. In addition, the following actions are specifically noted:

1. Partner with agencies to challenge service and environmental standards (where practicable), and to identify the changes in regulation that have the potential to significantly reduce the growing cost base of Local Governments.
2. Partner with agencies to review reporting requirements and lobby to improve where possible.
3. Assistance in relation to guidelines for optimal rating structures and best practice industry benchmarks regarding rating levels.
4. Work with DLGCRR to effectively utilise collected time series data on an ongoing basis to identify financial sustainability trends by Local Government segment and in aggregate.

5. Advocacy to ensure no further devolution of responsibilities, roles and functions to Local Governments without associated financial compensation (as per the *Partners in Government Agreement*).
6. Promote Local Government as an employer of choice.
7. Provision of assistance and training in relation to financial sustainability interpretation and implementation.
8. Provision of best practice guides and toolkits in specific areas of concern for Local Governments (financial sustainability, asset management, risk management, audit procedures, and other targeted areas such as productivity assessment, waste and recycling, carbon emissions and credits, capital evaluation, etc.).
9. Assist to remove any barriers associated with Local Governments working collaboratively with each other to enhance economies of scale and scope.
10. Promote LGAQ's information and on-site support services (e.g. Total Solutions – business, workforce, training and performance solutions including asset management, Resolute IT, Propel Partnerships and Local Buy).
11. Investigate further opportunities for alternative business models and support services for Local Government, including international best practice models.
12. Lobbying to ensure that the Queensland Government is aware of the importance of contract works to the financial sustainability of Local Governments, particularly those in the Rural/Remote segment.
13. Assistance to Local Governments on their responsibilities in adapting infrastructure planning and risk management to meet ongoing service obligations in light of natural disasters and climate change.

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Appendix A: Detailed Financial Analysis

This appendix contains a detailed analysis of Local Government financial data to assist in determining all possible factors impacting financial sustainability of Queensland Local Government. It provides the detailed background analysis for chapter 5 and covers the following:

- Financial capital.
- Infrastructure capital.
- Revenue composition.
- Expenditure composition.
- Human resources.
- Service levels.

Financial Capital

This section undertakes a comparative analysis of the financial sustainability outcomes for each council segment based on unpublished QTC and DLGCRR datasets, in addition to identifying any trends in indicators over time.

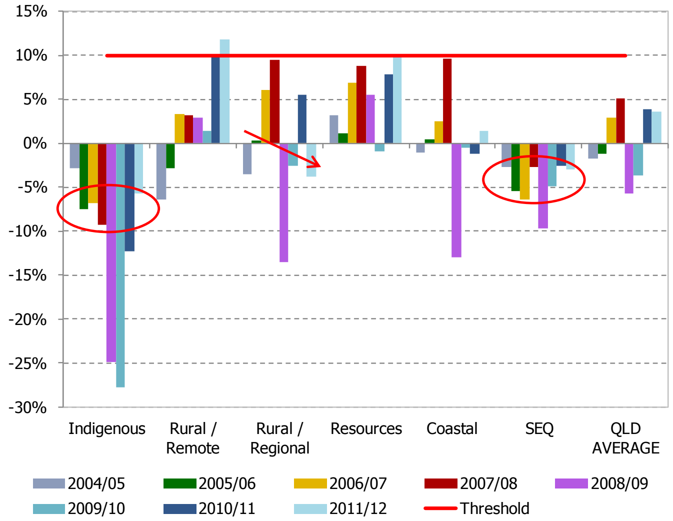
Operating Result

A positive operating result (benchmark 0-10%) indicates that surplus revenue is available to fund new capital expenditure, or be applied to offset past or future deficits. By contrast, persistent operating deficits have the potential to result in intergenerational inequity and will ultimately threaten financial sustainability.

Figure A.7.1 outlines the operating surplus/(deficit) ratio for each council segment between 2004/05 and 2011/12, based on the average of the ratios within each segment. The Indigenous segment has been experiencing consistent, significant operating deficits and the SEQ segment has been experiencing consistent, moderate operating deficits. The Rural/Regional and Coastal segments have been experiencing mixed results, with increasing incidences and levels of operating deficits.

Figure A.7.2 shows that despite the Rural/Remote and Resources segments featuring an operating surplus on average, around one third of each segment still feature an operating deficit that requires addressing. Figure A.7.2 also shows that just less than 50% of all Queensland Local Governments (of the 63 where data was available) recorded an operating deficit in 2011/12. It is difficult to determine any clear outcomes regarding performance prior to and following Local Government reforms.

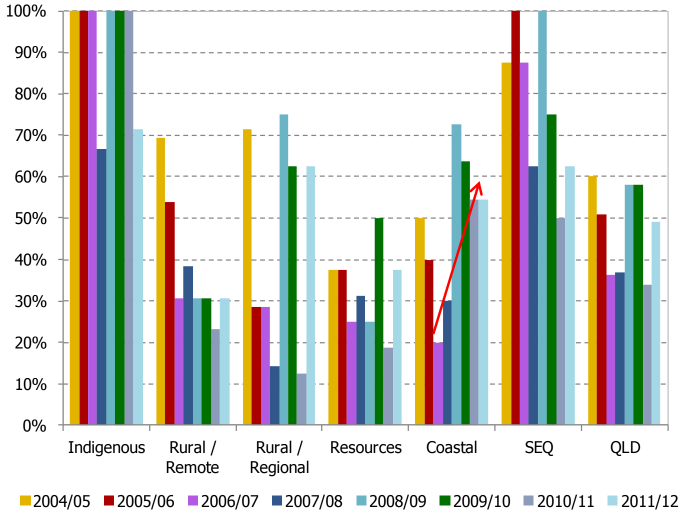
Figure A.7.1: Average Operating Surplus / (Deficit) Ratio, 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- The unstable outcomes for 2007/08 and 2008/09 are likely due to the different reporting periods adopted during the Local Government reform process (i.e. 8.5 month year in 2007/08 and 15.5 month year in 2008/09) and should be discounted or averaged.
- On average, there has been a slight improvement in recent years across the board, although different council segments have had different experiences.
- On average, the Indigenous and SEQ segments have been experiencing persistent operating deficits.
- The performance of the Coastal and Rural/Regional segments has been mixed, with a downward trend noticeable for the Rural/Regional segment.
- The Rural/Remote and Resources segments feature a positive ratio on average, helping to drive up the State average.

Figure A.7.2: Proportion of Local Governments with an Operating Deficit, 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

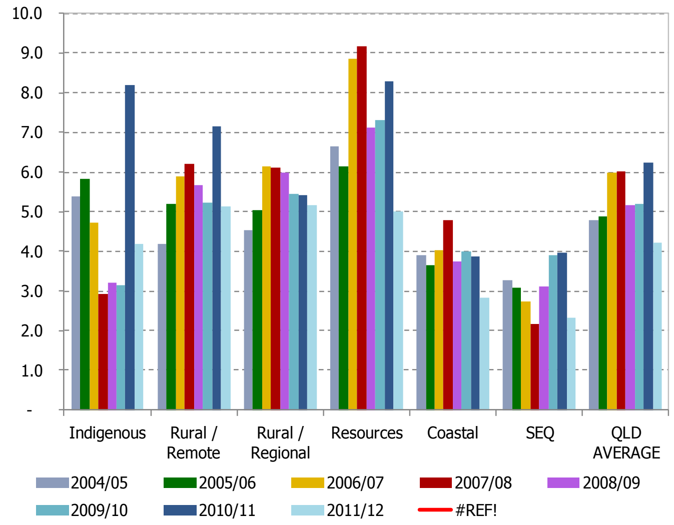
- The majority of Indigenous Local Governments record a persistent operating deficit.
- A large proportion of SEQ Local Governments feature a persistent operating deficit, although it would appear that there has been some improvement in recent years.
- An increasing number of Coastal Local Governments are recording an operating deficit, with more than half recording a deficit in 2011/12.
- More than 60% of Rural/Regional Local Governments recorded an operating deficit in three of the past four years.
- 30% of Rural/Remote Local Governments have recorded an operating deficit in recent years.
- There are mixed results within the Resources segment, with 20%-50% recording an operating deficit over the past few years.

Liquidity

The working capital ratio measures the extent to which a Local Government has liquid assets available to meet short term financial obligations. A ratio of greater than one means there are more cash and liquid assets than short-term liabilities, while a ratio of less than one indicates liquid assets are not available to cover current liabilities.

Figure A.7.3 shows that all segments have a working capital ratio in excess of one, and therefore Queensland Local Governments do not appear to have a liquidity problem yet. The SEQ and Coastal segments feature the lowest working capital ratios.

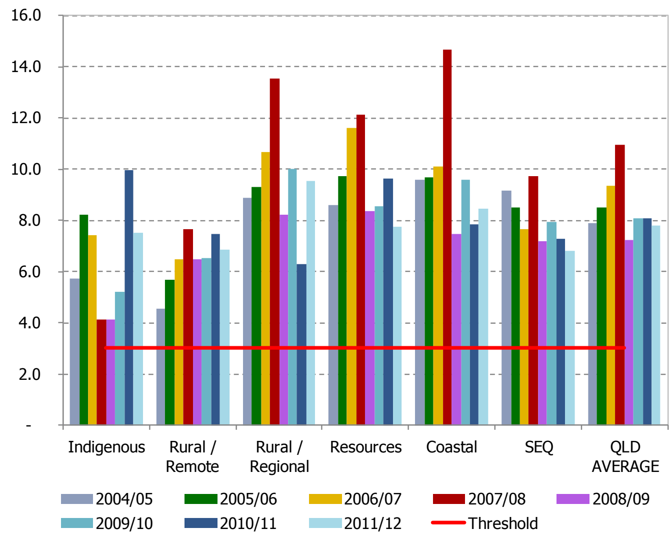
Figure A.7.3: Working Capital Ratio, 2004/05-2011/12



- All council segments appear to have sufficient working capital to fund operations.
- The Resources, Rural/Remote and Rural/Regional segments feature working capital ratios generally in excess of 4 (on average).
- The SEQ and Coastal segments feature the lowest working capital ratios.

Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

Figure A.7.4: Months Cash to Fund Operating Expenditure, 2004/05-2011/12



- Cash holding variability between 2007/08 and 2008/09 reflects the Local Government reform process (i.e. 8.5 month year in 2007/08 and 15.5 month year in 2008/09).
- On average, all council segments appear to have sufficient cash holdings to fund ongoing operations.

Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

Debt

Figure A.7.5, Figure A.7.6, and Figure A.7.7 outline the aggregate debt holdings, debt per capita and debt as a proportion of GRP for each council segment, respectively. Between 2007/08 and 2011/12, total Local Government debt (for those Local Governments where data was available) is estimated to have more than doubled from $2.4 billion to $5.4 billion, with this trend forecast to continue.

In 2011/12, 93% of debt was held by the SEQ and Coastal segments, and debt levels for these two segments have been on a steep incline in recent years, reflective of the financial demands imposed by population growth and the need for Local Governments to fund upfront infrastructure. The removal of water and sewerage capital subsidies, combined with the capping of infrastructure charges, has definitely contributed to the increasing debt burden faced by Local Governments in growth areas.

Figure A.7.8 and Figure A.7.9 show the net financial liabilities ratio for each segment based on the average of all of the ratios recorded within each council segment and the aggregated financial position for each council segment. A ratio of greater than 60% indicates higher than recommended debt levels that will potentially limit capacity for future borrowings and may lead to issues in servicing current debt. A few SEQ and

Coastal Local Governments are already in breach of this threshold, with more likely to join them in the next few years if borrowing levels continue on their current trend.

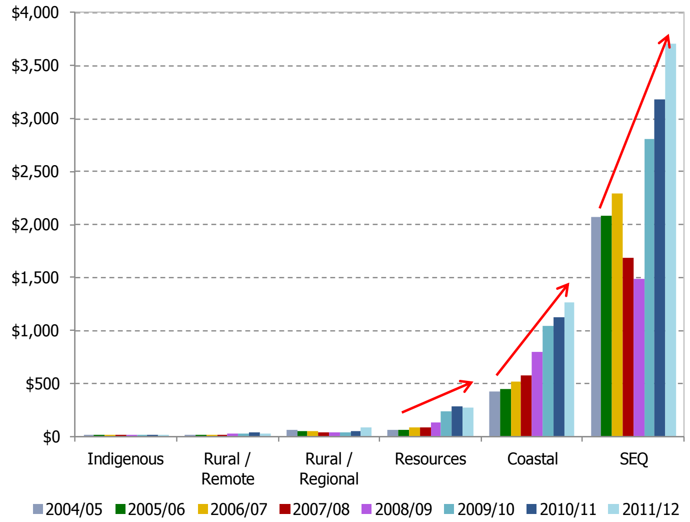
Persistent breaching of the net financial liabilities ratio will create funding issues through the medium to long term that must be addressed immediately. This risk exists despite the compensation payments made for bulk water assets by the Queensland Government having temporarily reduced debt holdings for the SEQ council segment a few years ago.

The Resources segment is also experiencing a noticeably significant increase in debt holdings, with resources sector projects placing very high peak demands on infrastructure necessitating additional capital investments.

Overall, it is evident from the figures that while there have historically been manageable debt levels for the overwhelming majority of Local Governments, growth pressures are placing significant pressure on future borrowing capacity for many Local Governments in the Resources, Coastal and SEQ segments.

Figure A.7.10 and Figure A.7.11 show the interest coverage ratio and own source revenue/debt cover ratio, respectively. These figures confirm the funding pressures are most significant in the SEQ and Coastal segments.

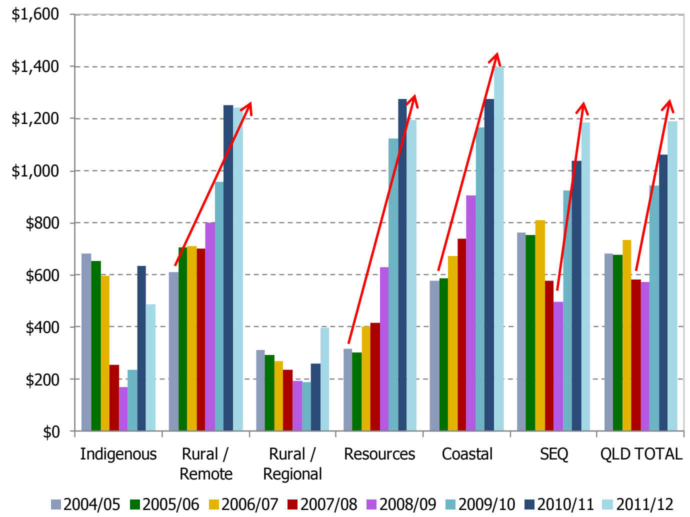
Figure A.7.5: Aggregate Debt Holdings ($ Million), 2004/05-2011/12



- Debt is being increasingly utilised by those Local Governments with growth pressures.
- In fact, debt levels are on a steep incline for both the Coastal and SEQ segments, reflective of the financial demands imposed by population growth and the need for upfront infrastructure.
- The reduction in debt in 2007/08 for the SEQ segment corresponds with the compensation payments made by the Queensland Government for bulk water assets.
- Even with these compensation payments, it is evident that the debt holdings for the SEQ segment are on a concerning trend.
- The Resources segment also has relatively fast growing aggregate debt holdings.

Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

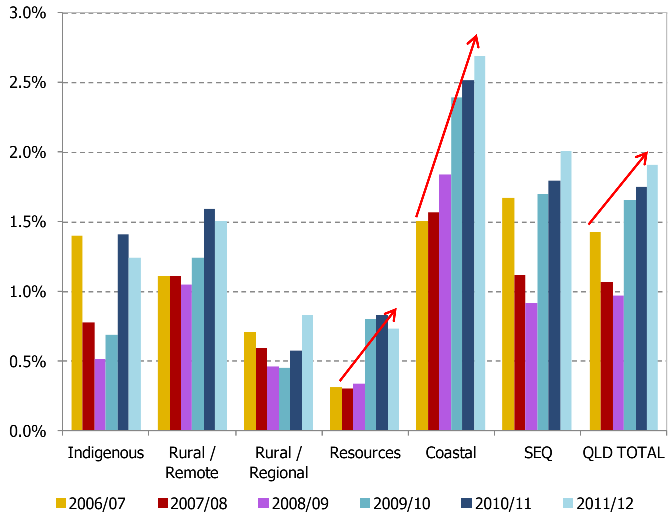
Figure A.7.6: Aggregate Debt Holdings per capita, 2004/05-2011/12



- Aggregate Local Government debt per capita across Queensland is well in excess of $1,000 and rising at a rapid rate having doubled in the past few years.
- Debt per capita levels have been growing at a concerning rate in recent history for the Resources, Coastal and SEQ segments, highlighting the pressure placed by population growth and resource sector projects on the ability for Local Governments to finance essential infrastructure provision.
- Debt per capita levels are also high in the Rural/Remote segment as a result of its lower population base, although the level of debt for that segment is presently relatively low (as shown above).

Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

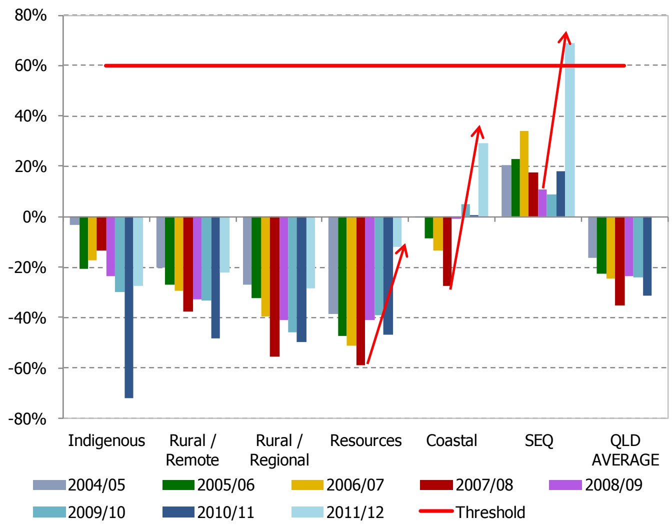
Figure A.7.7: Aggregate Debt Holdings as % of GRP, 2006/07-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- Debt levels relative to economic output are also on the rise, with steep inclines particularly noticeable for the Coastal and SEQ segments in recent years.
- Debt holdings as a percentage of GRP have also increased substantially for the Resources segment, doubling in the past few years (albeit from relatively low levels).

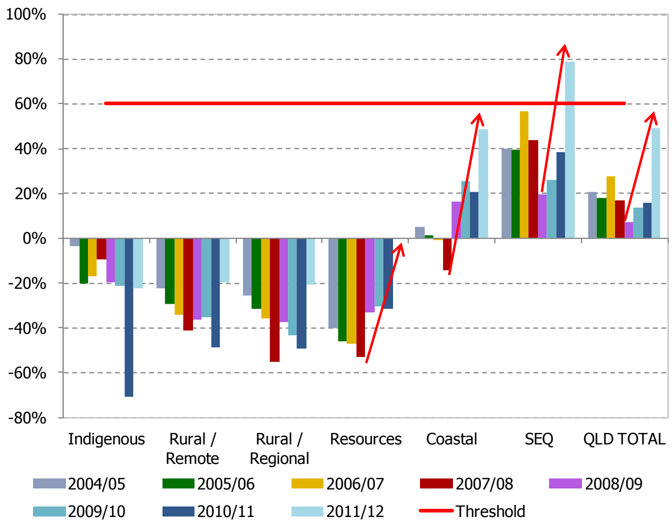
Figure A.7.8: Net Financial Liabilities Ratio (Average of Segment Outcomes), 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- All segments with the exception of the SEQ and Coastal segments have an average outcome suggesting current assets in excess of total liabilities (i.e. low debt levels).
- The SEQ and Coastal segments have a (concerning) increasing trend in the net financial liabilities ratio (after taking into account the impact of the debt repayments made as a result of the SEQ water reforms), a direct result of having to fund upfront infrastructure to service growth.
- It is likely that a growing number of Local Governments within these two segments will breach the 60% ratio in the next few years if borrowing levels continue to increase at the rate experienced in recent years.
- In 2011/12, there were two SEQ Local Governments and two Coastal Local Governments with a net financial liabilities ratio in excess of the 60% threshold.

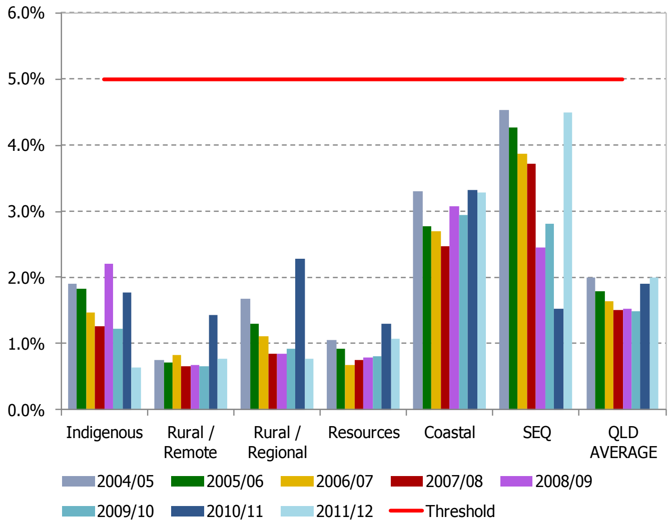
Figure A.7.9: Net Financial Liabilities Ratio (Aggregate Segment Outcomes), 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- In aggregate terms, the outcomes appear even direr, suggesting that there are a few large Local Governments with relatively high levels of debt.
- As per the above, it is likely that a growing number of Local Governments within the SEQ and Coastal segments will breach the 60% ratio in the next few years.

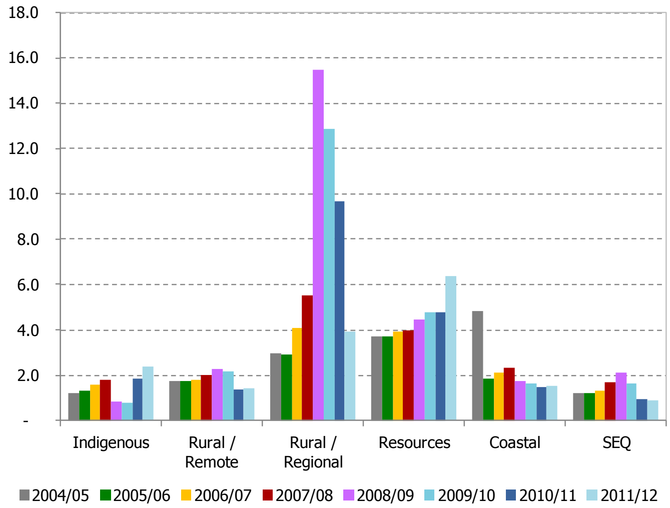
Figure A.7.10: Average Interest Coverage Ratio, 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- A ratio of less than 5% indicates that debt is able to be adequately serviced whereas a ratio of greater than 5% indicates it is less likely that debt is able to be adequately serviced and there may be limited capacity to service additional debt.
- All council segments feature an average interest coverage ratio within the desired target of 0%-5%.
- The SEQ and Coastal segments feature the highest average interest coverage ratios, in line with their relatively high (and increasing) debt levels.
- In 2011/12, there were three SEQ Local Governments and three Coastal Local Governments with an interest coverage ratio in excess of the 5% threshold.

Figure A.7.11: Average Own Source Revenue / Debt Cover Ratio, 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- The own source revenue/debt cover ratio shows the capacity to increase revenues under the control of the Local Government to fund borrowings.
- The SEQ and Coastal segments feature a low ratio given relatively high average debt levels, with the ratio deteriorating in recent years.
- The Rural/Remote and Indigenous segments, while featuring relatively low debt levels, record low ratios due to very low own source revenue, constrained potential to increase own-source revenue and a high reliance on external operational grant funding.
- The Resources segment has seen an improvement in the average ratio for the segment due to an increase in own source revenue, despite increasing debt holdings.
- The Rural/Regional segment also features a relatively high ratio, due to relatively low debt holdings, although there has been a

Infrastructure Capital

This section reviews the infrastructure capital provided and maintained by each council segment.

In Queensland Local Government, the need for appropriate asset management appears to be more acute than in many other jurisdictions given that Queensland Local Governments are much more asset intensive. In most other States, water and sewerage functions (which are long-term asset intensive) are run by State-owned boards or companies. Similarly, in most other countries, Local Governments have a wider range of functions which tend to be more operationally focussed, such as education and policing. The typical Local Government range of functions throughout the world is more like the Australian Capital Territory Government rather than reflective of the infrastructure provided and maintained by Queensland Local Governments.

The implication of this difference is that Queensland Local Government policy makers need to have a greater focus on the provision, maintenance and renewal of long-term infrastructure than is typical in other jurisdictions.

Value of the Asset Base

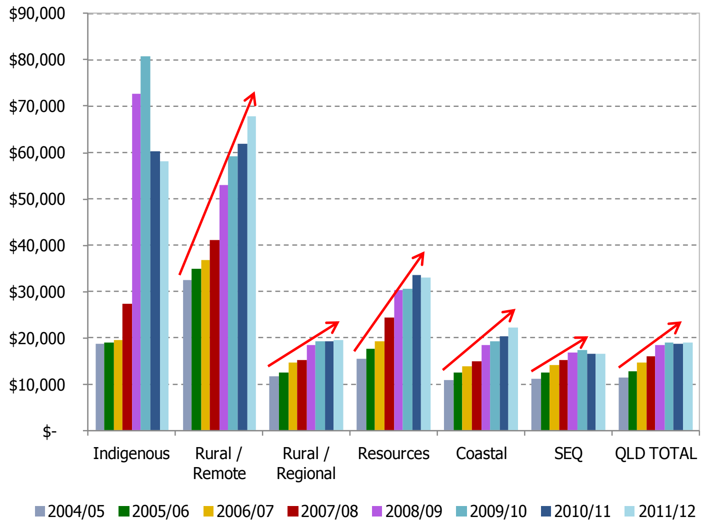
Figure A.7.12 and Figure A.7.13 outline the value of non-current assets per capita on an aggregate segment basis and an average ratio within segment basis, while Figure A.7.14 and Figure A.7.15 outline the value of non-current assets as a percentage of GRP on an aggregate segment basis and an average ratio within segment basis.

The Indigenous, Rural/Remote and Resources segments feature the highest per capita asset values due to their significantly lower population bases (lack of economies of scale) and geographic characteristics (length of roads, dispersion).

All segments feature an increasing asset base, with the asset value per capita indicator appearing to be on an unsustainable, increasing trend, particularly for the Rural/Remote and Resources segments. Clearly, an increasing asset base impacts the operating result for Local Governments through increased depreciation charges which is of particular concern to smaller Local Governments with a limited and stagnant rate base. The increasing asset base could also in part be a reflection of improved asset management (valuations, asset recognition), particularly for smaller Local Governments.

The SEQ segment (and to a lesser extent the Rural/Regional segment) dipped in 2010/11 as a result of water and sewerage assets across SEQ being transferred to external entities.

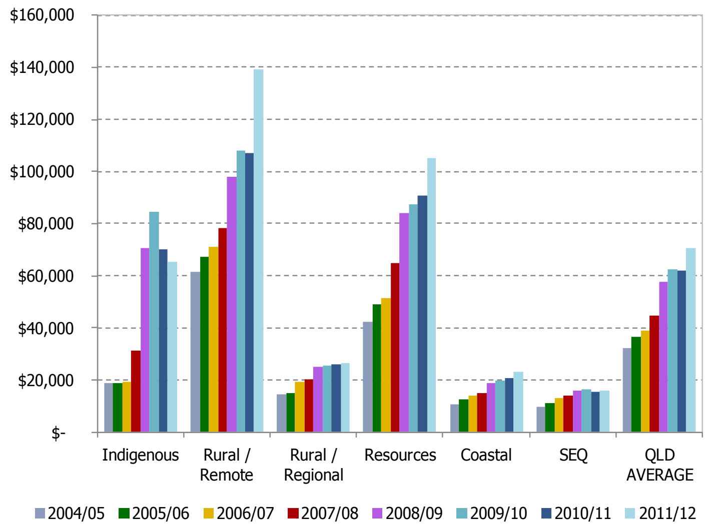
Figure A.7.12: WDV of Non-Current Assets per capita (Segment Aggregate), 2004/05-2011/12



- Asset values are increasing on an unsustainable basis across most, if not all, council segments.
- Increases are particularly significant for the Rural/Remote and Resources segments, which have a very limited rate base.
- The SEQ segment dipped in 2010/11 as a result of water and sewerage assets being transferred to external entities.
- Trends within the Indigenous segment are difficult to identify given the limited and changing sample.

Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

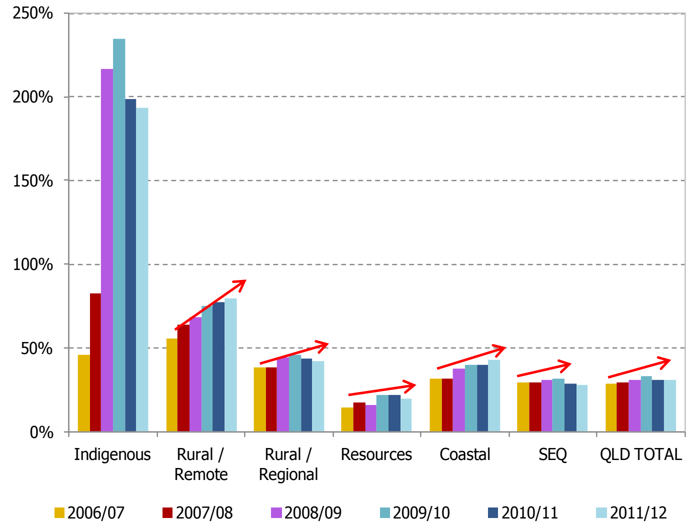
Figure A.7.13: WDV of Non-Current Assets per capita (Average within Segment), 2004/05-2011/12



- Looking at a straight average of all outcomes within each council segment rather than the aggregate (i.e. summed value) position, it is evident that the increases would appear even more significant for the Rural/Remote and Resources segments.
- Trends within the Indigenous segment are difficult to identify given the limited and changing sample.

Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

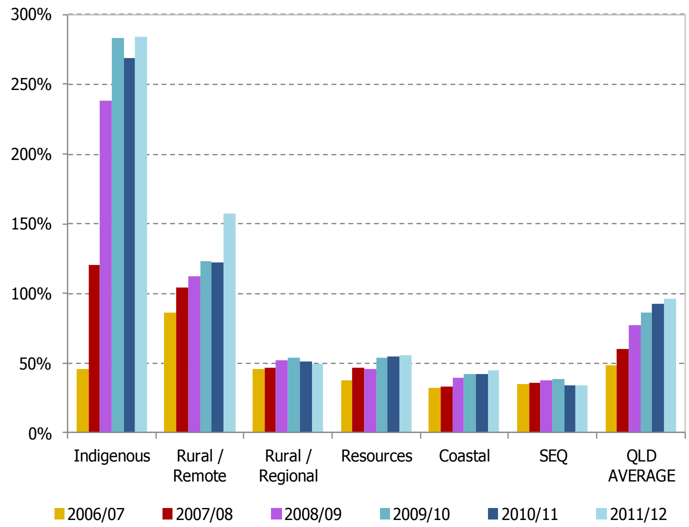
Figure A.7.14: WDV of Non-Current Assets as % GRP (Segment Aggregate), 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- Asset values are also increasing as a proportion of GRP, although to a lesser extent for the Resources segment than on a per capita basis.
- Trends within the Indigenous segment suggest a different order of magnitude when compared with other council segments due to particularly low GRP in these council areas.

Figure A.7.15: WDV of Non-Current Assets as % GRP (Average within Segment), 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- Looking at a straight average of all outcomes within each council segment rather than the aggregate (i.e. summed value) position, it is evident that the GRP ratio is much higher for the Rural/Remote and Resources segments.

Asset Management Practices

Table A.7.1 features a summary of the outcomes regarding the asset management practices of Queensland Local Governments in each council segment, comparing outcomes for 2010 with those of 2012 in relation to the existence of AMPs, current and desired levels of service, the regular updating of asset registers, and the appropriate incorporation of forward projections for required capital investments and related operating and maintenance cost implications into financial sustainability modelling.

The 2012 outcomes highlighted in amber in the table represent asset classes where less than 50% of Local Governments in each segment met the relevant asset management requirement. The 2012 outcomes in the table are also in different fonts, with red representing a deterioration in meeting the requirements from 2010, green representing an improvement and black representing no change.

From Table A.7.1, it is evident that:

- The Indigenous segment performs poorly in relation to most asset management practices, with an apparent deterioration from 2010 to 2012. In fact, the only reasonable area of compliance is the updating of the asset register at least on an annual basis.

- The Rural/Remote segment performs relatively well in relation to water and sewerage, but there is room for significant improvement across all other asset classes beyond the updating of the asset register at least on an annual basis. It is noted, however, that there has been a noticeable improvement in asset management practices from 2010 to 2012.
- The Rural/Regional segment appears to be performing at a level comparable to the Rural/Remote segment, albeit with asset management practices for roads and bridges being relatively good in addition to water and sewerage. Consistent with the outcomes for the Rural/Remote segment, there has been a noticeable improvement in asset management practices from 2010 to 2012.
- The Resources segment performs relatively well in relation to water, sewerage, roads and bridges, but there is room for significant improvement across most other asset classes beyond the updating of the asset register at least on an annual basis. Consistent with the outcomes for the Rural/Remote and Rural/Regional segments, there has been a noticeable improvement in asset management practices from 2010 to 2012.
- The Coastal segment performs relatively well in meeting the requirements for an AMP, the regular updating of asset registers and the incorporation of forward projections for required capital investments and related operating and maintenance cost implications into financial sustainability modelling. However, all asset classes are yet to have current and desired levels of services determined for the majority of Local Governments within the council segment.
- The SEQ segment features a relatively high level of meeting the requirements for an AMP, the regular updating of asset registers and the incorporation of forward projections for required capital investments and related operating and maintenance cost implications into financial sustainability modelling. However, many asset classes outside of water and sewerage, and waste management and roads to a lesser extent, are yet to have current and desired levels of services determined for the majority of Local Governments within the segment.

Overall, all Local Government segments have the capacity to significantly improve asset management practices, with the Indigenous segment requiring the most improvement and the SEQ segment requiring the least improvement.

Table A.7.2 outlines the proportion of relevant asset classes with greater than 50% of Local Governments within each segment featuring a yes (compliant) result to each desired asset management practice.

Table A.7.2 highlights those areas of least compliance for each Local Government segment on average across all asset classes. It is evident that the determination of appropriate current and desired levels of service is an issue for all Local Government segments across the majority of asset classes. The Indigenous, Rural/Remote, Rural/Regional and Resources segments also need to focus on preparing Asset Management Plans for the majority of asset classes, while the Indigenous, Rural/Remote and Rural/Regional segments also need to focus on incorporating forward projections for required capital investments and related operating and maintenance cost implications into financial sustainability modelling.

Obviously, those asset classes of highest value should be the primary focus and it appears that there is reasonable compliance for water, sewerage and roads at least across most council segments.

Table A.7.1: Proportion of Local Governments in Each Segment with a Yes (Compliant) Response to Selected Asset Management Requirements

Class	Adopted Primary Segment	Indigenous		Rural/Remote		Rural/Regional		Resources		Coastal		SEQ	
	Question	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
Buildings (Community)	Is an Asset Management Plan in place?	50%	20%	0%	40%	0%	43%	0%	33%	18%	80%	50%	100%
	Have current levels of service been determined?	50%	20%	33%	50%	0%	43%	29%	42%	9%	30%	63%	50%
	Have desired levels of service and future demand been determined?	50%	20%	33%	40%	0%	14%	14%	42%	9%	10%	63%	25%
	Is the Asset Register updated at least annually?	100%	80%	92%	100%	63%	100%	86%	100%	91%	70%	88%	75%
	Have forward projections of required capital and O&M been calculated?	50%	20%	33%	40%	38%	57%	43%	75%	82%	100%	75%	100%
Buildings (Corporate)	Is an Asset Management Plan in place?	50%	20%	0%	40%	0%	50%	0%	27%	18%	80%	50%	100%
	Have current levels of service been determined?	50%	20%	40%	50%	0%	33%	27%	36%	9%	30%	63%	50%
	Have desired levels of service and future demand been determined?	50%	20%	40%	40%	0%	0%	20%	36%	9%	10%	63%	25%
	Is the Asset Register updated at least annually?	100%	70%	90%	100%	63%	100%	87%	100%	91%	70%	75%	75%
	Have forward projections of required capital and O&M been calculated?	50%	10%	50%	60%	38%	50%	47%	73%	73%	80%	88%	100%
Beaches	Is an Asset Management Plan in place?	50%	33%					0%		13%	43%	50%	40%
	Have current levels of service been determined?	50%	33%					0%		13%	0%	50%	20%
	Have desired levels of service and future demand been determined?	50%	33%					0%		13%	0%	50%	0%
	Is the Asset Register updated at least annually?	100%	67%					50%		75%	43%	75%	60%
	Have forward projections of required capital and O&M been calculated?	50%	0%					100%		50%	71%	75%	40%
Bikeways	Is an Asset Management Plan in place?	100%	0%	0%	20%	0%	0%	0%	33%	30%	100%	38%	100%
	Have current levels of service been determined?	100%	0%	33%	20%	0%	33%	29%	67%	30%	50%	50%	38%
	Have desired levels of service and future demand been determined?	100%	0%	0%	20%	0%	0%	14%	33%	20%	0%	50%	13%
	Is the Asset Register updated at least annually?	100%	0%	67%	60%	67%	67%	57%	100%	100%	83%	100%	63%
	Have forward projections of required capital and O&M been calculated?	100%	0%	33%	20%	33%	33%	57%	33%	70%	83%	88%	88%
Bridges (timber and concrete)	Is an Asset Management Plan in place?	0%	17%	0%	14%	0%	43%	7%	30%	27%	80%	50%	100%
	Have current levels of service been determined?	0%	0%	29%	14%	29%	57%	33%	40%	27%	20%	50%	25%
	Have desired levels of service and future demand been determined?	0%	0%	29%	0%	14%	71%	27%	100%	18%	0%	50%	13%
	Is the Asset Register updated at least annually?	100%	67%	86%	100%	86%	100%	80%	100%	100%	70%	88%	63%
	Have forward projections of required capital and O&M been calculated?	0%	0%	29%	14%	57%	71%	40%	60%	91%	80%	75%	100%
Bus / Road Tunnels	Is an Asset Management Plan in place?					0%					0%	100%	0%
	Have current levels of service been determined?					0%					0%	100%	0%
	Have desired levels of service and future demand been determined?					0%					0%	100%	0%
	Is the Asset Register updated at least annually?					0%					0%	100%	100%
	Have forward projections of required capital and O&M been calculated?					0%					0%	100%	100%
Flood Mitigation Network	Is an Asset Management Plan in place?	0%		0%	0%	33%	0%	0%	0%	17%	60%	20%	50%
	Have current levels of service been determined?	0%		67%	25%	33%	50%	0%	0%	50%	40%	60%	17%
	Have desired levels of service and future demand been determined?	0%		67%	50%	33%	0%	0%	50%	33%	0%	20%	17%
	Is the Asset Register updated at least annually?	100%		100%	75%	0%	50%	100%	50%	100%	100%	100%	33%
	Have forward projections of required capital and O&M been calculated?	0%		33%	25%	67%	0%	50%	50%	67%	60%	80%	67%
Natural Reserves	Is an Asset Management Plan in place?	0%	33%	0%	33%	0%	0%	0%	0%	22%	50%	25%	63%
	Have current levels of service been determined?	0%	33%	0%	0%	0%	0%	13%	0%	22%	0%	38%	38%
	Have desired levels of service and future demand been determined?	0%	33%	0%	33%	0%	0%	13%	0%	11%	0%	50%	13%
	Is the Asset Register updated at least annually?	100%	67%	100%	67%	50%	100%	50%	100%	78%	83%	75%	75%
	Have forward projections of required capital and O&M been calculated?	0%	33%	50%	0%	0%	0%	38%	25%	33%	50%	63%	75%
Off-Road Footpaths	Is an Asset Management Plan in place?	100%	0%	0%	33%	0%	20%	0%	25%	27%	80%	43%	100%
	Have current levels of service been determined?	100%	0%	60%	50%	0%	40%	27%	50%	27%	40%	57%	38%
	Have desired levels of service and future demand been determined?	100%	0%	40%	50%	0%	20%	9%	38%	18%	10%	57%	13%
	Is the Asset Register updated at least annually?	100%	100%	80%	100%	67%	60%	64%	100%	82%	70%	100%	63%
	Have forward projections of required capital and O&M been calculated?	100%	0%	40%	33%	50%	20%	36%	38%	73%	80%	71%	88%

Class	Adopted Primary Segment	Indigenous		Rural/Remote		Rural/Regional		Resources		Coastal		SEQ	
	Question	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
Recreation Facilities	Is an Asset Management Plan in place?	50%	22%	0%	40%	0%	33%	0%	33%	9%	60%	43%	100%
	Have current levels of service been determined?	50%	22%	40%	50%	13%	17%	20%	33%	27%	10%	57%	50%
	Have desired levels of service and future demand been determined?	50%	11%	40%	40%	0%	0%	13%	33%	18%	10%	57%	25%
	Is the Asset Register updated at least annually?	100%	67%	90%	100%	63%	100%	67%	92%	91%	80%	86%	75%
	Have forward projections of required capital and O&M been calculated?	50%	11%	50%	60%	38%	50%	40%	58%	73%	80%	86%	88%
Retaining Walls, Sea and River Walls, Canals	Is an Asset Management Plan in place?	100%				0%		0%		14%	29%	50%	100%
	Have current levels of service been determined?	100%				0%		0%		14%	0%	33%	29%
	Have desired levels of service and future demand been determined?	100%				0%		0%		14%	0%	33%	0%
	Is the Asset Register updated at least annually?	100%				0%		0%		86%	57%	67%	57%
	Have forward projections of required capital and O&M been calculated?	100%				0%		0%		43%	86%	67%	100%
Roads / Transport Network	Is an Asset Management Plan in place?	50%	20%	0%	30%	13%	57%	0%	50%	27%	80%	50%	100%
	Have current levels of service been determined?	50%	20%	50%	60%	50%	71%	40%	50%	45%	50%	63%	50%
	Have desired levels of service and future demand been determined?	50%	20%	50%	60%	25%	43%	20%	50%	36%	10%	50%	25%
	Is the Asset Register updated at least annually?	100%	80%	92%	100%	88%	100%	73%	100%	100%	70%	88%	75%
	Have forward projections of required capital and O&M been calculated?	50%	20%	50%	60%	63%	86%	53%	75%	91%	100%	88%	100%
Sewerage Network	Is an Asset Management Plan in place?	100%	30%	82%	89%	63%	80%	46%	58%	91%	80%	88%	100%
	Have current levels of service been determined?	100%	30%	64%	78%	63%	100%	85%	67%	82%	50%	75%	100%
	Have desired levels of service and future demand been determined?	100%	30%	64%	67%	50%	80%	77%	67%	82%	20%	88%	0%
	Is the Asset Register updated at least annually?	100%	80%	82%	100%	88%	100%	85%	100%	73%	70%	75%	100%
	Have forward projections of required capital and O&M been calculated?	100%	10%	82%	67%	63%	80%	85%	75%	91%	100%	88%	100%
Stormwater Drainage Network	Is an Asset Management Plan in place?	50%	22%	0%	22%	0%	14%	0%	40%	18%	60%	50%	100%
	Have current levels of service been determined?	50%	11%	38%	44%	14%	29%	25%	30%	36%	30%	63%	38%
	Have desired levels of service and future demand been determined?	50%	11%	38%	44%	14%	29%	17%	30%	18%	10%	50%	25%
	Is the Asset Register updated at least annually?	100%	67%	75%	89%	43%	86%	58%	100%	100%	90%	88%	75%
	Have forward projections of required capital and O&M been calculated?	50%	11%	13%	44%	29%	43%	42%	60%	82%	100%	88%	100%
Urban Parks and Streetscapes	Is an Asset Management Plan in place?	50%	17%	0%	33%	13%	17%	0%	20%	18%	50%	38%	88%
	Have current levels of service been determined?	50%	17%	40%	44%	13%	0%	21%	30%	18%	20%	50%	38%
	Have desired levels of service and future demand been determined?	50%	17%	30%	33%	13%	0%	7%	20%	9%	10%	63%	13%
	Is the Asset Register updated at least annually?	100%	67%	80%	89%	63%	83%	64%	70%	100%	70%	88%	75%
	Have forward projections of required capital and O&M been calculated?	50%	0%	30%	33%	38%	50%	36%	50%	73%	70%	88%	75%
Waste Landfill	Is an Asset Management Plan in place?	50%	29%	0%	13%	0%	17%	0%	9%	18%	50%	50%	88%
	Have current levels of service been determined?	50%	14%	40%	25%	0%	17%	31%	45%	18%	10%	50%	63%
	Have desired levels of service and future demand been determined?	50%	14%	40%	25%	14%	0%	23%	45%	9%	0%	63%	25%
	Is the Asset Register updated at least annually?	100%	71%	70%	75%	71%	83%	54%	82%	100%	70%	88%	75%
	Have forward projections of required capital and O&M been calculated?	50%	14%	40%	25%	57%	50%	46%	73%	82%	90%	75%	75%
Water Supply Network	Is an Asset Management Plan in place?	100%	22%	83%	90%	75%	80%	53%	58%	91%	80%	88%	100%
	Have current levels of service been determined?	100%	22%	67%	80%	75%	100%	87%	67%	82%	50%	75%	100%
	Have desired levels of service and future demand been determined?	100%	22%	67%	70%	63%	80%	80%	67%	82%	20%	88%	0%
	Is the Asset Register updated at least annually?	100%	78%	83%	100%	88%	100%	87%	100%	73%	70%	75%	100%
	Have forward projections of required capital and O&M been calculated?	100%	11%	83%	70%	75%	80%	80%	75%	91%	100%	88%	100%
Wharves, Piers, Jetties and Pontoons	Is an Asset Management Plan in place?	50%	50%	0%	50%		0%	0%		20%	29%	67%	100%
	Have current levels of service been determined?	50%	50%	0%	0%		0%	0%		10%	0%	67%	40%
	Have desired levels of service and future demand been determined?	50%	50%	0%	50%		0%	0%		10%	0%	67%	0%
	Is the Asset Register updated at least annually?	100%	50%	100%	50%		100%	50%		100%	100%	83%	60%
	Have forward projections of required capital and O&M been calculated?	50%	0%	100%	0%		0%	50%		60%	71%	100%	80%

Notes: Where cells are blank, no response was received and therefore that asset class is likely to be irrelevant for the Local Governments responding to the DLGCRR data request.
Source: AEC*group*, DLGCRR (unpublished)

Table A.7.2: Proportion of Relevant Asset Classes with Greater than 50% of Local Governments within Each Segment Featuring a Yes Result

Proportion of Relevant Asset Classes with > 50% of LGs within Each Segment Featuring a Yes Result	Indigenous		Rural/Remote		Rural/Regional		Resources		Coastal		SEQ	
	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
Is an Asset Management Plan in place?	29%	**0%**	13%	**13%**	13%	**20%**	6%	**14%**	12%	61%	22%	83%
Have current levels of service been determined?	29%	**0%**	27%	**20%**	13%	**27%**	12%	**21%**	12%	**0%**	61%	**17%**
Have desired levels of service and future demand been determined?	29%	**0%**	20%	**20%**	6%	**20%**	12%	**21%**	12%	**0%**	56%	**0%**
Is the Asset Register updated at least annually?	100%	87%	100%	93%	69%	93%	76%	93%	100%	89%	100%	94%
Have forward projections of required capital and O&M been calculated?	29%	**0%**	20%	**33%**	38%	**33%**	29%	64%	82%	89%	100%	94%

Source: AEC*group,* DLGCRR (unpublished)

Maintenance of the Asset Base

Table A.7.3 details the depreciation charges by asset class for each council segment for the period 2009/10 to 2011/12 (in aggregate), with the five most significant asset classes for each segment highlighted in **bold**. The following outcomes are noted:

- Roads is the most significant asset class in terms of depreciation charges for all council segments except the Indigenous segment, accounting for more than half of all depreciation charges for the Rural/Remote, Rural/Regional and Resources segments.
- Community facilities is the asset class most significant in terms of depreciation charges for the Indigenous segment.
- Depreciation charges for the water and sewerage asset classes are significant for all council segments, while stormwater drainage depreciation charges are also significant for Local Governments representing urban areas (included within the SEQ and Coastal segments).
- For council segments servicing smaller populations, the corporate buildings asset class is also relatively significant in terms of its contribution towards depreciation charges.

Table A.7.4 details the level of renewal expenditure as a proportion of depreciation for each asset class for the period 2009/10 to 2011/12 (in aggregate). The relatively short timeframe results in some outliers in the results for the renewals as a percentage of depreciation, although it is evident that:

- The Indigenous segment is spending considerably more on renewals than reflected in depreciation for most asset classes.
- The Rural/Remote segment is spending more on renewals than reflected in depreciation for its key asset classes of roads, water, sewerage and recreation facilities, and less for its other key asset classes of community and corporate buildings.
- The Rural/Regional segment is spending more on renewals than reflected in depreciation for its key asset classes of water and sewerage, and less for its other key asset classes of roads and community and corporate buildings.
- The Resources segment is spending a comparable amount to depreciation for its key asset class of roads, but less for its other key asset classes of water, sewerage and community and corporate buildings.
- The Coastal segment is spending significantly more on renewals than reflected in depreciation for its key asset classes of roads, water, sewerage and community and corporate buildings, but less for its other key asset class of stormwater drainage.
- The SEQ segment is spending slightly less on renewals than reflected in depreciation for its key asset class of roads, and considerably less on its other key asset classes of sewerage, stormwater drainage, water and urban parks and streetscapes.

Table A.7.5 details the level of renewal expenditure as a proportion of total capital expenditure for each asset class for the period 2009/10 to 2011/12 (in aggregate). It is evident that:

- The Indigenous segment is spending a relatively large proportion of capital funds on asset renewal when compared to other segments, with the exception of capital expenditure in the provision of selected functions such as water and sewerage where low levels of renewal are evident.
- The Rural/Remote segment is spending the majority of its capital funds on new or upgrade capital works, although a reasonable proportion of funds are being invested in the renewal of water and roads assets.
- The Rural/Regional segment appears to be allocating roughly half of its capital funds to asset renewal, with the exception of bridges which feature a higher proportion of renewal.

- The Resources segment features mixed results in terms of the allocation of capital funds towards asset renewal, although the clear majority of funds allocated to capital expenditure is for roads where 60% has been allocated for renewal works.
- The Coastal segment appears to be allocating significant funds towards asset renewal, particularly for roads and bridges, although the segment is spending a considerable amount on both the renewal and expansion/upgrade of water, sewerage, stormwater drainage and recreation facilities (a result of balancing the need for appropriate asset renewal and meeting infrastructure demands associated with growth).
- The SEQ segment is spending considerably more on new and upgraded capital works than renewal works for most asset classes, with the exception of community buildings, reflecting the significant capital funding pressures of servicing infrastructure demands associated with growth.

Figure A.7.16 outlines the level of renewals expenditure as a proportion of depreciation (i.e. funds collected to reflect the consumption of assets) for each council segment for the period 2009/10 to 2011/12 (in aggregate), while Figure A.7.17 outlines the level of renewals expenditure as a proportion of total capital expenditure for the period 2009/10 to 2011/12 (in aggregate).

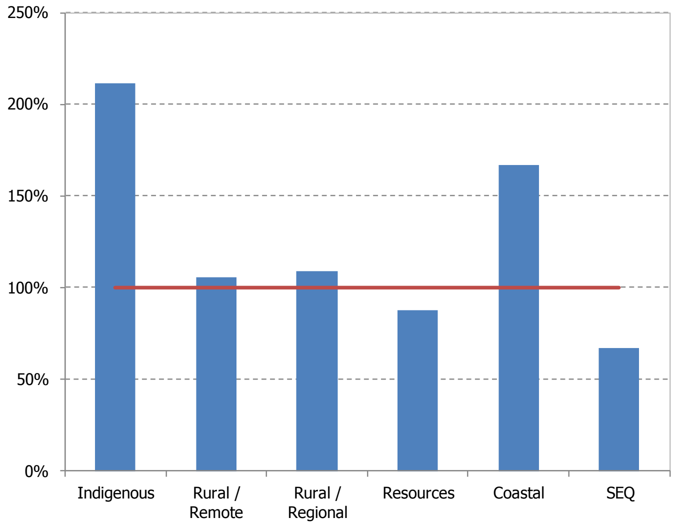
It would appear that the Indigenous and Coastal segments have had significant asset renewal pressures in recent years, but renewals still account for around 60% of all capital expenditure undertaken suggesting that there have also been significant asset additions during this period.

The Resources and SEQ segments have been renewing assets at a rate less than their depreciation, possibly a result of funding pressures associated with meeting additional infrastructure demands due to strong growth with significant new asset additions being recorded during the period. This is particularly the case for the SEQ segment, which allocated just over one quarter of capital funds towards asset replacement, with the remaining three quarters spent on new asset additions.

The Rural/Remote segment allocated only one third of its capital funds to asset renewal during the period, suggesting significant new asset additions which may be unsustainable given the lack of growth in many Rural/Remote Local Government areas.

Figure A.7.18 shows the average asset consumption ratio for roads and bridges infrastructure within each council segment. A ratio of less than 40% may indicate an asset base with low residual values or an asset base that is ageing, while a ratio of greater than 80% may indicate an asset base that has incorrect asset useful lives (too long) or residual values that are too high. On average, the roads and bridges asset consumption appears reasonably consistent across all council segments.

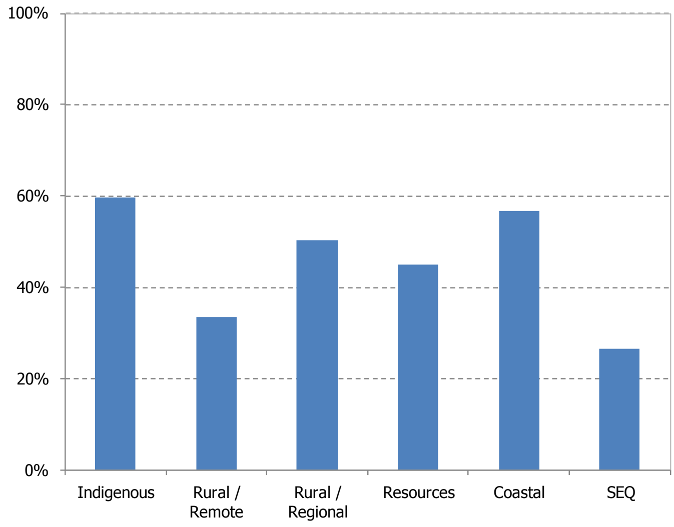
Figure A.7.16: Renewals Expenditure as % of Depreciation, 2009/10-2011/12



- The Indigenous and Coastal segments have had significant asset renewal pressures in recent years.
- The Rural/Remote and Rural/Regional segments have been renewing assets at a level that just exceeds their depreciation charges.
- The Resources and SEQ segments have been renewing assets at a rate less than their depreciation charges, possibly a result of funding pressures associated with meeting additional infrastructure demands due to strong growth.

Source: AEC*group,* DLGCRR (unpublished)

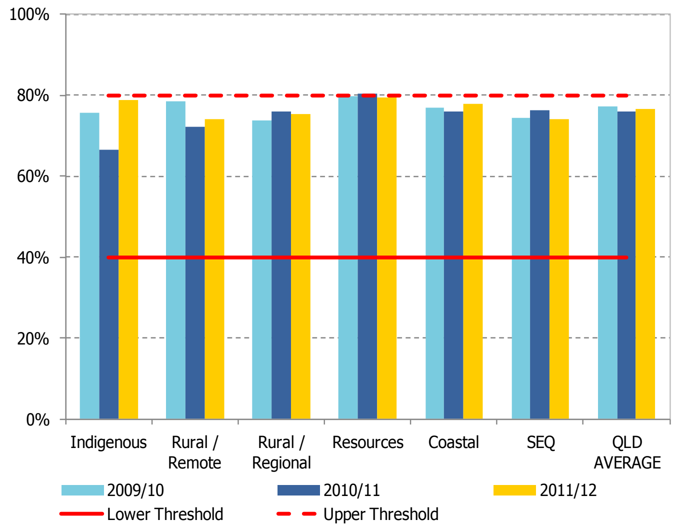
Figure A.7.17: Renewals Expenditure as % of Total Capital Expenditure, 2009/10-2011/12



- The Indigenous, Coastal and Rural/ Regional segments have allocated 50% or more of their capital funds to infrastructure renewal.
- The Resources, Rural/Remote and SEQ segments have allocated 50% or more of their capital funds to infrastructure additions and upgrades.
- Given the lack of growth in many Rural/Remote Local Governments, it is questioned whether such investment in new assets is sustainable.

Source: AEC*group,* DLGCRR (unpublished)

Figure A.7.18: Roads and Bridges Asset Consumption Ratio, 2009/10-2011/12



- All council segments appear to have a reasonable asset consumption ratio for roads and bridges infrastructure on average, implying that reasonable renewals are being undertaken at an aggregate level.
- The lower and upper thresholds are as per those that existed in the Financial (Management) Sustainability Guideline 2011, although this ratio target has since been removed in the 2013 Guideline.

Source: AEC*group,* DLGCRR (unpublished)

Table A.7.3: Depreciation Charges for Different Asset Classes by Local Government Segment, 2009/10-2011/12

Depreciation Charge	Indigenous		Rural/Remote		Rural/Regional		Resources		Coastal		SEQ	
	$	%	$	%	$	%	$	%	$	%	$	%
Buildings (Community)	$ 38,381,076	**47.5%**	$ 10,811,024	**13.5%**	$ 18,714,298	**9.9%**	$ 41,119,057	**11.4%**	$ 59,374,279	**5.4%**	$ 87,654,112	3.9%
Buildings (Corporate)	$ 9,308,511	**11.5%**	$ 4,261,251	5.3%	$ 12,238,944	**6.5%**	$ 14,887,423	**4.1%**	$ 34,172,608	3.1%	$ 49,087,564	2.2%
Beaches	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ 1,467,233	0.1%	$ 4,346,169	0.2%
Bikeways	$ -	0.0%	$ 88,873	0.1%	$ 60,000	0.0%	$ 185,000	0.1%	$ 127,857	0.0%	$ 5,828,927	0.3%
Bridges (timber and concrete)	$ 47,636	0.1%	$ 174,569	0.2%	$ 4,353,500	2.3%	$ 1,811,272	0.5%	$ 16,405,082	1.5%	$ 68,131,034	3.0%
Bus / Road Tunnels	$ -	0.0%	$ -	0.0%	$ 115,000	0.1%	$ -	0.0%	$ -	0.0%	$ 882,902	0.0%
Flood Mitigation Network	$ 115,708	0.1%	$ 72,377	0.1%	$ 527,200	0.3%	$ 357,800	0.1%	$ 311,099	0.0%	$ 36,708,912	1.6%
Natural Reserves	$ 16,442	0.0%	$ -	0.0%	$ -	0.0%	$ 3,836,538	1.1%	$ 239,956	0.0%	$ 4,401,835	0.2%
Off-Road Footpaths	$ 3,650	0.0%	$ 133,090	0.2%	$ 163,750	0.1%	$ 2,062,106	0.6%	$ 8,158,935	0.7%	$ 37,787,646	1.7%
Recreation Facilities	$ 1,540,360	1.9%	$ 5,128,980	**6.4%**	$ 9,966,999	5.3%	$ 10,283,457	2.9%	$ 52,365,918	4.7%	$ 59,225,846	2.6%
Retaining Walls, Sea and River Walls, Canals	$ 5,653	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ 2,605,382	0.2%	$ 11,849,230	0.5%
Roads / Transport Network	$ 13,963,502	**17.3%**	$ 45,008,120	**56.1%**	$ 96,353,527	**51.2%**	$ 203,433,760	**56.6%**	$ 386,671,456	**35.0%**	$ 880,948,767	**39.3%**
Sewerage Network	$ 8,874,538	**11.0%**	$ 4,770,892	**5.9%**	$ 16,365,427	**8.7%**	$ 31,802,172	**8.8%**	$ 180,446,423	**16.3%**	$ 343,017,487	**15.3%**
Stormwater Drainage Network	$ 573,231	0.7%	$ 211,272	0.3%	$ 3,394,960	1.8%	$ 3,469,892	1.0%	$ 97,873,175	**8.9%**	$ 280,019,919	**12.5%**
Urban Parks and Streetscapes	$ 150,607	0.2%	$ 660,502	0.8%	$ 1,272,206	0.7%	$ 3,227,216	0.9%	$ 20,015,849	1.8%	$ 124,412,825	**5.6%**
Waste Landfill	$ 243,329	0.3%	$ 34,632	0.0%	$ 1,684,150	0.9%	$ 478,495	0.1%	$ 23,827,587	2.2%	$ 10,793,815	0.5%
Water Supply Network	$ 6,744,037	**8.3%**	$ 8,884,851	**11.1%**	$ 23,084,191	**12.3%**	$ 42,589,005	**11.8%**	$ 217,710,106	**19.7%**	$ 224,492,729	**10.0%**
Wharves, Piers, Jetties and Pontoons	$ 893,354	1.1%	$ -	0.0%	$ -	0.0%	$ 6,150	0.0%	$ 4,006,749	0.4%	$ 10,608,421	0.5%
TOTAL	**$ 80,861,634**	**100.0%**	**$ 80,240,433**	**100.0%**	**$ 188,294,152**	**100.0%**	**$ 359,549,343**	**100.0%**	**$1,105,779,695**	**100.0%**	**$2,240,198,138**	**100.0%**

Notes: Where cells are blank, no response was received and therefore that asset class is likely to be irrelevant for, or not entered by, the Local Governments responding to the DLGCRR data request.
Source: AEC*group*, DLGCRR (unpublished)

Table A.7.4: Renewals Expenditure as a % of Depreciation for Different Asset Classes by Local Government Segment, 2009/10-2011/12

Renewals as a % of Depreciation Charges	Indigenous		Rural/Remote		Rural/Regional		Resources		Coastal		SEQ	
	Renewals $	% Dep	Renewals $	% Dep	Renewals $	% Dep	Renewals $	% Dep	Renewals $	% Dep	Renewals $	% Dep
Buildings (Community)	$ 83,266,029	217%	$ 9,102,423	84%	$ 16,075,882	86%	$ 10,249,006	25%	$ 92,284,270	155%	$ 134,964,431	154%
Buildings (Corporate)	$ 11,953,955	128%	$ 2,172,268	51%	$ 7,600,324	62%	$ 9,881,718	66%	$ 45,739,234	134%	$ 28,724,779	59%
Beaches	$ 184,627		$ -		$ -		$ -		$ 3,847,199	262%	$ 5,576,105	128%
Bikeways	$ 50,000		$ 212,960	240%	$ -	0%	$ -	0%	$ 1,872,478	1465%	$ 4,995,573	86%
Bridges (timber and concrete)	$ 238,400	500%	$ -	0%	$ 14,795,612	340%	$ 194,757	11%	$ 142,637,281	869%	$ 50,141,516	74%
Bus / Road Tunnels	$ -		$ -		$ 175,000	152%	$ -		$ -		$ -	0%
Flood Mitigation Network	$ -	0%	$ 30,000	41%	$ 520,200	99%	$ 60,000	17%	$ 7,464,776	2399%	$ 7,014,713	19%
Natural Reserves	$ 629,961	3831%	$ -		$ -		$ 4,448,659	116%	$ 244,541	102%	$ 5,393,280	123%
Off-Road Footpaths	$ 50,000	1370%	$ 118,644	89%	$ 20,000	12%	$ 368,744	18%	$ 15,292,719	187%	$ 25,243,699	67%
Recreation Facilities	$ 5,393,550	350%	$ 7,073,489	138%	$ 6,906,526	69%	$ 16,658,383	162%	$ 62,007,130	118%	$ 68,796,858	116%
Retaining Walls, Sea and River Walls, Canals	$ -	0%	$ -		$ -		$ -		$ 3,782,250	145%	$ 16,178,452	137%
Roads / Transport Network	$ 50,475,120	361%	$ 47,547,488	106%	$ 81,959,271	85%	$ 209,892,488	103%	$ 738,679,964	191%	$ 777,379,142	88%
Sewerage Network	$ 12,815,677	144%	$ 7,352,216	154%	$ 46,645,047	285%	$ 24,884,362	78%	$ 242,542,127	134%	$ 116,291,470	34%
Stormwater Drainage Network	$ 3,509,588	612%	$ 127,611	60%	$ 2,924,384	86%	$ 857,860	25%	$ 69,153,552	71%	$ 77,822,318	28%
Urban Parks and Streetscapes	$ 42,000	28%	$ 146,186	22%	$ 3,826,835	301%	$ 3,712,315	115%	$ 27,895,718	139%	$ 67,277,429	54%
Waste Landfill	$ 580,602	239%	$ 105,000	303%	$ 2,929,430	174%	$ 1,390,962	291%	$ 19,538,001	82%	$ 22,306,296	207%
Water Supply Network	$ 250,000	4%	$ 10,903,478	123%	$ 20,710,591	90%	$ 32,807,374	77%	$ 366,005,783	168%	$ 91,737,877	41%
Wharves, Piers, Jetties and Pontoons	$ 1,292,446	145%	$		$ -		$ 275,000	4472%	$ 4,819,181	120%	$ 4,138,821	39%
TOTAL	**$ 170,731,955**	**211%**	**$ 84,891,763**	**106%**	**$ 205,089,102**	**109%**	**$ 315,681,628**	**88%**	**$1,843,806,204**	**167%**	**$1,503,982,759**	**67%**

Source: AEC*group,* DLGCRR (unpublished)

Table A.7.5: Renewals Expenditure as a % of Total Capital Expenditure for Different Asset Classes by Local Government Segment, 2009/10-2011/12

Renewals as a % of Total Capital Expenditure	Indigenous		Rural/Remote		Rural/Regional		Resources		Coastal		SEQ	
	Renewals $	% Cap	Renewals $	% Cap	Renewals $	% Cap	Renewals $	% Cap	Renewals $	% Cap	Renewals $	% Cap
Buildings (Community)	$ 83,266,029	87%	$ 9,102,423	24%	$ 16,075,882	23%	$ 10,249,006	14%	$ 92,284,270	49%	$ 134,964,431	54%
Buildings (Corporate)	$ 11,953,955	60%	$ 2,172,268	29%	$ 7,600,324	56%	$ 9,881,718	18%	$ 45,739,234	53%	$ 28,724,779	27%
Beaches	$ 184,627	100%	$ -		$ -		$ -	0%	$ 3,847,199	33%	$ 5,576,105	37%
Bikeways	$ 50,000	100%	$ 212,960	22%	$ -	0%	$ -	0%	$ 1,872,478	14%	$ 4,995,573	4%
Bridges (timber and concrete)	$ 238,400	100%	$ -	0%	$ 14,795,612	80%	$ 194,757	3%	$ 142,637,281	80%	$ 50,141,516	22%
Bus / Road Tunnels	$ -		$ -		$ 175,000	100%	$ -		$ -		$ -	0%
Flood Mitigation Network	$ -	0%	$ 30,000	5%	$ 520,200	21%	$ 60,000	3%	$ 7,464,776	46%	$ 7,014,713	21%
Natural Reserves	$ 629,961	100%	$ -	0%	$ -	0%	$ 4,448,659	82%	$ 244,541	1%	$ 5,393,280	23%
Off-Road Footpaths	$ 50,000	65%	$ 118,644	6%	$ 20,000	3%	$ 368,744	12%	$ 15,292,719	52%	$ 25,243,699	29%
Recreation Facilities	$ 5,393,550	39%	$ 7,073,489	38%	$ 6,906,526	32%	$ 16,658,383	32%	$ 62,007,130	45%	$ 68,796,858	32%
Retaining Walls, Sea and River Walls, Canals	$ -		$ -		$ -		$ -		$ 3,782,250	64%	$ 16,178,452	59%
Roads / Transport Network	$ 50,475,120	80%	$ 47,547,488	40%	$ 81,959,271	60%	$ 209,892,488	62%	$ 738,679,964	74%	$ 777,379,142	31%
Sewerage Network	$ 12,815,677	22%	$ 7,352,216	17%	$ 46,645,047	57%	$ 24,884,362	51%	$ 242,542,127	36%	$ 116,291,470	16%
Stormwater Drainage Network	$ 3,509,588	100%	$ 127,611	7%	$ 2,924,384	55%	$ 857,860	26%	$ 69,153,552	60%	$ 77,822,318	35%
Urban Parks and Streetscapes	$ 42,000	46%	$ 146,186	12%	$ 3,826,835	58%	$ 3,712,315	22%	$ 27,895,718	44%	$ 67,277,429	19%
Waste Landfill	$ 580,602	49%	$ 105,000	12%	$ 2,929,430	32%	$ 1,390,962	21%	$ 19,538,001	47%	$ 22,306,296	15%
Water Supply Network	$ 250,000	1%	$ 10,903,478	53%	$ 20,710,591	51%	$ 32,807,374	36%	$ 366,005,783	56%	$ 91,737,877	29%
Wharves, Piers, Jetties and Pontoons	$ 1,292,446	96%	$ -	0%	$ -		$ 275,000	50%	$ 4,819,181	74%	$ 4,138,821	13%
TOTAL	**$ 170,731,955**	**60%**	**$ 84,891,763**	**33%**	**$ 205,089,102**	**50%**	**$ 315,681,628**	**45%**	**$ 1,843,806,204**	**57%**	**$ 1,503,982,759**	**27%**

Notes: Where cells are blank, no response was received and therefore that asset class is likely to be irrelevant for, or not entered by, the Local Governments responding to the DLGCRR data request.
Source: AEC*group,* DLGCRR (unpublished)

Capital Expenditure

Table A.7.7 details the level of capital expenditure on new/upgrade works and Table A.7.8 details expenditure on renewal works for each asset class for the period 2009/10 to 2011/12 (in aggregate), with the five most significant asset classes for each segment highlighted in **bold**. It is evident that:

- The Indigenous segment has been spending the majority of capital funds for new/upgrade works on water and sewerage infrastructure, while renewal works funding has been mainly directed to community buildings and roads.
- The Rural/Remote segment has been spending the majority of its capital funds on new/upgrade works for roads, sewerage infrastructure and community buildings, and on renewal works for roads.
- The Rural/Regional segment has been spending the majority of its capital funds on new/upgrade works for community buildings, roads and sewerage infrastructure, and on renewal works for roads and sewerage infrastructure.
- The Resources segment has been spending the majority of its capital funds on new/upgrade works for roads and community buildings, and on renewal works for roads.
- The Coastal segment has been spending the majority of its capital funds on new/upgrade works for water and sewerage infrastructure and roads, and on renewal works for roads and water infrastructure.
- The SEQ segment has been spending the majority of its capital funds on both new/upgrade and renewal works for roads.

Most capital funding pressures across all segments are in the lead infrastructure areas of roads and water and sewerage infrastructure, in addition to community buildings relating to various Local Government service functions.

Figure A.7.19 outlines the aggregate capital expenditure by council segment between 2003/04 and 2011/12. Capital expenditure commitments for all council segments are growing at a rapid rate, with the Coastal and Resources segments featuring the highest average annual growth rates, in addition to the SEQ segment when taking into account the loss of water and sewerage responsibilities from 2010/11. It is clearly evident that those council segments with high growth demands are facing significant capital expenditure burdens, and even those with low growth outcomes are recording significant ongoing increases in capital expenditure.

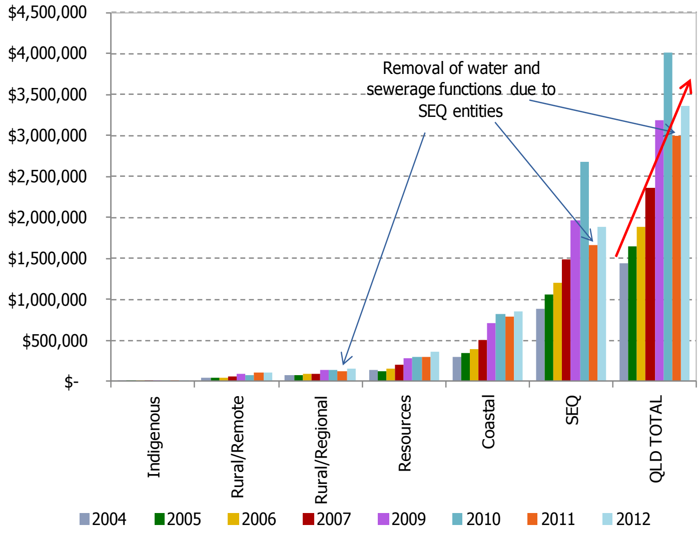
Figure A.7.20 to Figure A.7.25 outline the proportion of capital expenditure commitments by asset type. Non-building construction, transport equipment and buildings are the most prominent asset types, consistent with the service functions of Local Governments being roads, bridges, parks, community facilities, etc. The following definitions are noted in relation to these asset types:

Table A.7.6: Capital Expenditure Asset Type Definitions

Land	Value of land excluding any building or structures.
Dwellings	Buildings used primarily as residences, associated structures (garages) and permanent fixtures.
Other buildings	Buildings apart from those intended for residential use (administrative buildings, civic centres).
Non-building construction	Construction activity apart from residential and non-residential buildings (roads, bridges).
Computer equipments	Computer hardware only (processors, hard drives, monitors, keyboards).
Transport equipment	Machinery and equipment deployed in connection with transport functions, including road plant.
Other equipment	Machinery and equipment deployed for any function except computer equipment and road plant.
Computer software	Programs, program descriptions and supporting materials for systems and applications software.
Entertainment, literary or artistic originals	Entertainment, literary or artistic works (original films, sound recordings, manuscripts, tapes, models).
Other intangible assets	Intangible assets including information and specialised knowledge owned by units or licensed by units for use by others (patented entities, leases, other transferable contracts, purchased goodwill).

Source: DLGCRR (unpublished)

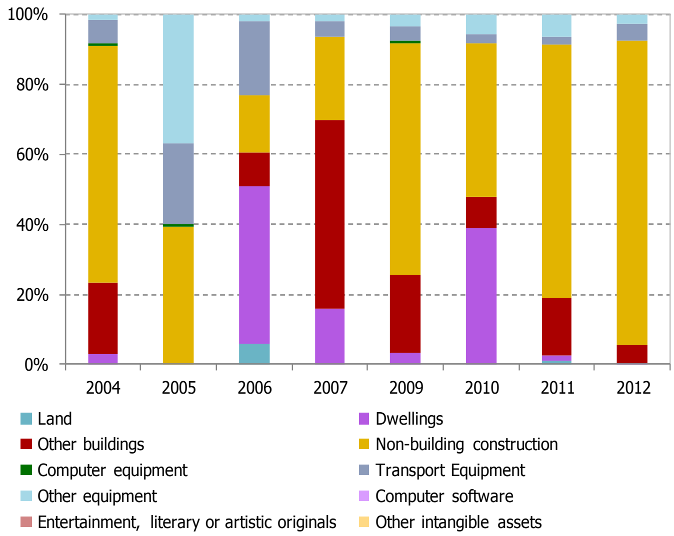
Figure A.7.19: Capital Expenditure by Council Segment ($'000), 2003/04-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- Even with the removal of water and sewerage infrastructure from selected SEQ Local Governments in recent years, it is apparent that capital expenditure is on a steeply increasing trend.
- In fact, even after the exclusion of water and sewerage capital expenditure for selected SEQ Local Governments, the average annual growth rate across Queensland over the period is recorded at 12.9%.
- All council segments feature average annual growth rates in excess of 11%, with the Coastal and Resources segments featuring the highest average annual growth rates (and most likely SEQ as well if water and sewerage capital expenditure was adjusted for in 2003/04).

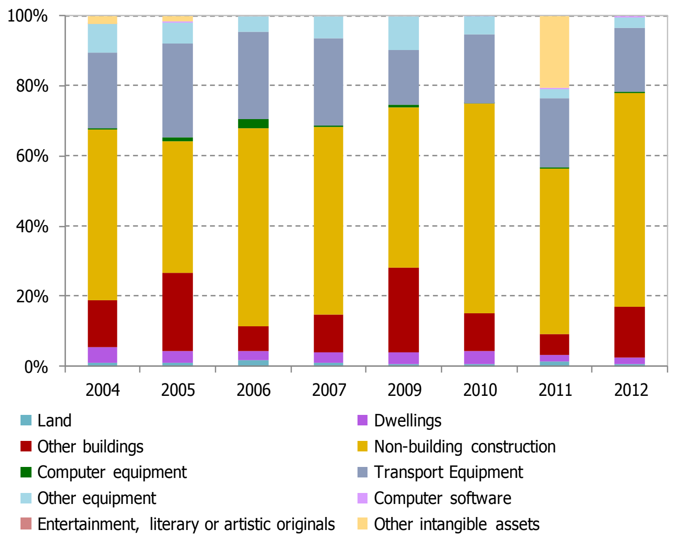
Figure A.7.20: Capital Expenditure by Type – Indigenous Segment, 2003/04-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- Only a few Indigenous Local Governments provide responses to the data return and information on capital expenditure by type is therefore quite patchy.
- It is evident that there is a high degree of variability in the capital expenditure of Indigenous Local Governments, although non-building construction has been more stable in more recent years.
- Capital expenditure on dwellings and other buildings also appears to have been relatively significant over time.

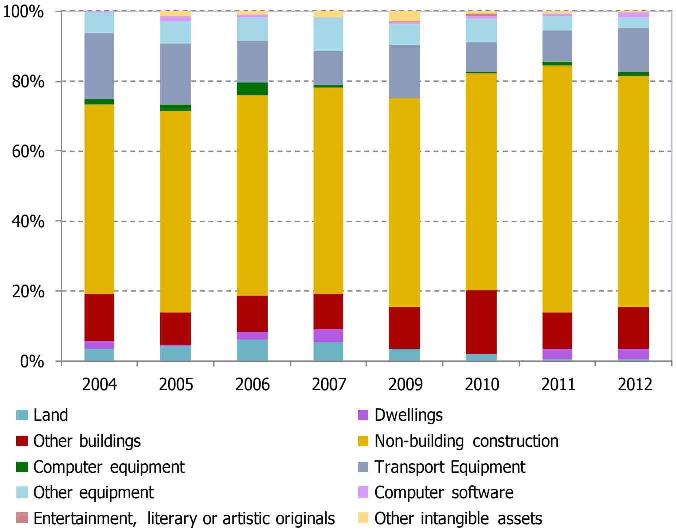
Figure A.7.21: Capital Expenditure by Type – Rural/Remote Segment, 2003/04-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The predominant type of capital expenditure for the Rural/Remote segment is non-building construction, followed by transport equipment and buildings.
- It is possible that the other intangible assets entry in 2010/11 was in error – excluding this, there is a definite increasing trend in expenditure on non-building construction.

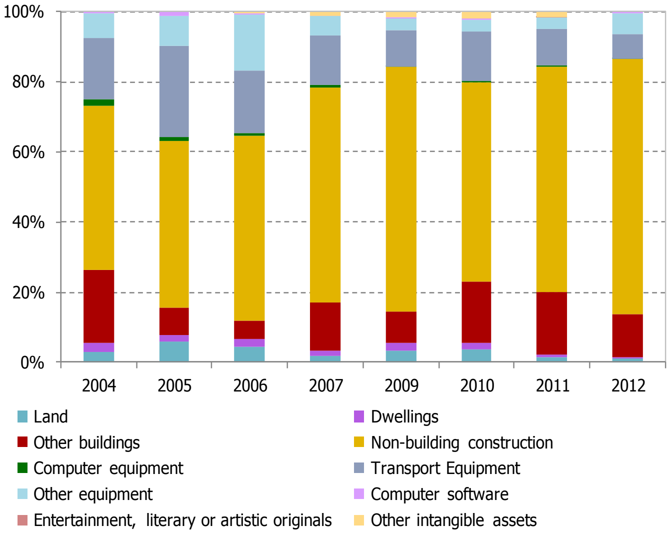
Figure A.7.22: Capital Expenditure by Type – Rural/Regional Segment, 2003/04-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The predominant type of capital expenditure for the Rural/Regional segment is non-building construction, followed by transport equipment and buildings.
- There is a definite increasing trend in expenditure on non-building construction.

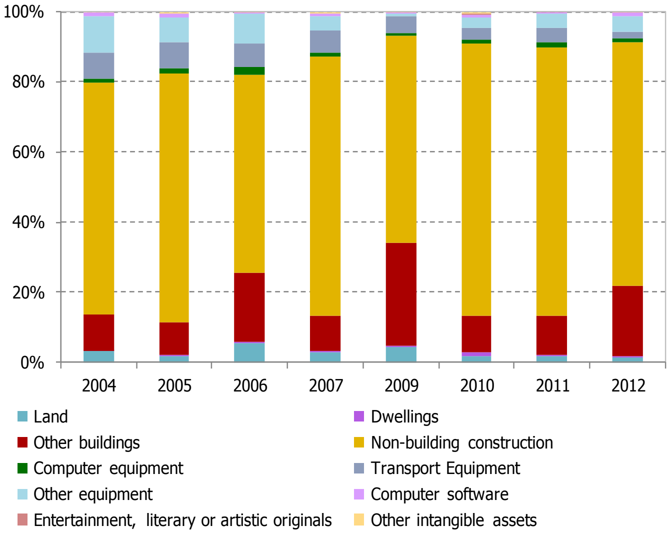
Figure A.7.23: Capital Expenditure by Type – Resources Segment, 2003/04-2011/12



Source: AEC*group,* DLGCRR (Consolidated Data Return)

- The predominant type of capital expenditure for the Resources segment is non-building construction, followed by buildings and transport equipment.
- There is a definite increasing trend in expenditure on non-building construction.

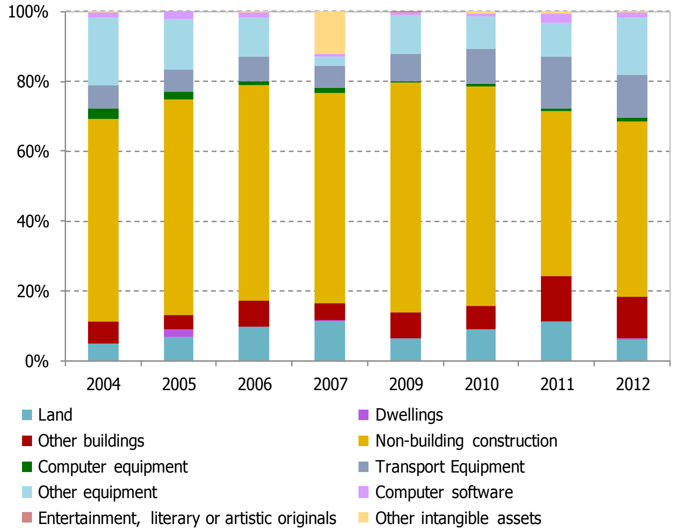
Figure A.7.24: Capital Expenditure by Type – Coastal Segment, 2003/04-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The predominant type of capital expenditure for the Coastal segment is non-building construction, followed by buildings.

Figure A.7.25: Capital Expenditure by Type – SEQ Segment, 2003/04-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The predominant type of capital expenditure for the SEQ segment is non-building construction, followed by transport and other equipment, and buildings.

Table A.7.7: New/Upgrade Capital Expenditure for Different Asset Classes by Local Government Segment, 2009/10-2011/12

Capex on New or Upgrade Works	Indigenous		Rural/Remote		Rural/Regional		Resources		Coastal		SEQ	
	$	%	$	%	$	%	$	%	$	%	$	%
Buildings (Community)	$ 12,271,508	**10.6%**	$ 28,809,384	**17.0%**	$ 54,666,223	**26.9%**	$ 65,335,829	**16.9%**	$ 95,072,786	**6.8%**	$ 114,524,183	2.8%
Buildings (Corporate)	$ 8,030,693	6.9%	$ 5,220,365	3.1%	$ 5,946,015	2.9%	$ 44,711,788	**11.6%**	$ 40,497,716	2.9%	$ 77,420,782	1.9%
Beaches	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ 10,000	0.0%	$ 7,873,278	0.6%	$ 9,645,548	0.2%
Bikeways	$ -	0.0%	$ 769,745	0.5%	$ 272,061	0.1%	$ 420,000	0.1%	$ 11,719,870	0.8%	$ 109,361,634	2.6%
Bridges (timber and concrete)	$ -	0.0%	$ 67,449	0.0%	$ 3,709,210	1.8%	$ 5,588,913	1.4%	$ 35,246,614	2.5%	$ 178,588,962	4.3%
Bus / Road Tunnels	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ 244,946,338	**5.9%**
Flood Mitigation Network	$ 8,002	0.0%	$ 543,535	0.3%	$ 1,909,000	0.9%	$ 1,872,110	0.5%	$ 8,839,270	0.6%	$ 26,744,905	0.6%
Natural Reserves	$ -	0.0%	$ 115,000	0.1%	$ 94,453	0.0%	$ 990,000	0.3%	$ 26,964,067	1.9%	$ 18,102,232	0.4%
Off-Road Footpaths	$ 26,519	0.0%	$ 1,792,455	1.1%	$ 654,030	0.3%	$ 2,826,141	0.7%	$ 14,388,470	1.0%	$ 60,917,426	1.5%
Recreation Facilities	$ 8,575,113	**7.4%**	$ 11,307,611	**6.7%**	$ 14,418,276	**7.1%**	$ 35,329,430	**9.1%**	$ 76,629,628	**5.4%**	$ 144,623,990	3.5%
Retaining Walls, Sea and River Walls, Canals	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ 2,161,498	0.2%	$ 11,275,535	0.3%
Roads / Transport Network	$ 12,638,368	**10.9%**	$ 72,780,208	**43.0%**	$ 54,374,986	**26.8%**	$ 127,025,129	**32.9%**	$ 260,774,645	**18.5%**	$ 1,733,394,228	**41.8%**
Sewerage Network	$ 46,660,160	**40.2%**	$ 34,814,868	**20.5%**	$ 35,384,428	**17.4%**	$ 23,699,562	6.1%	$ 436,448,033	**31.0%**	$ 604,997,174	**14.6%**
Stormwater Drainage Network	$ -	0.0%	$ 1,701,949	1.0%	$ 2,381,241	1.2%	$ 2,409,469	0.6%	$ 46,181,345	3.3%	$ 142,557,148	3.4%
Urban Parks and Streetscapes	$ 48,842	0.0%	$ 1,080,898	0.6%	$ 2,806,132	1.4%	$ 13,219,012	3.4%	$ 35,336,645	2.5%	$ 292,395,314	**7.0%**
Waste Landfill	$ 596,377	0.5%	$ 758,923	0.4%	$ 6,241,680	3.1%	$ 5,380,596	1.4%	$ 21,652,788	1.5%	$ 130,056,521	3.1%
Water Supply Network	$ 27,058,366	**23.3%**	$ 9,667,539	**5.7%**	$ 20,277,321	**10.0%**	$ 57,100,585	**14.8%**	$ 286,013,373	**20.3%**	$ 224,021,452	**5.4%**
Wharves, Piers, Jetties and Pontoons	$ 48,033	0.0%	$ 10,000	0.0%	$ -	0.0%	$ 270,000	0.1%	$ 1,696,970	0.1%	$ 28,218,038	0.7%
TOTAL	**$ 115,961,981**	**100.0%**	**$ 169,439,929**	**100.0%**	**$ 203,135,056**	**100.0%**	**$ 386,188,564**	**100.0%**	**$1,407,496,996**	**100.0%**	**$4,151,791,409**	**100.0%**

Notes: Where cells are blank, no response was received and therefore that asset class is likely to be irrelevant for, or not entered by, the Local Governments responding to the DLGCRR data request.
Source: AEC*group,* DLGCRR (Asset Management Return)

Table A.7.8: Renewals Capital Expenditure for Different Asset Classes by Local Government Segment, 2009/10-2011/12

Capex for Renewals	Indigenous		Rural/Remote		Rural/Regional		Resources		Coastal		SEQ	
	$	%	$	%	$	%	$	%	$	%	$	%
Buildings (Community)	$ 83,266,029	**48.8%**	$ 9,102,423	**10.7%**	$ 16,075,882	**7.8%**	$ 10,249,006	**3.2%**	$ 92,284,270	**5.0%**	$ 134,964,431	**9.0%**
Buildings (Corporate)	$ 11,953,955	**7.0%**	$ 2,172,268	2.6%	$ 7,600,324	3.7%	$ 9,881,718	3.1%	$ 45,739,234	2.5%	$ 28,724,779	1.9%
Beaches	$ 184,627	0.1%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ 3,847,199	0.2%	$ 5,576,105	0.4%
Bikeways	$ 50,000	0.0%	$ 212,960	0.3%	$ -	0.0%	$ -	0.0%	$ 1,872,478	0.1%	$ 4,995,573	0.3%
Bridges (timber and concrete)	$ 238,400	0.1%	$ -	0.0%	$ 14,795,612	**7.2%**	$ 194,757	0.1%	$ 142,637,281	**7.7%**	$ 50,141,516	3.3%
Bus / Road Tunnels	$ -	0.0%	$ -	0.0%	$ 175,000	0.1%	$ -	0.0%	$ -	0.0%	$ -	0.0%
Flood Mitigation Network	$ -	0.0%	$ 30,000	0.0%	$ 520,200	0.3%	$ 60,000	0.0%	$ 7,464,776	0.4%	$ 7,014,713	0.5%
Natural Reserves	$ 629,961	0.4%	$ -	0.0%	$ -	0.0%	$ 4,448,659	1.4%	$ 244,541	0.0%	$ 5,393,280	0.4%
Off-Road Footpaths	$ 50,000	0.0%	$ 118,644	0.1%	$ 20,000	0.0%	$ 368,744	0.1%	$ 15,292,719	0.8%	$ 25,243,699	1.7%
Recreation Facilities	$ 5,393,550	**3.2%**	$ 7,073,489	**8.3%**	$ 6,906,526	3.4%	$ 16,658,383	**5.3%**	$ 62,007,130	3.4%	$ 68,796,858	4.6%
Retaining Walls, Sea and River Walls, Canals	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ 3,782,250	0.2%	$ 16,178,452	1.1%
Roads / Transport Network	$ 50,475,120	**29.6%**	$ 47,547,488	**56.0%**	$ 81,959,271	**40.0%**	$ 209,892,488	**66.5%**	$ 738,679,964	**40.1%**	$ 777,379,142	**51.7%**
Sewerage Network	$ 12,815,677	**7.5%**	$ 7,352,216	**8.7%**	$ 46,645,047	**22.7%**	$ 24,884,362	**7.9%**	$ 242,542,127	**13.2%**	$ 116,291,470	**7.7%**
Stormwater Drainage Network	$ 3,509,588	2.1%	$ 127,611	0.2%	$ 2,924,384	1.4%	$ 857,860	0.3%	$ 69,153,552	3.8%	$ 77,822,318	**5.2%**
Urban Parks and Streetscapes	$ 42,000	0.0%	$ 146,186	0.2%	$ 3,826,835	1.9%	$ 3,712,315	1.2%	$ 27,895,718	1.5%	$ 67,277,429	4.5%
Waste Landfill	$ 580,602	0.3%	$ 105,000	0.1%	$ 2,929,430	1.4%	$ 1,390,962	0.4%	$ 19,538,001	1.1%	$ 22,306,296	1.5%
Water Supply Network	$ 250,000	0.1%	$ 10,903,478	**12.8%**	$ 20,710,591	**10.1%**	$ 32,807,374	**10.4%**	$ 366,005,783	**19.9%**	$ 91,737,877	**6.1%**
Wharves, Piers, Jetties and Pontoons	$ 1,292,446	0.8%	$ -	0.0%	$ -	0.0%	$ 275,000	0.1%	$ 4,819,181	0.3%	$ 4,138,821	0.3%
TOTAL	**$ 170,731,955**	**100.0%**	**$ 84,891,763**	**100.0%**	**$ 205,089,102**	**100.0%**	**$ 315,681,628**	**100.0%**	**$1,843,806,204**	**100.0%**	**$1,503,982,759**	**100.0%**

Notes: Where cells are blank, no response was received and therefore that asset class is likely to be irrelevant for, or not entered by, the Local Governments responding to the DLGCRR data request.
Source: AEC*group,* DLGCRR (Asset Management Return)

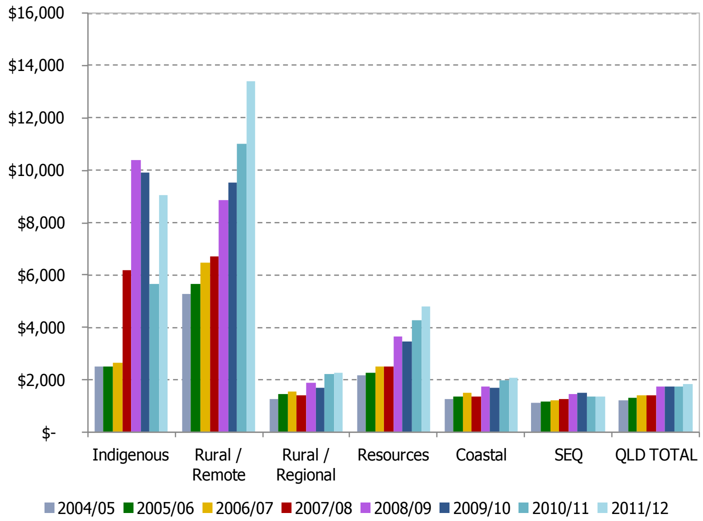
Revenue Composition

The purpose of this section is to undertake a comparative analysis of the composition of revenue streams for each council segment over time, both in terms of own source revenues and external revenues (including capital grants and subsidies from other levels of Government). It also reviews the level of rating (taxation) effort for each council segment over time, both in terms of household affordability and ability to pay as well as the tax take relative to the level of economic activity.

Level of Revenue

Figure A.7.26 and Figure A.7.27 show operating revenue for each council segment on a per capita basis and as a proportion of GRP, respectively. Operating revenue per capita is highest for the Rural/Remote, Indigenous and Resources segments, due to their relatively low population base and high levels of required external funding support for operational sustainability (i.e. they are not self-sustaining). Operating revenue as a proportion of GRP is highest for the Indigenous and Rural/Remote segments, with the Resources segment having one of the lowest ratios due to the high level of economic output per capita arising from the resources sector.

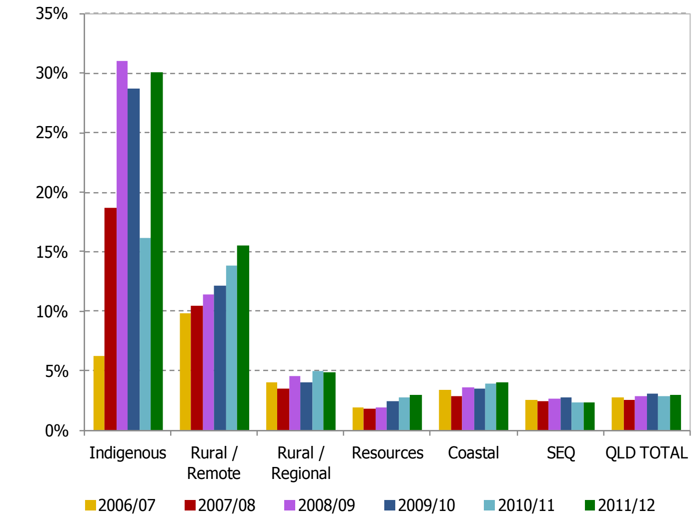
Figure A.7.26: Operating Revenue per capita (Aggregate Segment Outcomes), 2004/05-2011/12



- Those council segments with smaller populations feature the highest revenue per capita outcomes, given that the majority of their revenue is provided by external sources such as Queensland and Commonwealth Government operational grants.
- Revenue per capita outcomes in 2010/11 and 2011/12 for selected council segments were impacted by the recognition of disaster funding for infrastructure repairs and replacement as operating revenue for relevant Local Governments.

Source: AEC*group*, QTC, DLGCRR (unpublished)

Figure A.7.27: Operating Revenue as % of GRP (Aggregate Segment Outcomes), 2006/07-2011/12



- Those council segments with smaller populations generally feature the highest revenue to economic output ratio outcomes.
- The exception is the Resources segment, which actually has one of the lowest ratios due to the high level of economic output per capita arising from the resource sector.

Source: AEC*group*, QTC, DLGCRR (unpublished)

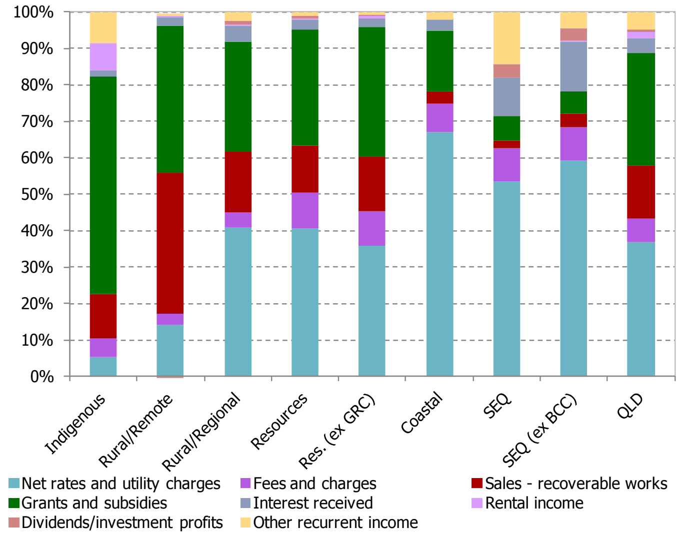
Composition of Revenue by Type

Figure A.7.28 details the composition of operating revenue by type of revenue for each council segment, based on the aggregate revenue position within each segment. As would be expected, the Local Governments servicing larger populations benefit from a greater reliance on own source rates and charges revenue and a lesser reliance on Queensland and Commonwealth Government grant funding and recoverable works contracts. The SEQ segment is also reliant on external revenue sources such as dividends and interest as a result of the recent water reforms (although noting that this will change moving forward as a result of the disestablishment of Allconnex).

The Indigenous segment is almost entirely reliant on Queensland and Commonwealth Government operational grant funding, while the Rural/Remote and Resources segments are also very heavily reliant on such grant funding in addition to recoverable works contracts revenue.

Figure A.7.29 to Figure A.7.36 provide a time series of the composition of operating revenue for each council segment, based on the aggregate revenue position within each segment.

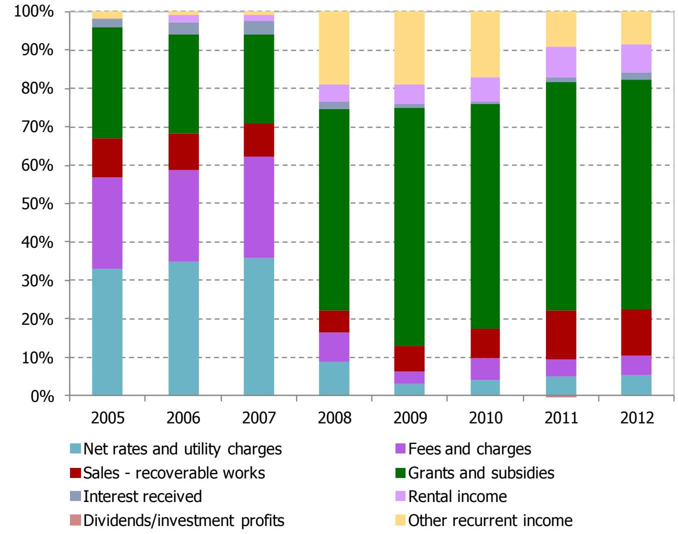
Figure A.7.28: Operating Revenue by Type by Council Segment, 2011/12



- The SEQ and Coastal segments have a higher degree of reliance on rates and charges.
- The Rural/Remote, Rural/Regional and Resources segments are heavily reliant on recoverable works revenue.
- As expected, the Indigenous, Rural/Remote and Resources segments are also very heavily reliant on Queensland and Commonwealth Government grants for operational sustainability.
- Other revenue is insignificant for most segments, except for the SEQ segment.
- The SEQ segment has a relatively high proportion of revenue from dividends and interest, a result of the payments from external water authorities.

Source: AEC*group,* DLGCRR (unpublished)

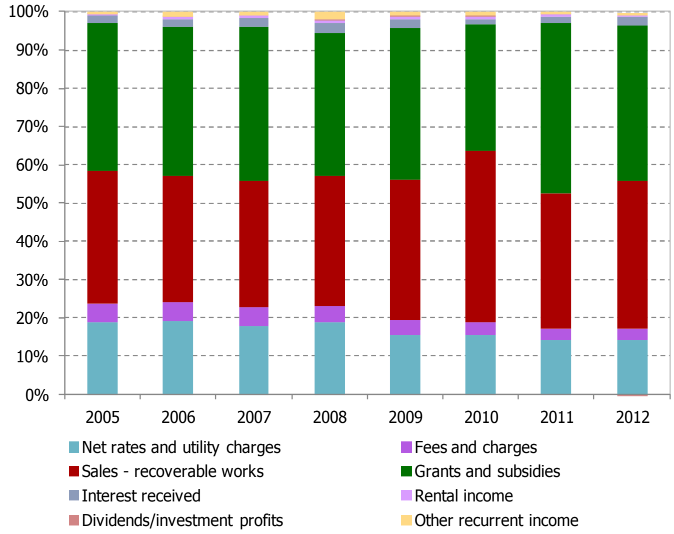
Figure A.7.29: Operating Revenue by Type – Indigenous Segment, 2004/05-2011/12



- There is a high degree of variability in the outcomes given the very few Indigenous Local Governments that respond to the data return.
- What is evident though is that the segment is heavily reliant on State and Commonwealth funding and recoverable works, with own source revenue being extremely limited.

Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

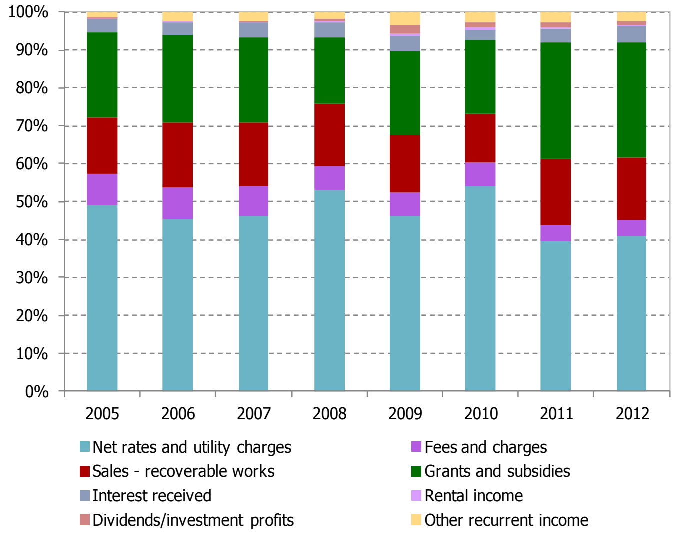
Figure A.7.30: Operating Revenue by Type – Rural/Remote Segment, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- Recoverable works revenue is the most prominent non-grant revenue stream for the Rural/Remote segment and appears to be increasing in prominence.
- The Rural/Remote segment is also extremely reliant on Queensland and Commonwealth Government grant funding for operational sustainability, with rates and utility charges and fees and charges accounting for less than 20% of total operating revenue.

Figure A.7.31: Operating Revenue by Type – Rural/Regional Segment, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

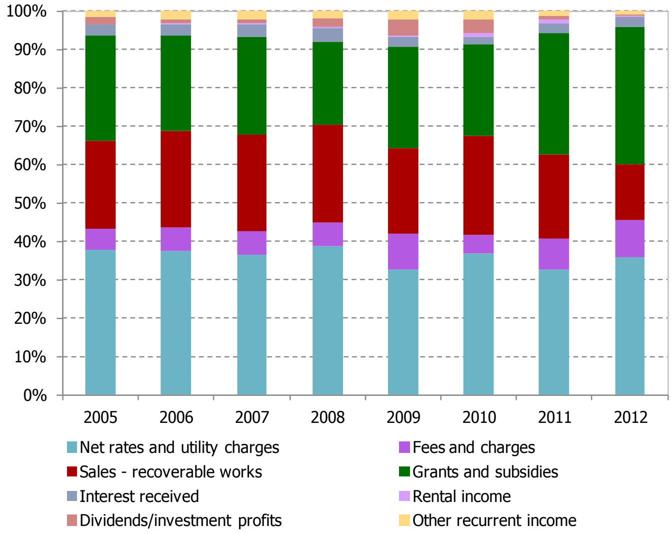
- The Rural/Regional segment is quite reliant on Queensland and Commonwealth Government grant funding for operational sustainability, in addition to recoverable works revenue.
- Revenue outcomes in 2010/11 and 2011/12 for selected Local Governments were impacted by the recognition of disaster funding for infrastructure repairs and replacement as operating revenue.
- Excluding these effects, it would appear that net rates and utility charges account for roughly half of total operating revenue.

Figure A.7.32: Operating Revenue by Type – Resources Segment, 2004/05-2011/12

Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The Resources segment is heavily reliant on Queensland and Commonwealth Government grant funding for operational sustainability.
- Recoverable works revenue is also a prominent revenue stream.
- Rates and utility account for roughly 40% of total operating revenue.

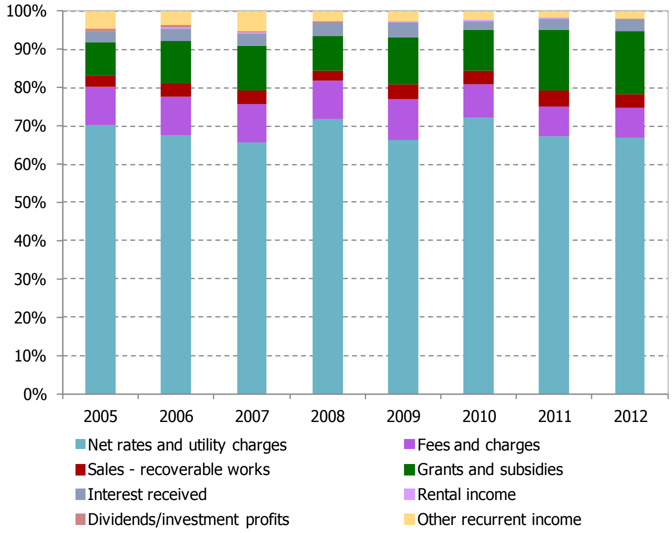
Figure A.7.33: Operating Revenue by Type – Resources Segment (ex Gladstone), 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- Excluding the impact of Gladstone Regional Council, which dominates the Resources segment in terms of size, it is evident that the reliance on grant funding and recoverable works is even more pronounced.

Figure A.7.34: Operating Revenue by Type – Coastal Segment, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- While the Coastal segment has a greater degree of reliance on user fees and charges, it still has a degree of reliance on Queensland and Commonwealth Government grant funding for operational sustainability.
- Recoverable works is a less important revenue stream than is the case for the other council segments (with the exception of the SEQ segment).

Figure A.7.35: Operating Revenue by Type – SEQ Segment, 2004/05-2011/12

Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The SEQ segment features the least degree of reliance on Queensland and Commonwealth Government grant funding and recoverable works revenue.
- Net rates and utility charges have reduced in prominence in recent years as a result of external authorities taking control of water and sewerage responsibilities (and revenue), with this revenue replaced to some extent by dividend and interest payments.
- Other revenue also appears to have increased in prominence in recent years.

Figure A.7.36: Operating Revenue by Type – SEQ Segment (ex Brisbane), 2004/05-2011/12

Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

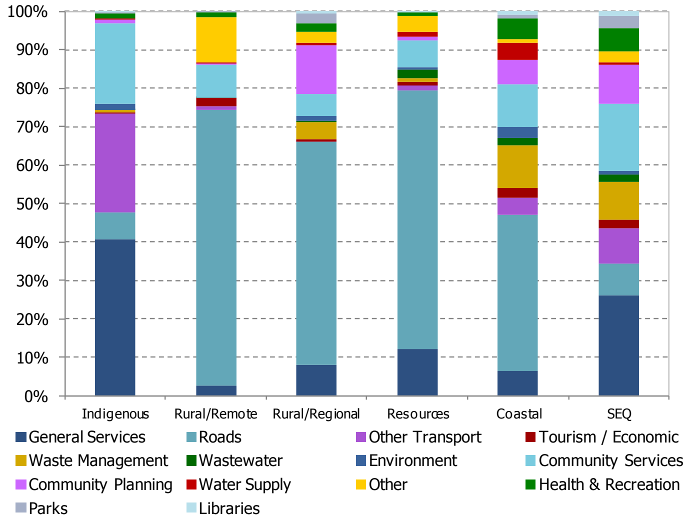
- Excluding the impact of Brisbane City Council, which dominates the SEQ segment in terms of size, it is evident that there is a greater degree of reliance on net rates and utility charges and a lesser reliance on interest revenue and other revenue.

Composition of Revenue by Service Function

Figure A.7.37 details the composition of operating revenue by service function for each council segment, based on the average composition within each segment. It would appear that there could be issues with the dataset due to differences in input categories used for different service functions. What is evident is that the SEQ and Coastal segments feature a more diverse revenue base.

Figure A.7.38 provides some insight into the composition of rates and charges and fees and charges revenue for each council segment to gain an insight into the types of 'controllable revenues' contributing to operating revenues.

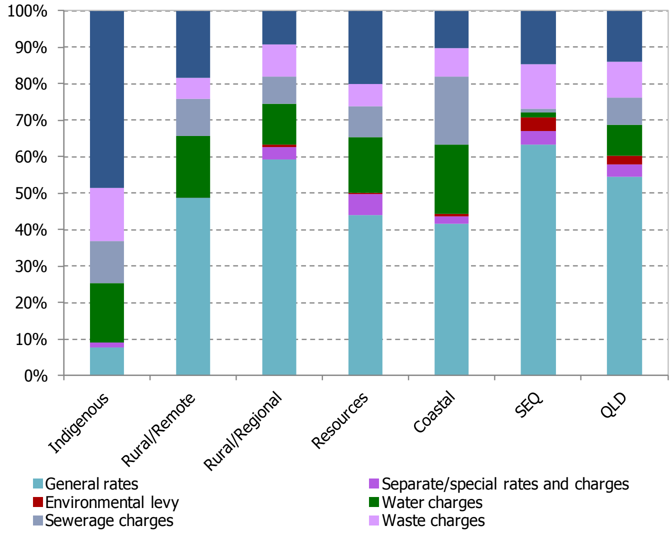
Figure A.7.37: Operating Revenue by Function, 2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The functional dataset appears to be a little ambiguous and the input fields utilised by different respondents may be used in an inconsistent manner.
- As such, only high level outcomes from the latest snapshot for 2011/12 are included here.
- What is evident is that the SEQ and Coastal segments benefit from a more diverse revenue base, whereas the other segments are heavily reliant on base funding for general service provision and the maintenance of road infrastructure.

Figure A.7.38: Composition of Rates and Charges and User Fees and Charges Revenue, 2011/12



Source: AEC*group,* DLGCRR (unpublished)

- Of the rates and charges/fees and charges collected by each council segment (net of any applicable discount), general rates represent the most significant component with the exception of the Indigenous segment where user fees and charges are most prominent.
- User fees and charges are also significant for the Resources and Rural/Remote segments.
- Water and sewerage revenues form a substantial component of rates and charges for the Coastal segment, but are insignificant for the SEQ segment due to recent water reforms.
- Separate/special rates and charges appear to be used greatest by the Resources segment, followed by the SEQ segment.
- Waste utility charges account for a relatively high percentage for the SEQ segment due to the lack of water and sewerage charges diluting its rates and charges base.

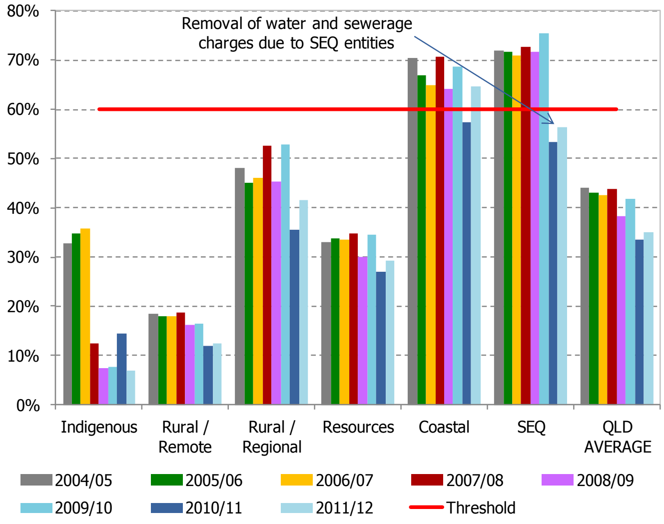
Own Source Revenue

DLGP (2011a) defines the own source revenue ratio as the percentage of a Local Government's total operating income (excluding items like capital grants) that is derived from rates and charges. This indicator is used to determine a Local Government's reliance on rate and charges revenue compared with other sources of revenue such as grants and subsidies or recoverable works. Generally, the higher the proportion of own source revenue, the greater the ability for a Local Government to control its revenue streams to recoup costs and therefore its own destiny.

Figure A.7.39 outlines the own source revenue ratio for each council segment, based on the average outcome for all Local Governments within each segment. It is evident that the Rural/Remote, Indigenous and Resources segments have very low levels of own source revenues and are therefore reliant on external funding from operational grants and recoverable works contracts for financial sustainability outcomes. Essentially, these segments will never be able to achieve the desired ratio of 60% (although it is noted that this target is no longer applicable in the Financial (Management) Sustainability Guideline 2013). It is worth noting that the Indigenous segment is currently achieving own-source revenue in the order of 5% of their operating expenditures (based on the data sample).

Own source revenues have declined in the SEQ segment (and to a lesser extent in the Rural/Regional segment) as a result of Local Governments no longer being directly responsible for the levying of water and sewerage utility charges as a result of water reforms. However, with the disestablishment of Allconnex, this will change from 2012/13 for three Local Governments in the SEQ segment. While selected SEQ Local Governments receive dividends from water and sewerage entities, they have less control over the extent of these dividends from year to year.

Figure A.7.39: Own Source Revenue Ratio, 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- The Coastal and SEQ segments have the highest own source revenue levels, indicating that they have a lesser reliance on external (and uncontrollable) sources of operating revenue.
- Own source revenues declined in 2010/11 in the SEQ segment (and to a lesser extent in the Rural/Regional segment) as a result of water and sewerage responsibilities (and revenues) being transferred to external entities.
- Operating grants and subsidies and recoverable contract works are significant funding sources for all other segments and they will never be able to achieve the desired 60% level – this is particularly the case for the Indigenous, Rural/Remote and Resources segments.
- It should be noted that 2010/11 own source revenue reduced across a number of segments due to the recognition of disaster funding payments from other tiers of Government within operating revenues.

Taxation/Rating Effort

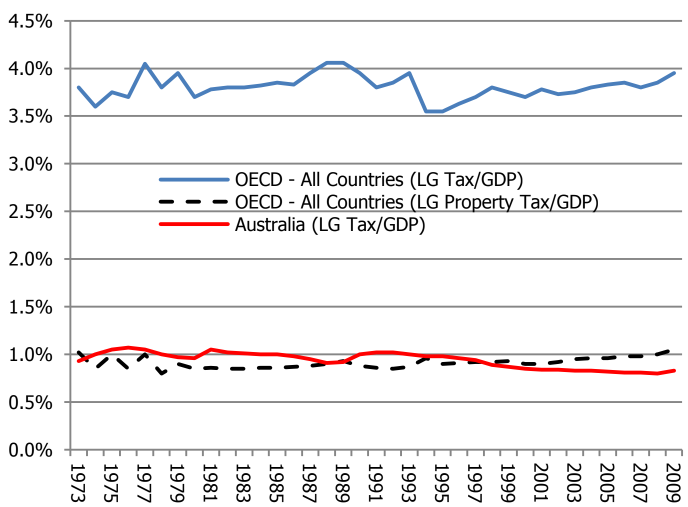
Description

Taxation or rating effort refers to the level of taxation on the economy, and can be measured in a number of ways. Three key measures are considered for the purposes of this study, being taxation effort per capita, taxation effort as a proportion of household income and taxation effort as a percentage of GDP/GSP/GRP (whichever is relevant).

International Comparison

A research paper presented by Warren and Mangioni (2012) showed that Australian Local Governments raise a similar proportion of GDP from taxing property values as the OECD average (Figure A.7.40). It is interesting to note that OECD Local Government property tax has remained at or below 1% of GDP since data became available in the 1970s, implying that the high visibility and lump sum nature of Local Government rates (as noted in Jones (1981)) creates a natural upper limit of ratepayers' capacity to pay of around 1% of GDP for such property taxes. The figure also highlights that total OECD Local Government taxation revenue is consistently around 3.5%-4.0% of GDP, with property tax revenue augmented through either other taxing powers or piggyback taxes.

Figure A.7.40: Local Government Taxation as a % of GDP



Source: Warren and Mangioni (2012)

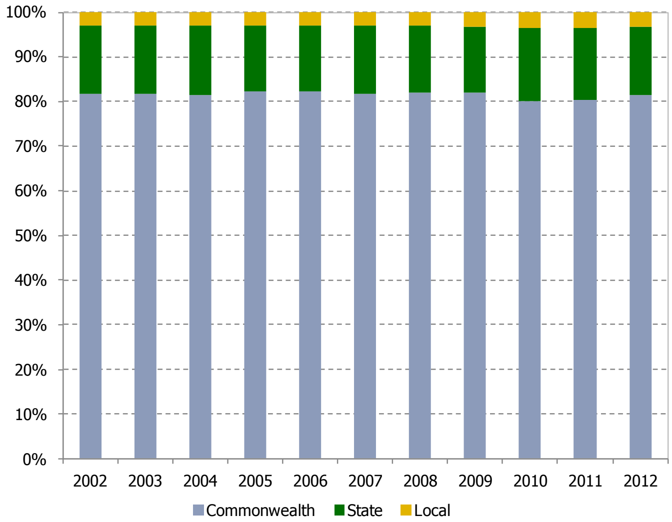
Interstate Comparison

The following figures provide a comparison of the level of taxation revenue collected by Local Governments in aggregate compared to other levels of Government, and the rating effort calculated for each State/Territory in aggregate.

Figure A.7.41 compares the taxation revenue collected by each level of Government, and shows that Local Governments in aggregate collected just 3.4% of all taxation revenue in 2011/12. Figure A.7.42 compares the taxation revenue collected by Local Governments in each State/Territory on a per capita basis, and shows that the Queensland outcome is well above the national average and has been growing at an average rate of 6.5% per annum. Figure A.7.43 compares the taxation revenue collected by Local Governments in each State/Territory as a proportion of GSP, and shows that the Queensland outcome is well above the national average and has been growing at an average rate of 4.5% per annum.

Figure A.7.44 outlines the taxation effort of each level of Government in the Queensland context (applying a flat percentage for the Commonwealth Government across Australia as a whole as a base). It is evident that the tax take by Local Governments is very minor when compared to the State and Commonwealth Governments.

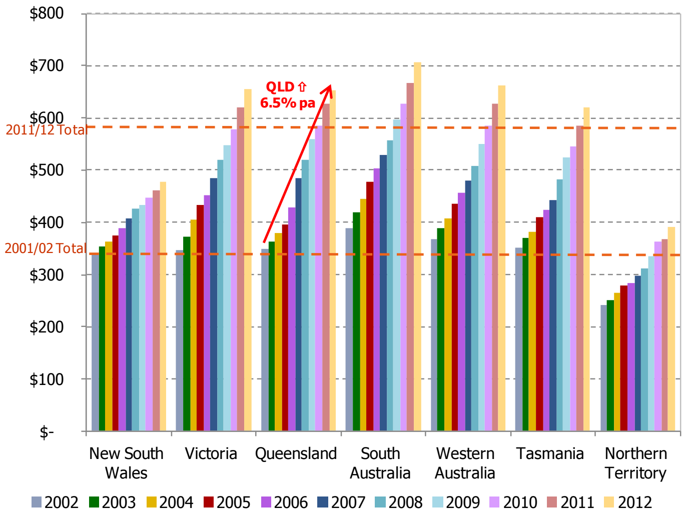
Figure A.7.41: Taxation Revenue Collected by Level of Government, 2001/02-2011/12



- In 2011/12, the share of taxation revenue collected was 81.3% for the Commonwealth Government, 15.3% for State Governments and 3.4% for Local Governments.
- On average over the past decade, the share of taxation revenue collected has been 81.5% for the Commonwealth Government, 15.4% for State Governments and 3.1% for Local Governments.

Source: AEC*group*, ABS (2013b)

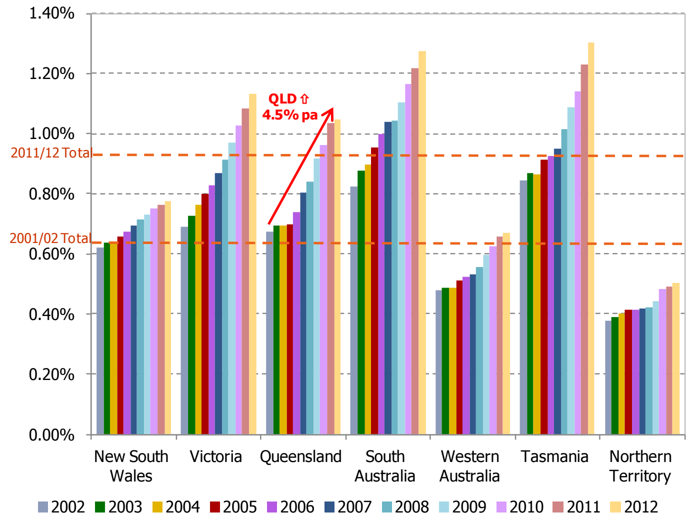
Figure A.7.42: Local Government Taxation Revenue per capita, 2001/02-2011/12



- Total Local Government taxation per capita has risen from $343 in 2001/02 to $587 in 2011/12, equating to an average annual growth rate of 5.5%.
- Queensland Local Government taxation per capita has increased from close to the average 2001/02 at $349 to $652 in 2011/12, equating to a much faster average annual rate of growth of 6.5%.
- The Queensland average annual growth rate of 6.5% is second highest behind Victoria at 6.6%.

Source: AEC*group*, ABS (2013b)

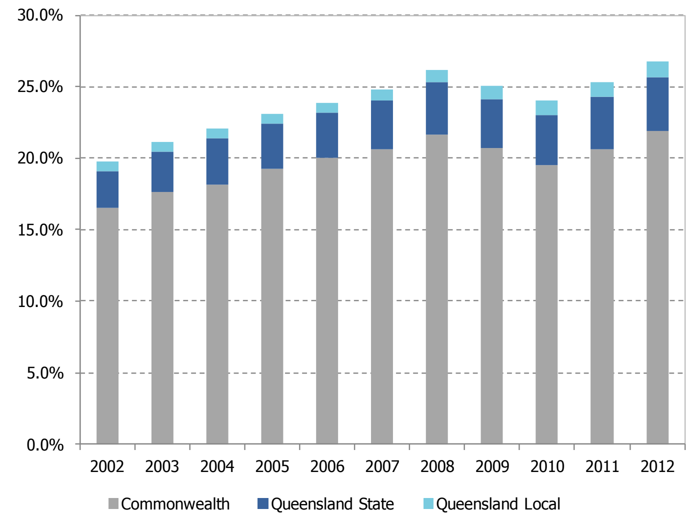
Figure A.7.43: Local Government Taxation Revenue % of GSP, 2001/02-2011/12



- Total Local Government taxation as a proportion of total GSP (excluding the ACT) increased from 0.64% in 2001/02 to 0.93% in 2011/12, equating to an average annual growth rate of 3.9%.
- Queensland Local Government taxation as a proportion of GSP increased from 0.67% in 2001/02 to 1.05% in 2011/12, equating to a much faster average annual rate of growth of 4.5%.
- The Queensland average annual growth rate of 4.5% is second highest behind Victoria at 5.1%.

Source: AEC*group,* ABS (2013b)

Figure A.7.44: Taxation Effort % of GSP/GDP by Level of Government – QLD, 2001/02-2011/12



- It is evident that the tax take from the economy by Local Government is very minor when compared to the State and Commonwealth Governments.

Source: AEC*group,* ABS (2013b)

Council Segment Comparison

Figure A.7.45 and Figure A.7.46 outline the level of general, separate and special rates and total rates and charges per capita (on an aggregate basis) for each council segment. The Rural/Remote, Resources and Coastal segments extract the most rates and charges revenue per capita, with the Resources segment boosted by revenue intake from resources sector projects.

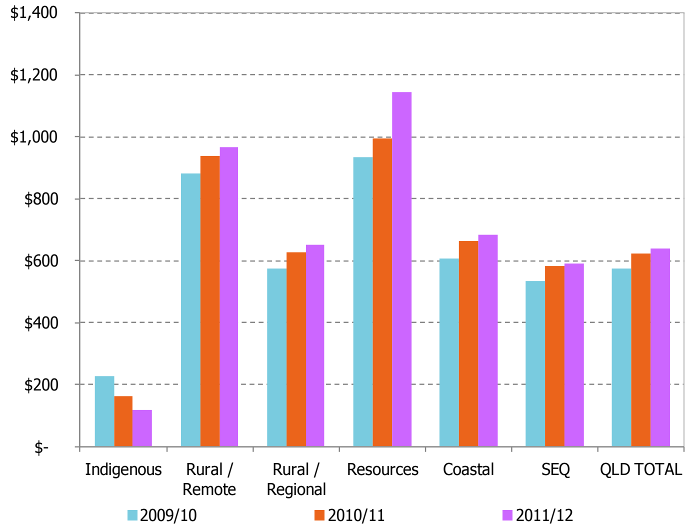
Figure A.7.47 and Figure A.7.48 outline the level of level of general, separate and special rates and total rates and charges per capita as a percentage of GRP (on an aggregate basis) for each council segment. The average tax take from rates and charges (when allowing for the exclusion of SEQ water and sewerage charges from 2010/11) from the economy has been increasing annually which is unsustainable, with the level of rating effort most significant for the Coastal segment. It would appear that there is still scope for additional rating effort for the Resources segment, focussed on resource sector activity.

Figure A.7.49 and Figure A.7.50 outline the level of general, separate and special rates and total rates and charges directly levied by Queensland Local Governments as a proportion of median household income for each council segment (based on the average outcome within each segment). General rates and other separate and special rates currently account for 1.6% of household income on average, while utility charges account for a further 1.7% of household income on average. This excludes the impact of SEQ water and sewerage charges, which were levied by external authorities for the vast majority of Local Governments in 2011/12.

When including the water and sewerage charges levied by the external authorities in the SEQ region as outlined in Figure A.7.51, utility charges account for 2.1% of household income on average in addition to the 1.6% levied via general rates and other separate and special rates.

Overall, it would appear that the Rural/Remote and Resources segments have some capacity to increase residential rating levels, while the Coastal and Rural/Regional segments have limited capacity to increase rating levels when reviewing the degree of rating effort relative to household incomes.

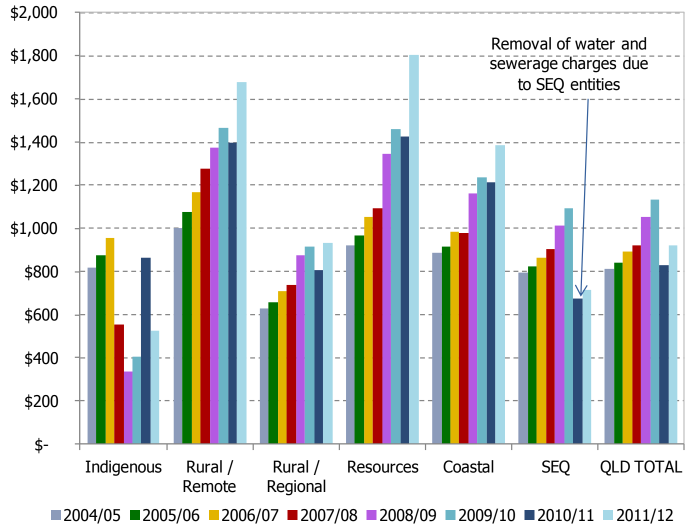
Figure A.7.45: General, Separate and Special Rates per capita, 2009/10-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The Indigenous segment has a largely non-existent general rate base which is reflected in its low per capita outcome.
- The Resources and Rural/Remote segments have the highest per capita rating levels, a result of their relatively low population base and resource sector and agricultural industry base.
- The per capita outcomes for the Rural/Regional and Coastal segments are reasonably similar, while the SEQ segment outcome is slightly lower than these two segments.
- The average per capita outcome is just over $600 per annum.
- When looking at the average outcome rather than aggregate outcomes for each segment, the per capita rates increase significantly for the Resources and Coastal segments.

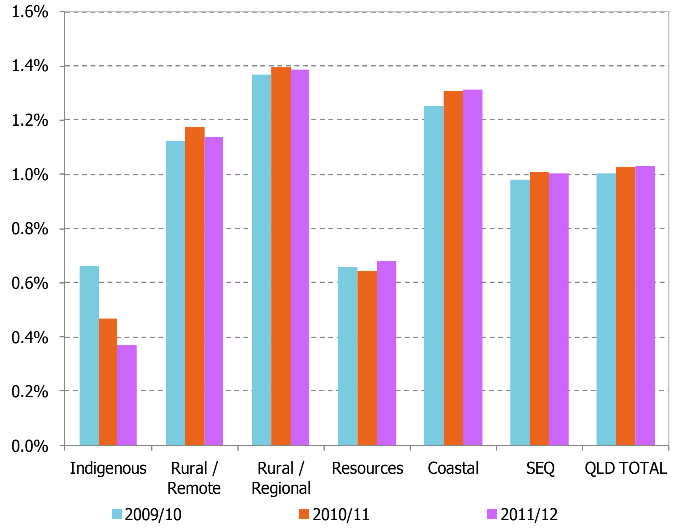
Figure A.7.46: Total Rates and Charges per capita, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The Indigenous segment has a high degree of variability due to the limited sample.
- All other segments appear to have a significant increasing trend evident in total rates and charges per capita, when allowing for the dip in the SEQ segment (and the Rural/Regional segment to a lesser extent) from the loss of water and sewerage charges resulting from the SEQ water reforms.
- The Resources, Rural/Remote and Coastal segments have the highest per capita rates and charges.
- The average per capita outcome is just over $900 per annum, although that is biased by the SEQ quantum.
- When looking at the average outcome rather than aggregate outcomes for each segment, the per capita rates increase significantly for the Resources segment.

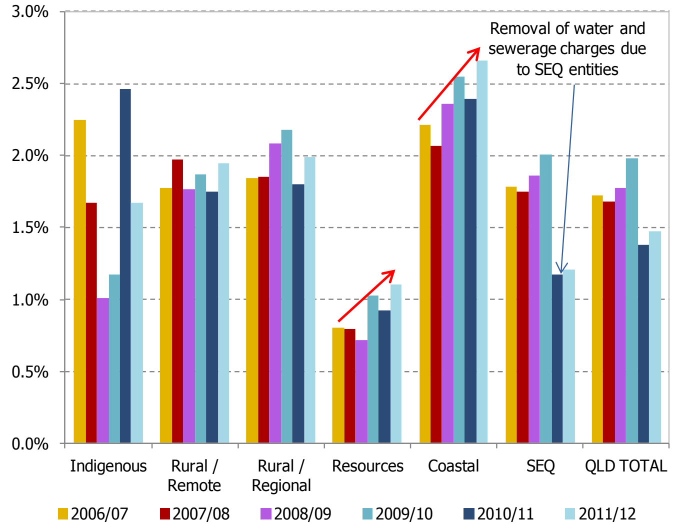
Figure A.7.47: General, Separate and Special Rates as % of GRP, 2009/10-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The average outcome is just in excess of 1% of GRP being collected in the form of general rates, separate rates and special rates.
- The Indigenous segment has a limited or non-existent general rate base which is reflected in its low ratio.
- The Resources segment also has a significantly lower tax take than the other segments relative to the level of regional economic activity.
- The Rural/Regional and Coastal segments appear to be extracting much more from the regional economy in rates than other segments.
- When looking at the average outcome rather than aggregate outcomes for each segment, the percentage of GRP outcomes increase significantly for the Resources and Coastal segments, with the Coastal segment increasing to be the highest.

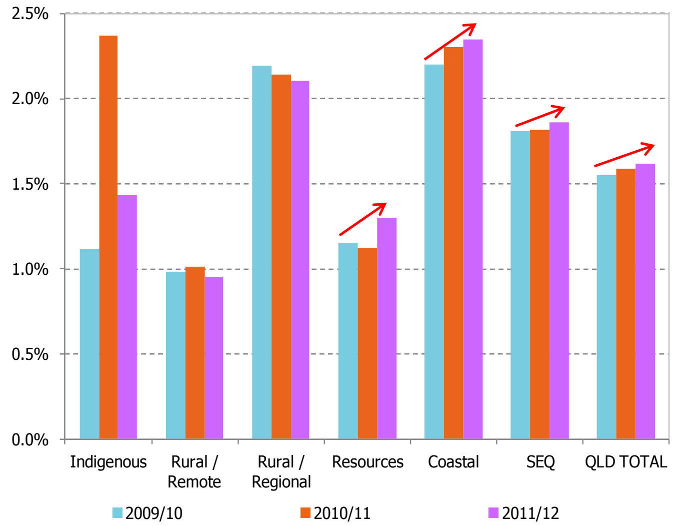
Figure A.7.48: Total Rates and Charges as % of GRP, 2006/07-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The Resources segment has a significantly lower tax take than the other segments relative to the level of regional economic activity, although the rating level is definitely increasing as preliminary steps are taken to ensure appropriate rating strategies are adopted.
- The Coastal segment extracts far more from the economy in rates and charges than all other segments, with the proportion increasing at a rapid rate.
- The SEQ segment (and the Rural/Regional segment to a lesser extent), in addition to the Queensland total, dipped in 2010/11 from the loss of water and sewerage charges resulting from the SEQ water reforms.
- When looking at the average outcome rather than aggregate outcomes for each segment, the percentage of GRP outcomes increase significantly for the Resources and SEQ segments.

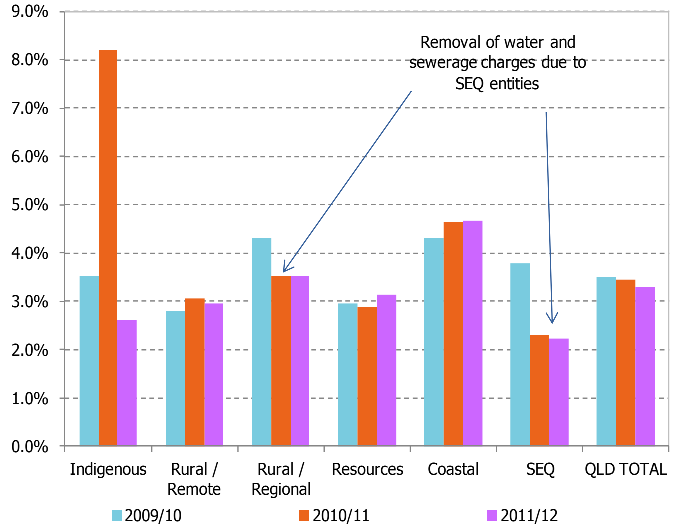
Figure A.7.49: General, Separate and Special Rates as % of Household Income, 2009/10-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- An average of 1.6% of median household income is collected in the form of general rates, separate rates and special rates.
- The Resources segment has a lower rating effort due in part to higher median incomes, although the wide range of incomes within this segment should be considered in setting rates.
- The Rural/Remote segment has the lowest rating effort, suggesting that there is scope for increases (noting that rate increases have a marginal impact on overall revenue levels given a heavy reliance on external funding sources).
- The Coastal and Rural/Regional segments are taking a much higher proportion of household income in rates than other segments.
- Rating levels relative to household income are trending upwards in the Resources, Coastal and SEQ segments.
- This increasing trend is unsustainable.

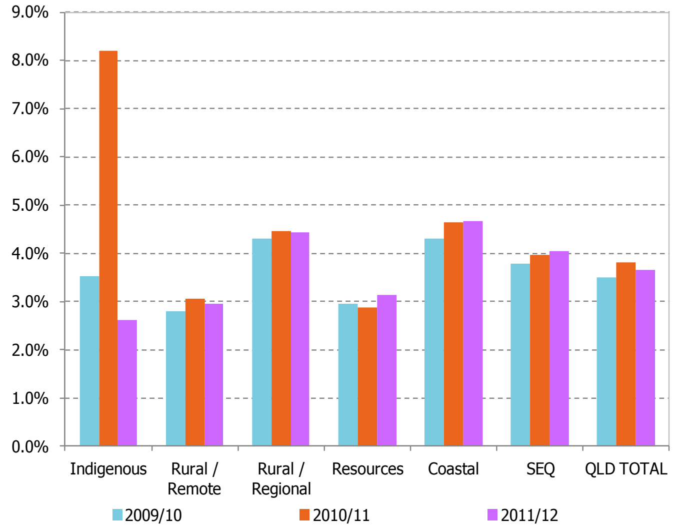
Figure A.7.50: Total Rates and Charges (excluding SEQ water and sewerage entity charges) as % of Household Income, 2009/10-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The volatility for the Indigenous segment is due to the limited sample.
- An average of 3.3% of median household income is collected in the form of total Local Government rates and charges, including water, sewerage and waste utility charges – this is even excluding the SEQ water and sewerage charges that are levied by external authorities.
- Outside of the SEQ segment, which did not levy water and sewerage charges in 2010/11 and 2011/12, the lowest ratios are recorded in the Rural/Remote and Resources segments although it is important to note that in some of these localities all utilities may not be available.
- The Coastal segment takes a much higher proportion of household income in rates than other segments, with the ratio appearing to be trending upwards.

Figure A.7.51: Total Rates and Charges (including SEQ water and sewerage entity charges) as % of Household Income, 2009/10-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- Including the SEQ entity water and sewerage charges shows that the Rural/Regional and SEQ outcomes have increased between 2009/10 and 2011/12 in both segments.

Implications for this Study

The following implications are noted from the analysis of rating/taxation effort data:

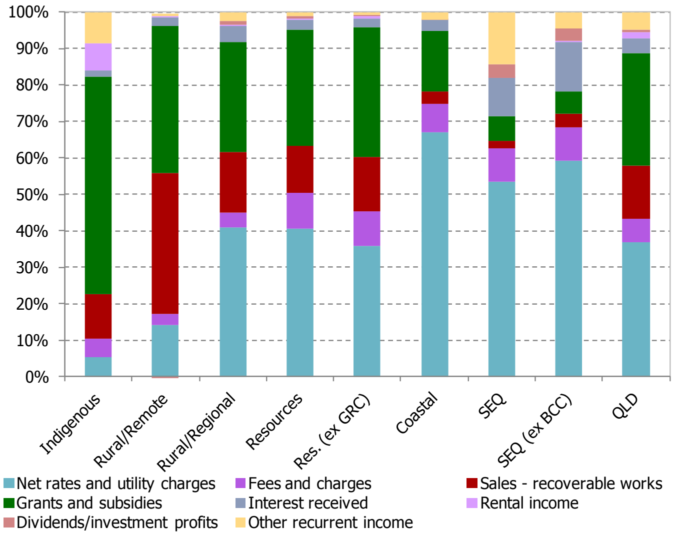
- It would appear that average rating levels across Queensland Local Governments are currently at the upper limit of ratepayers' capacity to pay, and continuing significant rate increases are likely to be unsustainable for most segments but particularly for the Rural/Regional, Coastal and SEQ segments.
- This highlights the limited additional own-source revenue raising capacity within the Queensland Local Government sector.
- The Rural/Remote and Resources segments appear to have some capacity for rate increases relative to other segments, although appropriate consideration of the socio-economic profile of areas within each Local Government jurisdiction also needs to be taken into account.
- The Indigenous segment faces its own set of constraints in seeking to generate higher levels of own-source revenue.

- Further, any increase in own-source revenue in these segments from residents is unlikely to significantly influence financial sustainability outcomes given the limited number of rateable assessments and the heavy reliance of Local Governments within these segments on external funding.
- The Resources segment appears to have definite additional rating capacity (on average) from the resource sector, given that valuations do not reflect the true impact on infrastructure and service provision, and while it is acknowledged that there has been some recent movements by individual Local Governments to ensure appropriate cost recovery based on the demands/needs of the sector, there would still appear further scope for additional rating policy amendments with the segment.
- Guidelines for the appropriate levying of rates based on demands/needs of the resource sector may be useful given past uncertainties regarding the legality of charging based on second best means (e.g. employment numbers) – the availability of GRP data may assist in providing a useful benchmark in ensuring that rating levels are appropriate.

External Funding Support

Figure A.7.52 restates an earlier graph detailing the composition of operating revenue for each council segment. The Indigenous segment is almost entirely reliant on Queensland and Commonwealth Government operational grant funding, while the Rural/Remote and Resources segments are also very heavily reliant on such grant funding in addition to recoverable works contracts revenue (often funded by the Queensland and Commonwealth Governments). Subsequent figures provide some more detail on external funding.

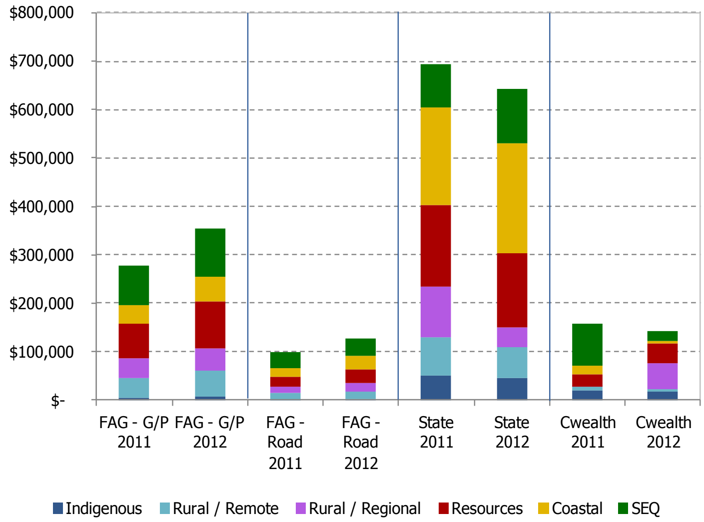
Figure A.7.52: Operating Revenue by Type by Council Segment, 2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The Indigenous, Rural/Remote and Resources segments are very heavily reliant on Queensland and Commonwealth Government grants for operational sustainability.
- The SEQ and Coastal segments have a lesser reliance on external funding support.

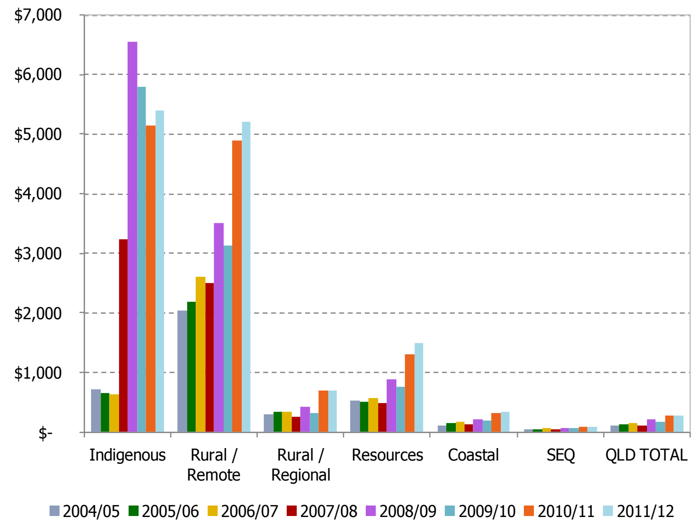
Figure A.7.53: Operating Grants and Subsidies by Type ($'000 in aggregate), 2010/11-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The operational grants data is a little skewed in 2010/11 and 2011/12 due to the recognition of disaster funding for infrastructure repairs and replacement as operating revenues for certain council segments.
- Further, the limited sample for the Indigenous segment means that the level of operational grants for that segment is understated.

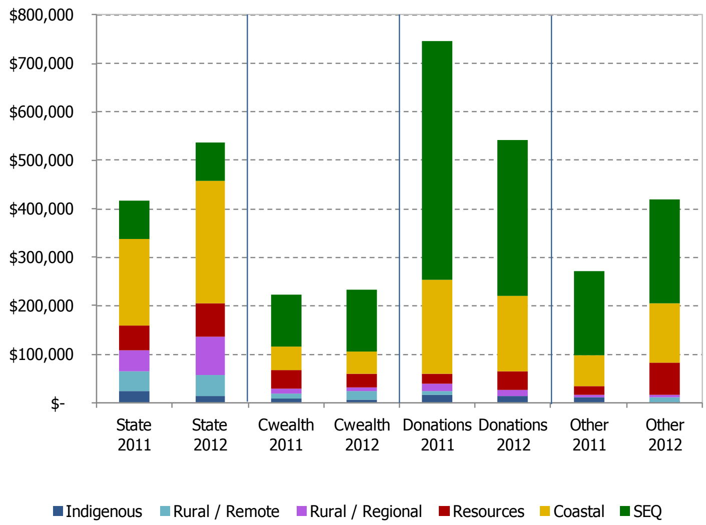
Figure A.7.54: Operating Grants and Subsidies per capita (aggregate), 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The Indigenous segment only had one respondent to the data return in the early years and so the latter years are more reflective of actual outcomes.
- The Indigenous and Rural/Remote segments feature the highest level of operating grants on a per capita basis, reflecting their very limited rate base.
- The Resources segment also has a relatively high level of external operational funding assistance per capita, with the result significantly higher when excluding Gladstone Regional Council.
- Observed spikes in 2010/11 and 2011/12 across a number of segments relate to the recognition of disaster funding for infrastructure repairs and replacement as operating revenues rather than being reflective of increases in recurrent operational grants and subsidies.

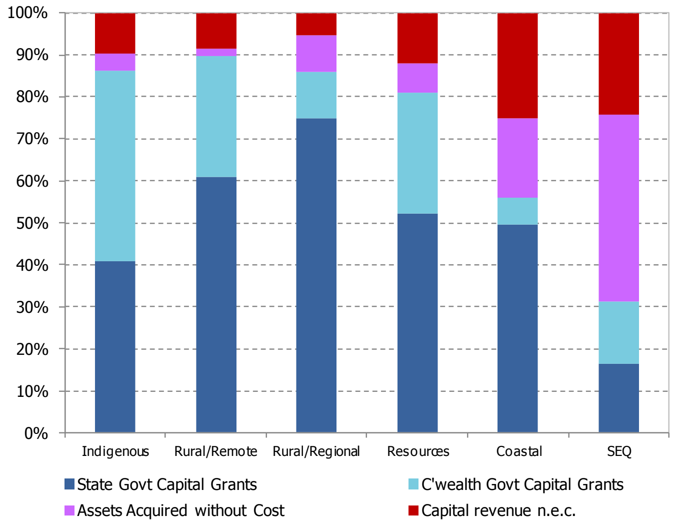
Figure A.7.55: Capital Revenues by Type ($'000 in aggregate), 2010/11-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The capital revenues received by the SEQ segment are primarily in the form of assets acquired without cost (e.g. developer donated assets) and other capital revenues.
- The Coastal segment also receives significant capital funding through these two sources, in addition to Queensland Government grants and subsidies.

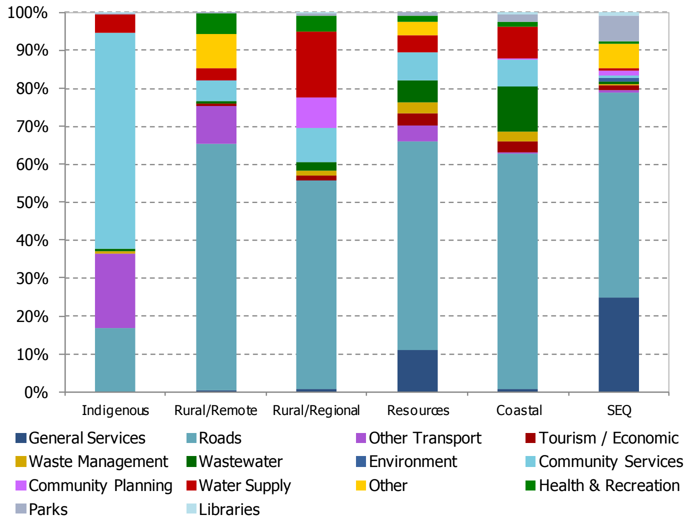
Figure A.7.56: Capital Revenue by Type (composition %, average within segment), 2011/12



Source: AEC*group,* DLGCRR (unpublished)

- In terms of capital revenues received, Queensland and Commonwealth Government grants are of greatest prominence in the Indigenous, Rural/Remote, Rural/Regional and Resources segments.
- Assets acquired without cost (e.g. donated or contributed) and other capital revenue are much more prominent in the SEQ and Coastal segments, a reflection of their high growth profiles.

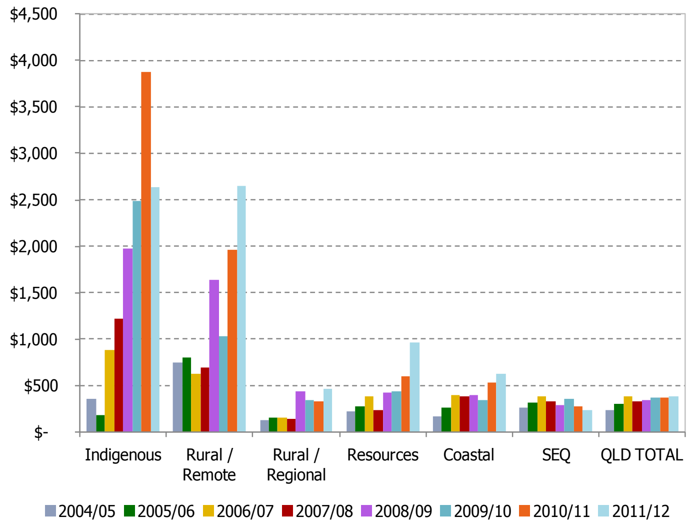
Figure A.7.57: Capital Revenue by Function (composition %, average within segment), 2011/12



Source: AEC*group,* DLGCRR (unpublished)

- The majority of capital revenue for most segments is for roads infrastructure.
- The Indigenous segment is the exception, with capital revenues focussed towards community services and community planning infrastructure.
- With the removal of water and sewerage subsidies, the extent of capital revenues for those service functions has declined considerably in recent years, particularly for the Coastal and SEQ segments (which represent the majority of the growth areas within Queensland).

Figure A.7.58: Capital Grants and Subsidies per capita (aggregate), 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The Indigenous and Rural/Remote segments feature the highest level of capital revenue on a per capita basis.

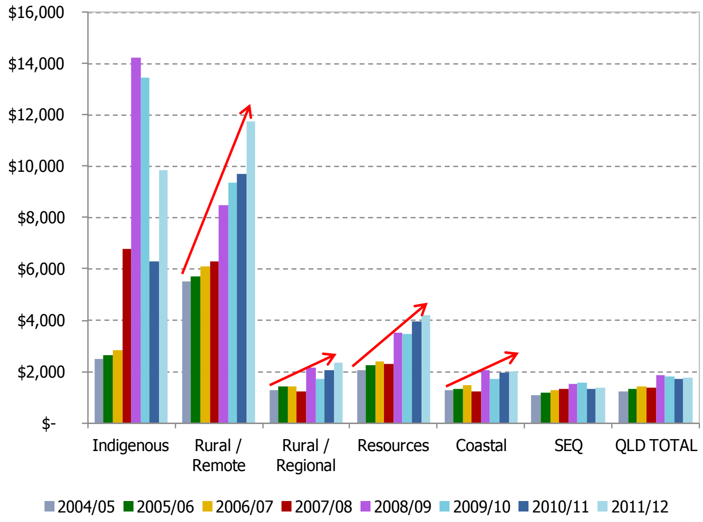
Expenditure Composition

The purpose of this section is to undertake a comparative analysis of the composition of expenditure streams for each identified council segment over time, both in terms of the type of expenditure incurred (e.g. labour, materials and services, depreciation, other) and the function to which funds are applied (e.g. water, sewerage, waste, roads, parks, libraries).

Level of Expenditure

Figure A.7.59 and Figure A.7.60 outline the level of expenditure for each council segment relative to population and economic activity, respectively. Overall, it is evident that expenditure is rising at a rapid rate for a number of council segments, particularly the Rural/Remote, Resources, Rural/Regional and Coastal segments. The SEQ segment outcomes dropped away in 2010/11 as a result of the transfer of water and sewerage expenditure to external entities.

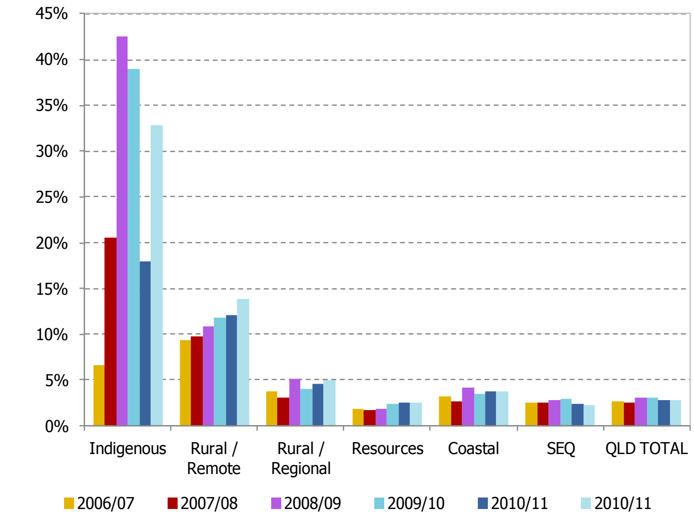
Figure A.7.59: Operating Expenditure per capita – Aggregate Segment, 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- The limited population and lack of economies of scale of the Rural/Remote and Indigenous segments see them having the highest per capita expenditure outcomes.
- The Rural/Remote and Resources segments are experiencing a concerning rate of increase in expenditure.
- Even the Rural/Regional and Coastal expenditure per capita outcomes are on a reasonably steep upward trend.
- The SEQ segment expenditure per capita outcome dropped away in 2010/11 as water and sewerage responsibilities were transferred to external entities.
- Spikes in the expenditure per capita levels in 2010/11 and 2011/12 can in part be attributed to flood reconstruction works for certain segments.

Figure A.7.60: Operating Expenditure as % GRP – Aggregate Segment, 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- The limited population and lack of economies of scale of the Rural/Remote and Indigenous segments see them having the highest expenditure outcomes relative to GRP.

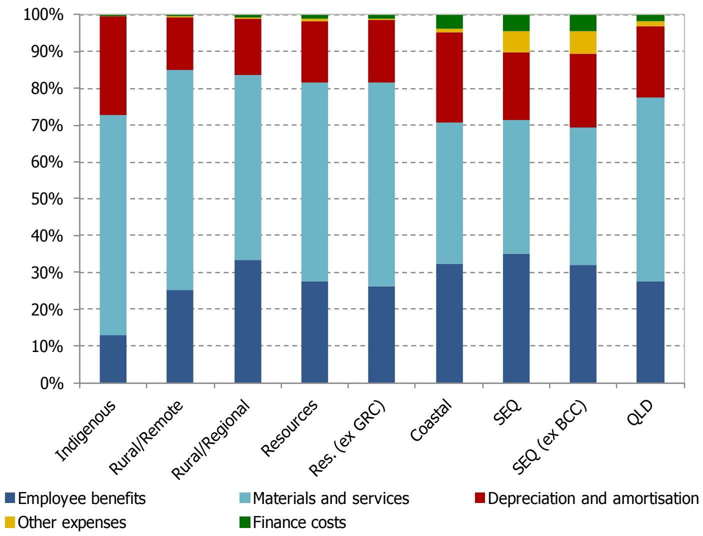
Composition of Expenditure by Type

Figure A.7.61 details the composition of operating expenditure (including depreciation and interest) by type of expenditure item for each council segment, based on the aggregate expenditure position within each council segment. Relative to the average across all council segments:

- The Indigenous, Rural/Remote and Resources segments feature a relatively greater proportion of expenditure on materials and services costs.
- The Rural/Regional, Coastal and SEQ segments feature a relatively greater proportion of expenditure on labour costs.
- The Indigenous and Coastal segments feature a relatively greater proportion of expenditure on depreciation charges.
- The SEQ and Coastal segments feature a relatively greater proportion of expenditure on interest costs.
- Labour costs appear to be reducing relative to other operating expenditure items for most segments, with the exception of the SEQ segment and possibly the Rural/Regional segment (depending on the impacts of flood reconstruction works on the proportions in 2010/11 and 2011/12).
- The importance of materials and services costs is increasing for those council segments primarily featuring smaller Local Governments and effective purchasing practices are becoming increasingly important in those council segments.
- Finance costs have been increasing at a rapid rate for the SEQ and Coastal segments in recent years.

Figure A.7.62 to Figure A.7.67 provide a time series of the composition of operating expenditure for each council segment, based on the aggregate expenditure position within each council segment.

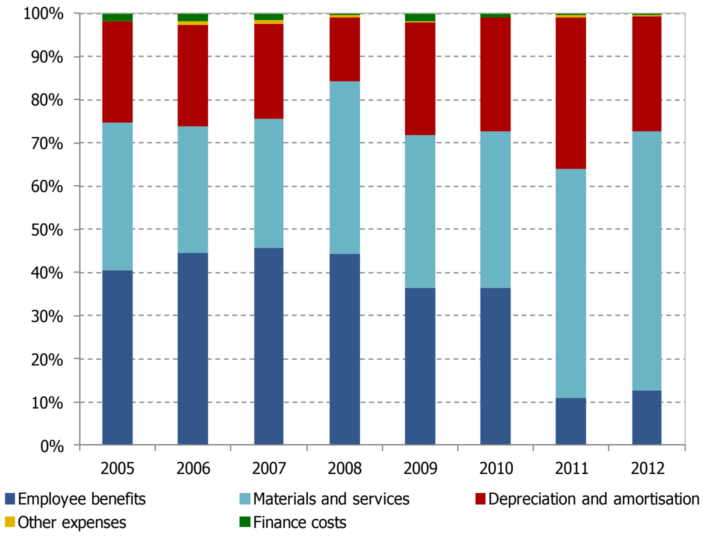
Figure A.7.61: Operating Expenditure Composition by Type, 2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- Most expenditure in the Indigenous segment is on materials and services (60%), followed by depreciation (27%) and labour (13%).
- Most expenditure in the Rural/Remote segment is on materials and services (60%), followed by labour (25%) and depreciation (15%).
- Most expenditure in the Rural/Regional segment is on materials and services (50%), followed by labour (33%) and depreciation (15%).
- Most expenditure in the Resources segment is on materials and services (60%), followed by labour (25%) and depreciation (15%).
- Most expenditure in the Coastal segment is on materials and services (38%), followed by labour (32%) and depreciation (24%).
- Most expenditure in the SEQ segment is on materials and services (36%), followed by labour (35%) and depreciation (18%).

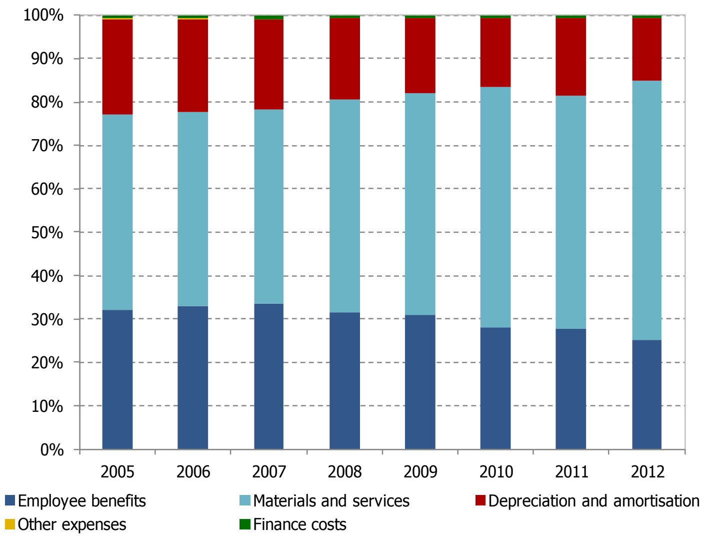
Figure A.7.62: Operating Expenditure Composition by Type – Indigenous, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The limited and changing sample has created a high degree of variation in outcomes for the Indigenous segment.
- What is apparent, however, is that there is a relatively low incidence of labour costs and a significantly greater reliance on materials and services costs which now account for 60% of expenditure.
- Depreciation also accounts for a relatively high 27% of expenditure.
- Finance costs and other expenditure are very minor and appear to be decreasing in terms of importance.

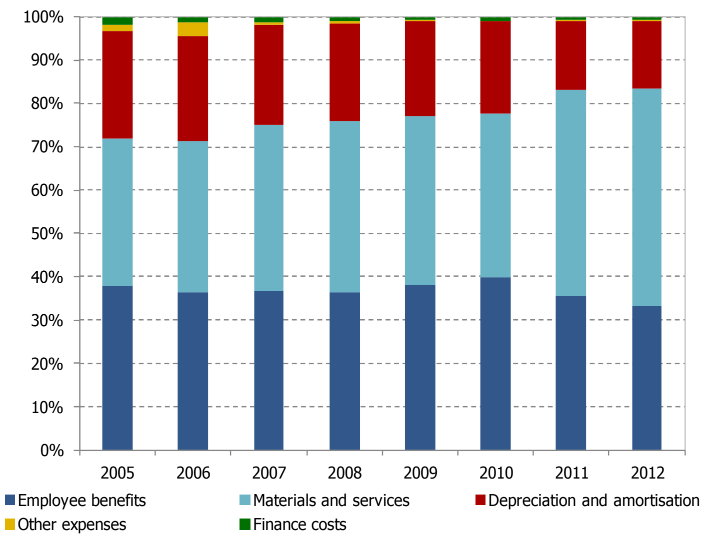
Figure A.7.63: Operating Expenditure Composition by Type – Rural/Remote, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- Labour costs account for a declining proportion of expenditure at just 25% in 2011/12 from 33% five years prior.
- Materials and services costs account for an increasing proportion of expenditure at 60% in 2011/12 from 45% five years prior.
- Depreciation charges account for 15%, with depreciation charges also having declined as a proportion of expenditure in recent years.
- Finance costs are minor at less than 1% of expenditure, and are decreasing in terms of importance.

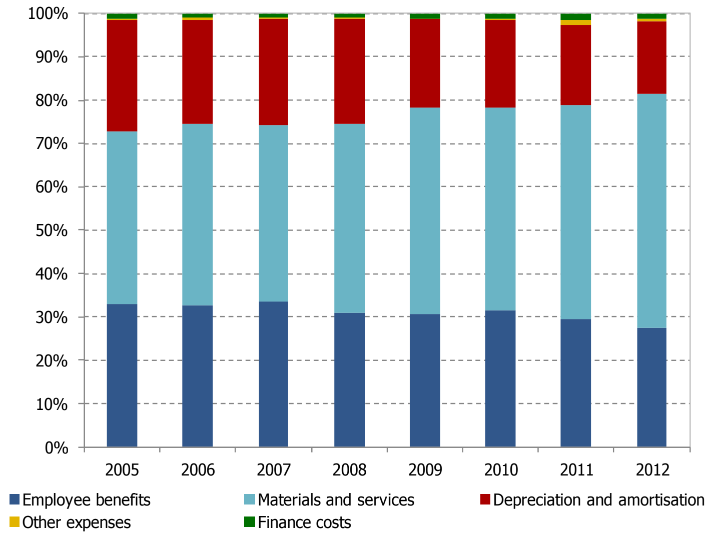
Figure A.7.64: Operating Expenditure Composition by Type – Rural/Regional, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- Labour costs account for a declining proportion expenditure at one third in 2011/12 down from 40% in 2009/10 – prior to this reduction, labour costs as a proportion of expenditure were actually increasing.
- Depreciation also accounts for a decreasing proportion of expenditure.
- Materials and services costs as a proportion of expenditure increased considerably in 2010/11 and even further in 2011/12, accounting for half of all costs incurred.
- However, it is possible that the proportions in 2010/11 and 2011/12 were distorted as a result of flood reconstruction works and further analysis of future years is required before making any firm conclusions regarding a definite trend.
- Finance costs are minor at less than 1% of operating expenditure.

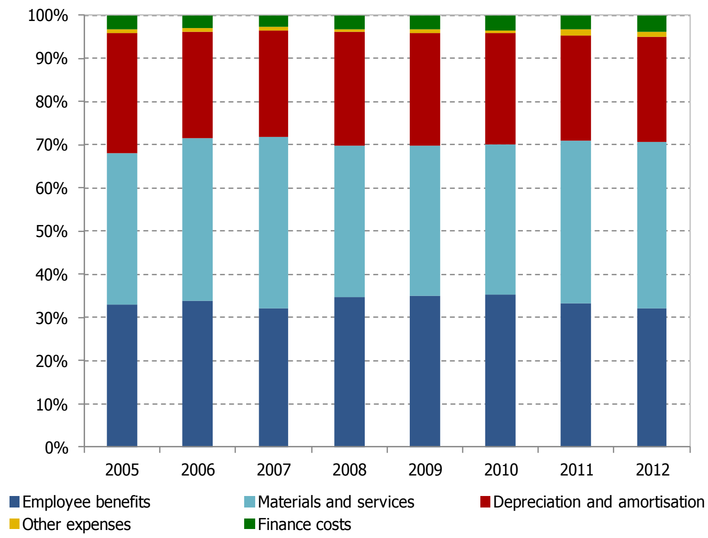
Figure A.7.65: Operating Expenditure Composition by Type – Resources, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- Labour costs account for a declining proportion of expenditure at 28% in 2011/12 from 34% five years prior.
- Materials and services costs account for an increasing proportion of expenditure at 54% in 2011/12 from 40% five years prior.
- Depreciation charges account for 17%, with depreciation charges also having declined as a proportion of expenditure in recent years.
- Finance costs appear to be on a slightly increasing trend at 1%-2% of expenditure in recent years.
- Excluding the impact of Gladstone Regional Council, which dominates the Resources segment in terms of size, the trends are broadly similar with the extent of labour costs and finance costs slightly reduced and the extent of materials and services costs increased.

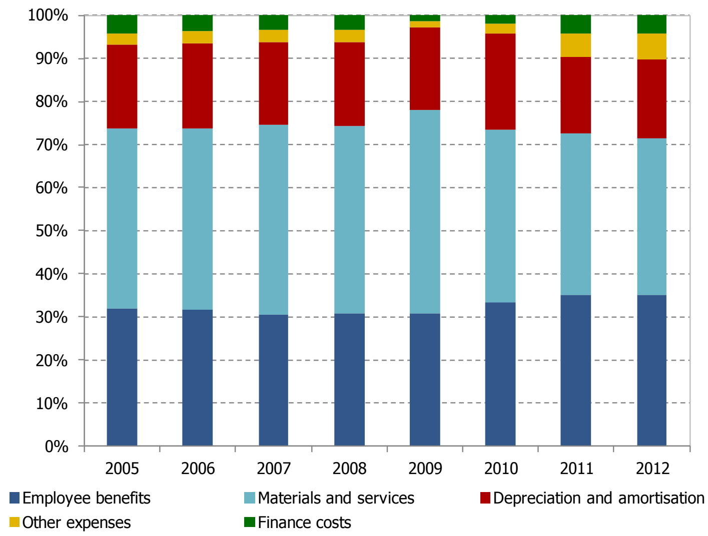
Figure A.7.66: Operating Expenditure Composition by Type – Coastal, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- Labour costs account for a relatively high 32% of expenditure in 2011/12, although this is down from levels experienced a few years prior.
- Materials and services costs account for a relatively low 38% of expenditure in 2011/12, which is comparable to the average of historical outcomes.
- Depreciation charges account for 24% of expenditure in 2011/12, a slight reduction from the average of historical outcomes.
- Finance costs account for 4% of expenditure in 2011/12, an increase of nearly 40% from the outcome five years prior.

Figure A.7.67: Operating Expenditure Composition by Type – SEQ, 2004/05-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

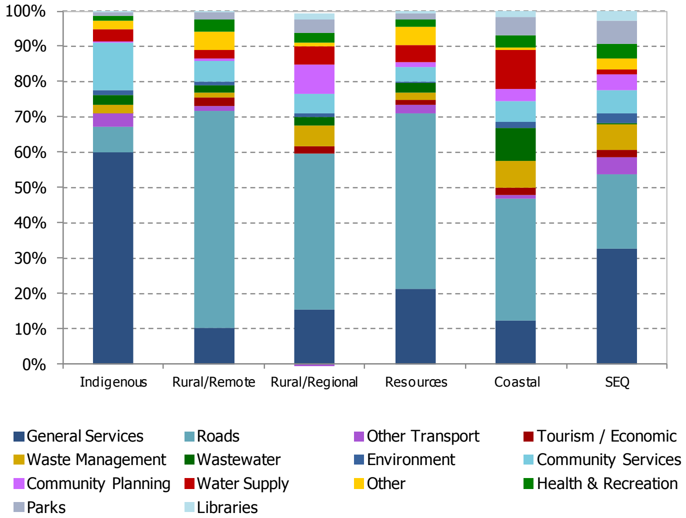
- Against the trend in the other segments, labour costs are on an increasing trend for the SEQ segment, at 35% of expenditure in 2011/12 and up from 30% five years prior.
- Materials and services costs account for a reducing proportion of expenditure.
- Depreciation charges account for 20% of expenditure in 2011/12, down from a few years prior.
- However, these outcomes would appear to be primarily due to the transfer of water and sewerage functions to external entities in recent years.
- Other expenses have increased in recent years to be around 6% of expenditure in 2011/12.
- Finance costs account for in excess of 4% of expenditure, up 130% from the level recorded following the compensation payments made for bulk water assets a few years prior.

Composition of Expenditure by Service Function

The data on operating expenditure by service function is heavily reliant on the appropriate dissection of operating expenditure by the Local Governments responding to the DLGCRR (unpublished) data returns. However, the results of the following analysis provide some high-levels outcomes that should be noted, including:

- Roads expenditure is generally the most prominent operating expenditure item for Queensland Local Governments, with the exception of the Indigenous segment and the SEQ segment (to a lesser extent).
- Operating expenditure within the Indigenous segment is focussed primarily on general Local Government operations and community services, while operating expenditure within the SEQ segment is more broadly spread over a variety of functions.
- The prominence of roads expenditure appears to be increasing for most council segments, but is particularly noticeable for the Rural/Remote segment.
- For most council segments, there appears to have been some rationalisation in operating expenditure on general services (primarily Local Government operation and administration), although the relatively low outcomes for the Rural/Remote segment (and possibly the Coastal segment) may actually be reflective of a lack of appropriate resources within this function.

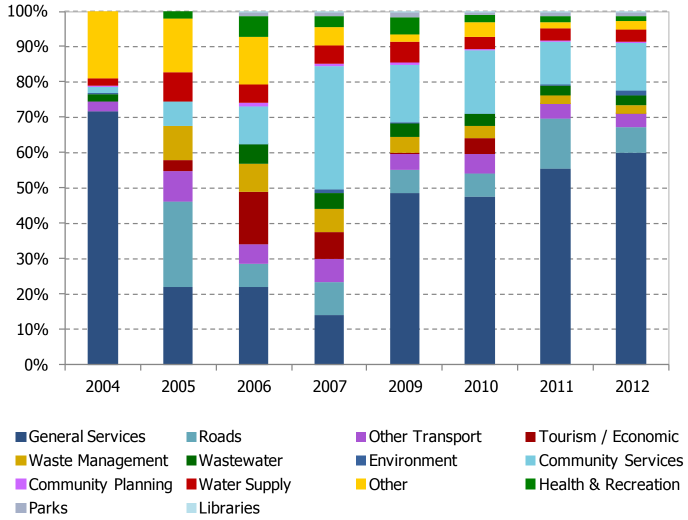
Figure A.7.68: Operating Expenditure by Function by Council Segment, 2011/12



Source: AEC*group*, DLGCRR (unpublished)

- For the Rural/Remote, Resources and Rural/Regional segments, operating expenditure on roads is most prominent, followed by general Local Government expenditure.
- The Rural/Regional segment also spends a relatively high proportion of expenditure on community planning, waste management and water supply.
- The most prominent areas of expenditure for the Indigenous segment include general Local Government expenditure and community services.
- Roads expenditure is somewhat less significant for the Coastal segment, with expenditure on water, sewerage, waste management and parks more prominent than most other segments.
- The SEQ segment has a relatively high prominence of general Local Government expenditure, waste management, parks and other transport expenditure.

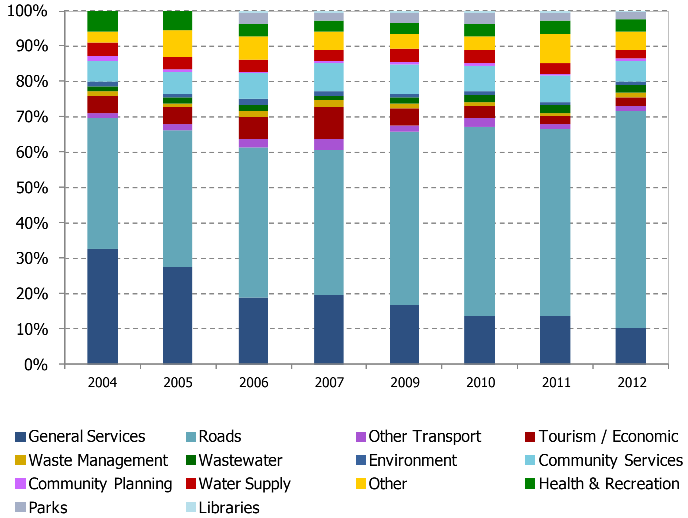
Figure A.7.69: Operating Expenditure by Function – Indigenous, 2003/04-2011/12



Source: AEC*group*, DLGCRR (unpublished)

- The volatility in the proportions over time appear to be a result of the very limited sample of Indigenous Local Governments in the dataset.
- Expenditure appears most prevalent in the general services and community services functions, with this trend most evident in recent years.

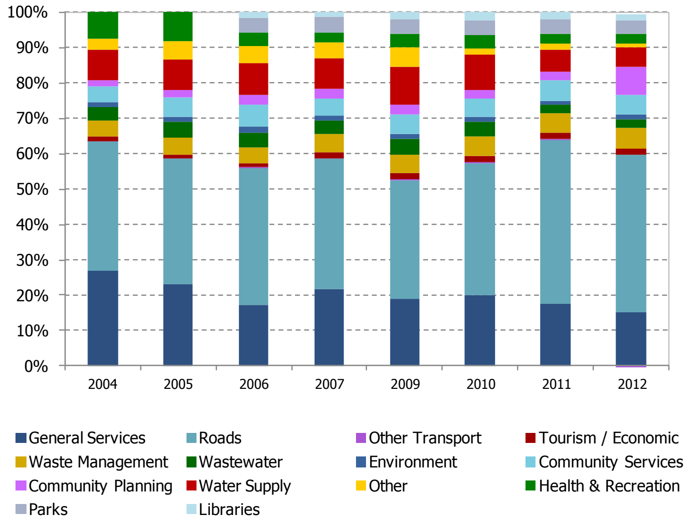
Figure A.7.70: Operating Expenditure by Function – Rural/Remote, 2003/04-2011/12



Source: AEC*group*, DLGCRR (unpublished)

- Expenditure on roads is most significant for the Rural/Remote segment, with the prominence of expenditure on this function showing a clear increasing trend.
- Expenditure on general services accounts for a reducing proportion of operating expenditure, possibly highlighting constrained management and administration resources.
- Expenditure on community services is relatively significant compared to other functions.
- Water supply and wastewater appear to account for a relatively stable share of operating expenditure.

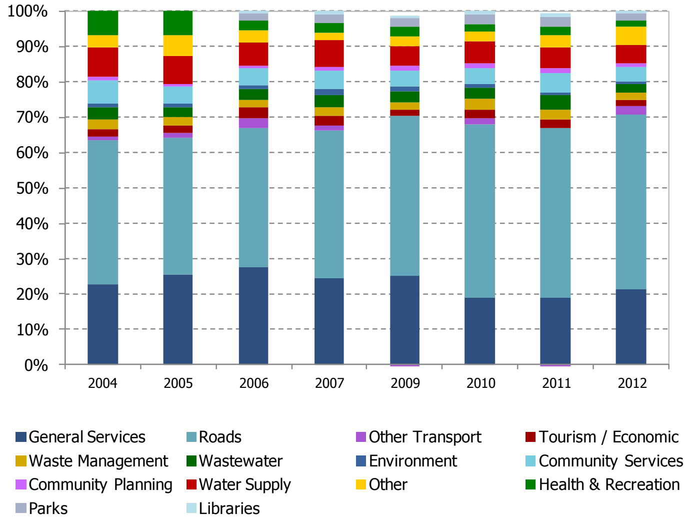
Figure A.7.71: Operating Expenditure by Function – Rural/Regional, 2003/04-2011/12



Source: AEC*group*, DLGCRR (unpublished)

- Expenditure on roads is most significant for the Rural/Regional segment, with the prominence of expenditure on this function showing an increasing trend.
- Expenditure on general services accounts for a reducing proportion of operating expenditure, possibly highlighting some rationalisation in recent years.
- The Rural/Regional segment also spends a relatively high proportion of expenditure on waste management (slight increasing trend), water supply (reducing trend) and community planning (jump in 2011/12).

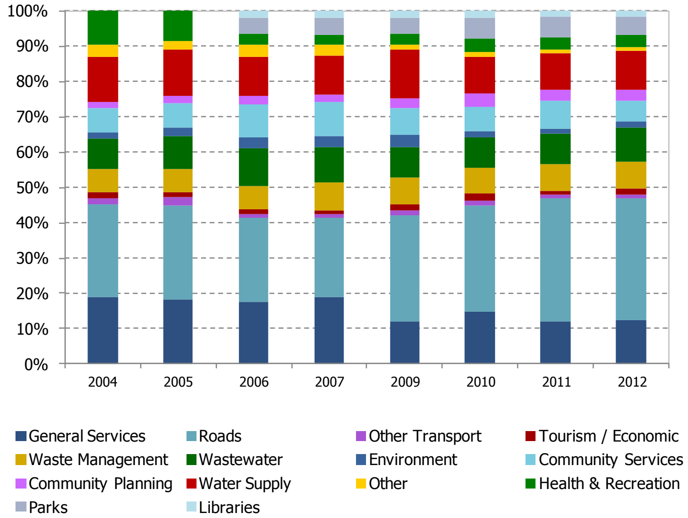
Figure A.7.72: Operating Expenditure by Function – Resources, 2003/04-2011/12



Source: AEC*group*, DLGCRR (unpublished)

- Expenditure on roads is most significant for the Resources segment, with the prominence of expenditure on this function showing an increasing trend.
- Expenditure on general services accounts for around 20% of operating expenditure, with this proportion slightly increasing in recent years after falling away in 2009/10.
- Water supply, community services and other expenditure are the next most prominent functions.

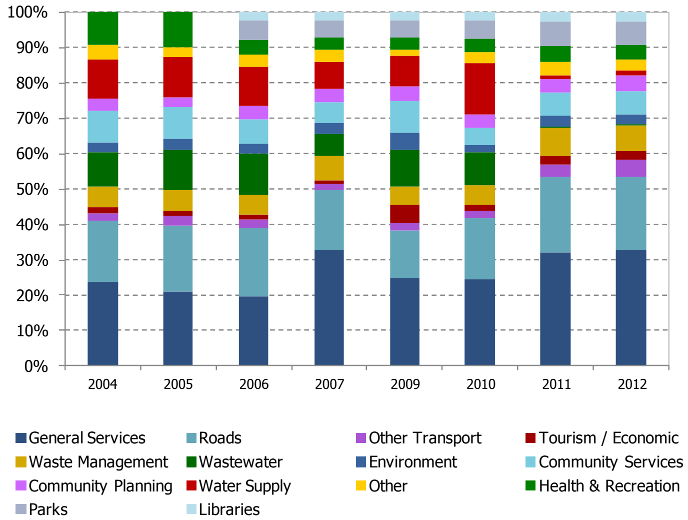
Figure A.7.73: Operating Expenditure by Function – Coastal, 2003/04-2011/12



Source: AEC*group*, DLGCRR (unpublished)

- Roads expenditure is somewhat less significant for the Coastal segment, with expenditure on water, sewerage, waste management and parks more prominent than most other council segments.
- Expenditure on general services accounts for just over 10% of operating expenditure, with this proportion holding relatively stable in recent years after falling away in 2008/09.
- Expenditure on roads appears to be increasing in prominence.
- The prominence of expenditure on water, sewerage and waste management appears to be holding fairly constant.
- Expenditure on community services appears to be reducing in prominence.

Figure A.7.74: Operating Expenditure by Function – SEQ, 2003/04-2011/12



Source: AEC*group*, DLGCRR (unpublished)

- The SEQ segment has a relatively high prominence of general Local Government expenditure, waste management, parks and other transport expenditure when compared to other segments.
- The water supply and wastewater functions accounted for in excess of 20% of total operating expenditure prior to the shifting of water and wastewater responsibilities to external authorities in 2010/11.
- Expenditure on general services appears to be increasing in prominence, but is likely a result of the considerable loss of scale resulting from the water supply and wastewater functions.

Human Resources

Figure A.7.75, Figure A.7.76 and Figure A.7.77 outline the ratio of population serviced per full-time equivalent (FTE) employee, per outdoor FTE and per indoor FTE for each council segment, respectively. The higher the ratio, the greater the economies of scale achieved in service provision. An increasing trend highlights improved economies of scale, while a decreasing trend highlights a deterioration in economies of scale.

The "*QLD*" outcome in the figures represents the average outcome for all Local Governments responding to the data return, whereas the "*QLD Total*" outcome represents the weighted average outcome across Queensland (with the SEQ segment obviously featuring a greater weighting given its share of total Queensland population).

Obviously, the council segments servicing greater populations and with higher population densities (e.g. the SEQ and Coastal segments) are able to benefit from greater economies of scale in service provision. Conversely, the council segments servicing small populations and with very low population densities (e.g. Rural/Remote, Indigenous and Resources segments) suffer from significant diseconomies of scale in service provision.

It is evident from the analysis that the SEQ segment has been able to leverage off increasing economies of scale in service provision from a labour perspective in recent years, with most of the economies of scale occurring in the outdoor workforce. (Some degree of caution must be given to the analysis given that it does not take into consideration the impact of any change in service delivery such as the use of contractors.) However, no other segment appears to have been able to enhance economies of scale in recent years. In fact, the Rural/Remote and Resources segments have experienced a consistent deterioration in economies of scale, largely due to the indoor workforce increasing at a greater rate than the population served.

It would appear that many council segments have experienced a deterioration in economies of scale in service provision from their indoor workforce, suggesting increased administration and compliance pressures. It is possible that Local Government reforms have enabled some rationalisation in outdoor staff for selected segments (SEQ, Coastal and Rural/Regional), but with the exception of the SEQ segment this has been offset by increased internal workforce resourcing requirements.

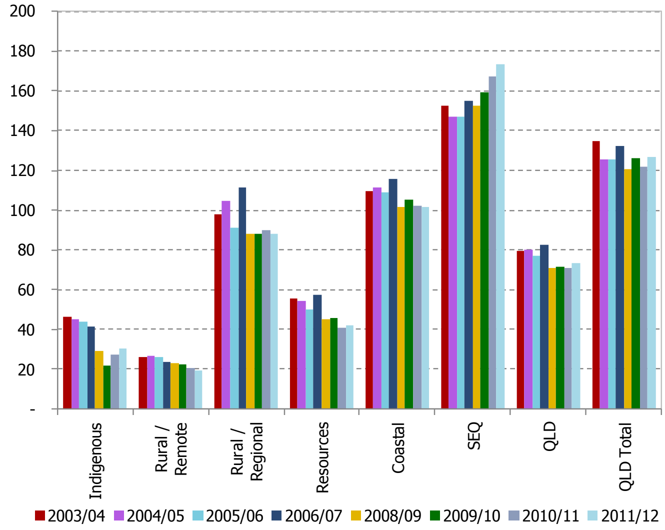
Figure A.7.78 outlines the proportion of operating expenditure represented by labour costs. A noticeable declining trend is evident, particularly for the Indigenous, Rural/Remote and Resources segments. The Coastal and Rural/Regional segments appear to have made some improvements in recent years, although this could be a result of a spike in flood reconstruction works and additional time series data is required before making a definitive determination.

Regarding skills attraction and retention, LGAQ undertakes a skills survey of Queensland Local Governments and reports outcomes based on its Advocacy segments.

Figure A.7.79 and Figure A.7.80 show that there has been an improvement in skills attraction in recent years, with the number of months required to fill job vacancies reducing particularly for the Coastal and SEQ segments. However, attracting employees in the Indigenous, Rural/Remote and Resources segments remains an issue, consistent with the outcomes of the financial sustainability survey.

Figure A.7.81 indicates that while there has been a general reduction in employee turnover in recent years, turnover remains very high in the Indigenous segment, followed by the Resources and Rural/Remote segments.

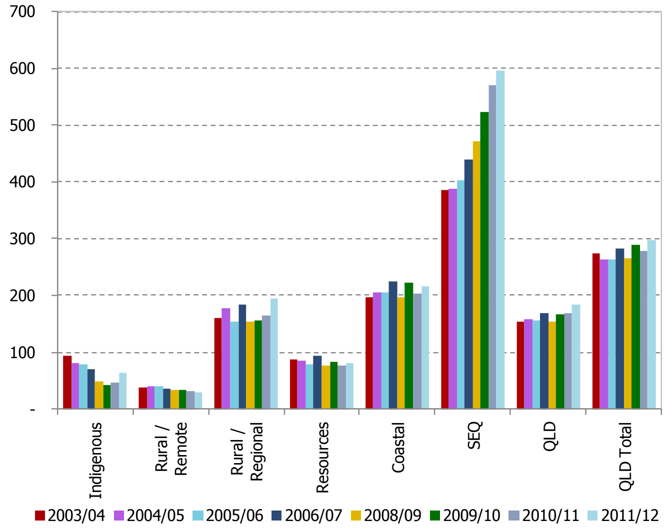
Figure A.7.75: Ratio of Population Serviced to FTE, 2003/04-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The 2006/07 spike is likely a data anomaly.
- The council segments with the least economies of scale in terms of population serviced per FTE are the Rural/Remote, Indigenous and Resources segments.
- The limited sample for the Indigenous segment means that there is a greater degree of volatility in outcomes, but it does appear that staffing levels have been increasing relative to the population served possibly due to increasing compliance and administration requirements.
- Economies of scale also appear to be deteriorating for the Rural/Remote and Resources segments.
- Following Local Government reforms, the Rural/Regional and Coastal segments have experienced a relatively stable population to FTE ratio.
- The SEQ segment has benefited from increasing economies of scale over the past few years.

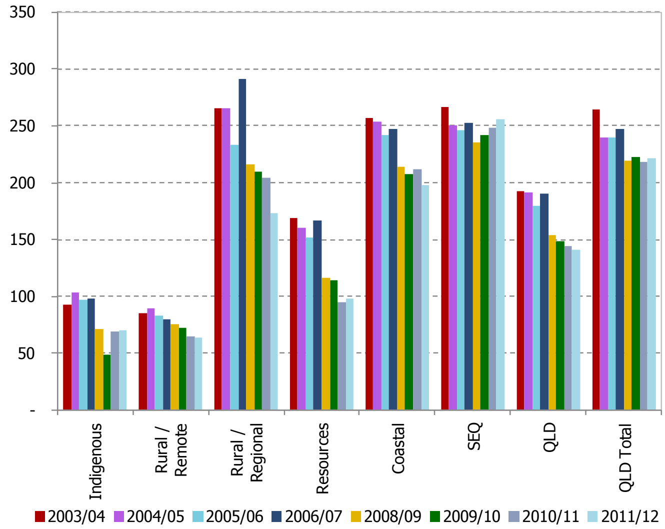
Figure A.7.76: Ratio of Population Serviced to Outdoor FTE, 2003/04-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- The SEQ segment features a steeply increasing population to outdoor FTE ratio, indicating a strong increase in economies of scale in recent years.
- A slight improvement in economies of scale also appears to have been experienced in the Rural/Regional and Coastal segments.
- The Resources segment has remained fairly stable, possibly a reflection of relatively greater effort per FTE due to resource sector demands (not directly related to population levels).
- The Rural/Remote segment appears to be experiencing a deterioration in economies of scale in service provision from its outdoor workforce.

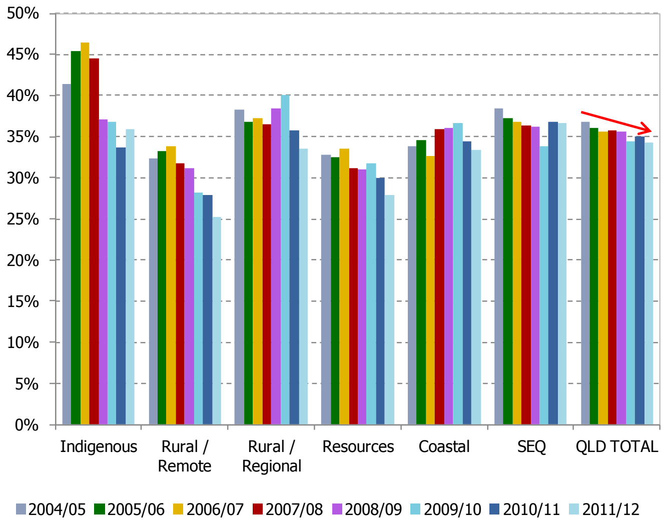
Figure A.7.77: Ratio of Population Serviced to Indoor FTE, 2003/04-2011/12



Source: AEC*group,* QTC (unpublished), DLGCRR (unpublished)

- It would appear that many council segments are experiencing a deterioration in economies of scale in service provision from their indoor workforce, suggesting increased administration and compliance pressures.
- This is most noticeable in the Rural/Remote, Rural/Regional and Coastal segments.
- The SEQ segment appears to have increased economies of scale in recent years following Local Government reforms, although this is also likely to be due to the removal of water and sewerage responsibilities.

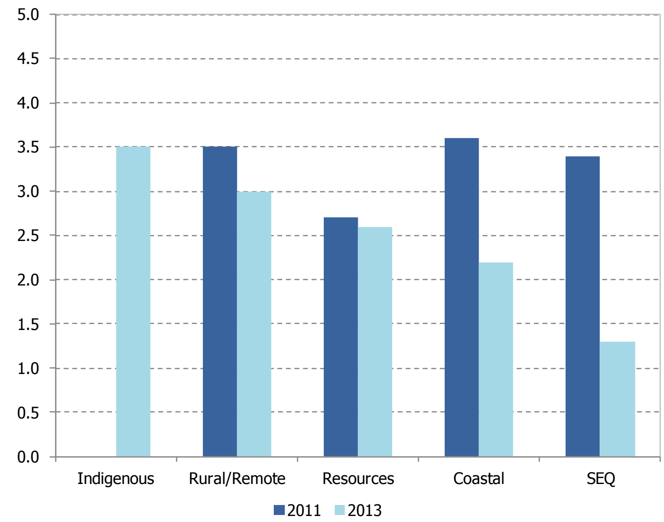
Figure A.7.78: Employee Costs as % of Operating Expenditure, 2004/05-2011/12



Source: AEC*group*, QTC (unpublished), DLGCRR (unpublished)

- There is an overall trend of labour costs reducing as a percentage of operating expenditure.
- Persistent reductions are particularly noticeable in the Indigenous, Rural/Remote and Resources segments.
- The Coastal and Rural/Regional segments appear to have made some improvements in recent years, although this could be a result of a spike in flood reconstruction works and additional time series data is required before making a definitive determination.

Figure A.7.79: Average Number of Months to Fill Professional Job Vacancies, 2011 vs. 2013

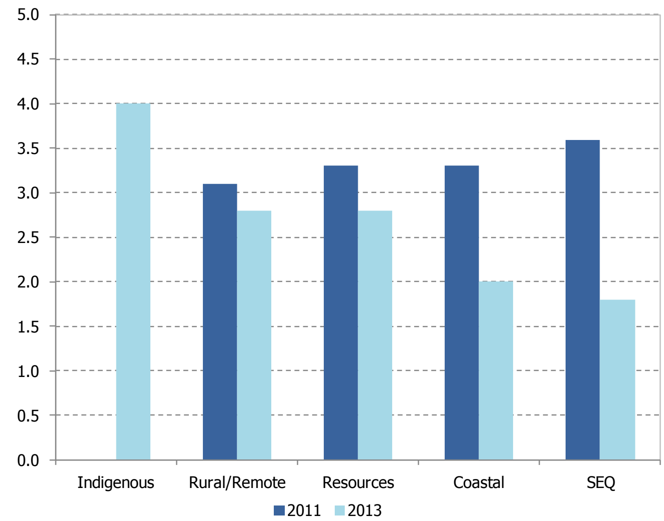


Source: LGAQ (unpublished)

- In 2011, the majority of Local Governments were running below their full staffing establishment levels and it generally took in excess of three months to fill professional job vacancies.
- Conditions appear to have improved in 2013, particularly for the Coastal and SEQ segments.
- However, there still appears to be difficulties in attracting professional employees in the Indigenous, Rural/Remote and Resources segments.

NOTE: The outcomes are based on survey responses from current LGAQ Advocacy segments rather than the council segments adopted in this report.

Figure A.7.80: Average Number of Months to Fill Skilled Technical Job Vacancies, 2011 vs. 2013

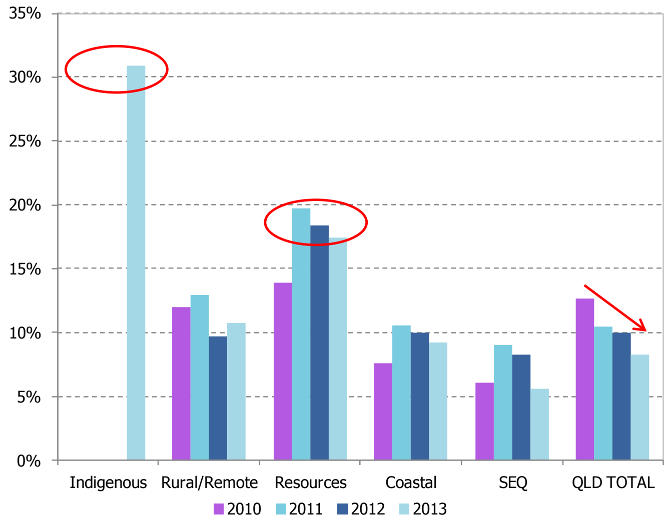


Source: LGAQ (unpublished)

- In 2011, the majority of Local Governments were running below their full staffing establishment levels and it generally took in excess of three months to fill skilled technical job vacancies.
- Conditions appear to have improved in 2013, particularly for the Coastal and SEQ segments.
- However, there still appears to be difficulties in attracting skilled technical employees in the Indigenous, Rural/Remote and Resources segments.

NOTE: The outcomes are based on survey responses from current LGAQ Advocacy segments rather than the council segments adopted in this report.

Figure A.7.81: Average Employee Turnover, 2010-2013



- Turnover is the highest for the Indigenous segment, followed by the Resources segment.
- The Rural/Remote segment also has a relatively high rate of employee turnover.
- There has been a noticeable reduction in average employee turnover in recent years across the state.

NOTE: The outcomes are based on survey responses from current LGAQ Advocacy segments rather than the council segments adopted in this report.

Source: LGAQ (unpublished)

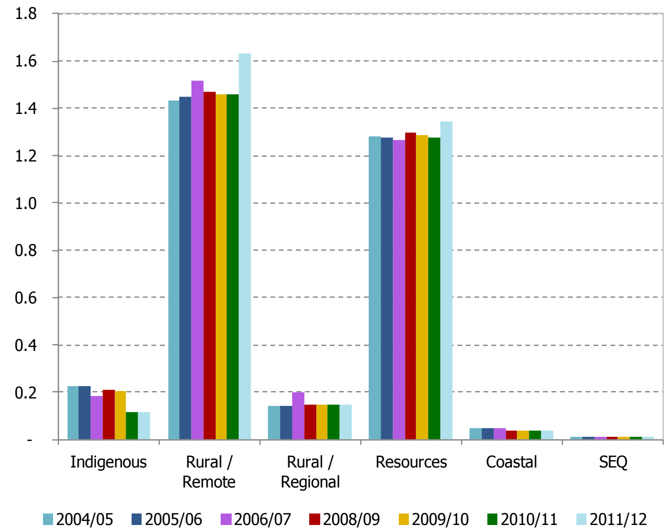
Service Levels

Limited time series data exists in relation to service levels.

Figure A.7.82 and Figure A.7.83 outline the calculated ratios for the length of road maintained (sealed and unsealed) and area of parks maintained per capita for each council segment, respectively. The underlying datasets appear to have some flaws, but the overall trends include road lengths per capita and parks area per capita being highest for the Rural/Remote and Resources segments.

There does not appear to be a trend in relation to increased road lengths over time per capita and service levels in term of the quantum of roads provided do not appear to have changed significantly over the evaluation period. There is a high degree of variability in the parks dataset, and any conclusions drawn from the dataset may be flawed as a result. At face value, it would appear that the area of parks maintained has reduced for the Rural/Regional segment.

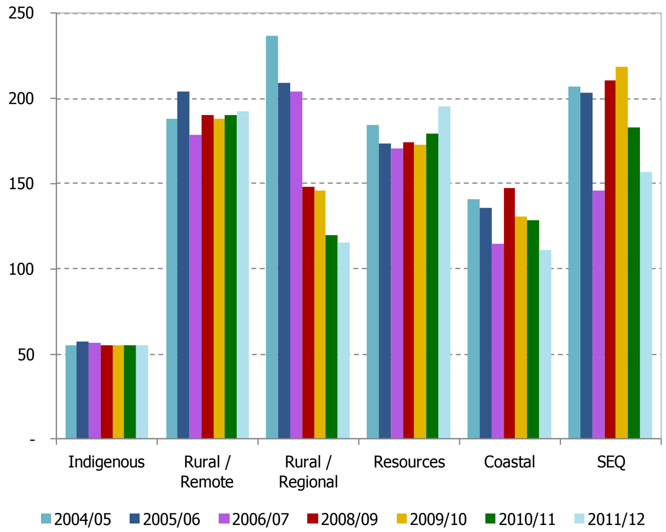
Figure A.7.82: Road Length (linear kilometres) per capita, 2004/05-2011/12



- Road length per capita is highest in the Rural/Remote and Resources segments due to very low population density and vast service areas.

Source: AEC*group,* DLGCRR (unpublished)

Figure A.7.83: Parks Area Maintained (square metres) per capita, 2004/05-2011/12



Source: AEC*group,* DLGCRR (unpublished)

- Parks area per capita is highest in the Rural/Remote and Resources segments due to very low population density and vast service areas.
- There appears to be a decline in the ratio for the Rural/Regional segment, although there is a high degree of variability in the underlying inputs and therefore a definitive conclusion cannot be made.

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