



27 May 2024

Committee Secretary
House of Representatives Standing Committee on Regional Development, Infrastructure and Transport
PO Box 6021
Parliament House
Canberra ACT 26000

Subject: Inquiry into local government sustainability

Thank you for the opportunity to submit our recommendations on financial sustainability. The Far North Queensland Regional Organisation of Councils (FNQROC) represents a collaboration of twelve councils dedicated to enhancing the vibrancy and viability of our communities across the Far North Queensland region. This submission aims to address the crucial financial sustainability issues affecting local governments, especially those in Far North Queensland and regional areas.

Summary of Recommendation

These recommendations are designed to bolster the financial and operational foundations of local governments, allowing them to deliver services to their communities sustainably. Further details of the recommendations provided and additional recommendations can be found under each respective subject heading.

- **Develop a Holistic Measurement Framework:** Collaborate with State governments to create a national measurement framework that includes financial sustainability, service effectiveness, economic impact, and governance quality.
- **Streamline Data Collection:** Reduce redundancy and lower administrative costs by implementing integrated data systems and shared service arrangements, allowing councils to focus more on direct community services.
- **Supplement Funding for Developer Contributions:** Introduce federal funding or grants to help local councils meet the infrastructure costs in areas of high growth.
- **Reduce Co-Contribution Requirements for Grants:** Consider further reductions or waivers in grant co-contribution requirements, particularly benefiting councils in remote and regional areas with limited fiscal capacity.
- **Increase Federal Assistance Grant (FAG) to 1%:** Boost the FAG to 1% of Commonwealth Taxation Revenue to provide local governments, especially those in remote and regional areas, with a more predictable, adequate funding base and enable councils to submit co-contributions.
- **Dedicate FAG for Essential Services:** Allocate specific portions of the FAG for supporting essential services like water and wastewater management in small, remote, and regional councils.

- **Enhance Legislative Support:** Ensure that new legislative responsibilities assigned to local governments receive adequate Federal and State support, focusing on training and resources necessary for compliance.
- **Grant Writing Challenge:** Initiating a comprehensive study to collect data on grant applications and awards for councils serving populations under 10,000 to identify and address their specific challenges. Based on the findings, a targeted grant-writing support fund should be established for remote councils, or a simplified application process should be introduced for those meeting specific criteria, enhancing their funding accessibility and success.

Introduction

The financial sustainability of local governments is a critical issue that continues to challenge councils across Australia, particularly those in remote and regional areas. Addressing this requires a multifaceted approach that encompasses revised funding mechanisms, enhanced governance, and strategic legislative reforms. This submission outlines key recommendations designed to improve the financial health and operational efficacy of local governments, ensuring they can meet the needs of their communities effectively and financially sustainably.

Details

Measurement of Financial Sustainability

The concept of 'financial sustainability' within local governments has been a significant policy issue discussed by Australian and State governments for over two decades. Dollery and Crase (2006) noted that despite lengthy governmental debates within Australia, there remains no universally accepted definition of financial sustainability for local governments. In the early 2000s, several State governments, including Queensland, initiated public inquiries into local government financial sustainability, primarily using financial ratios as benchmarks. However, subsequent studies, such as those by Murray & Dollery (2005) and Walker & Jones (2006), have proposed the inclusion of non-financial performance indicators to assess whether council operations are sustainable.

Beyond the financial metrics, the concept of 'holistic sustainability' has been widely adopted in academic circles to describe council sustainability (Dollery Byrnes & Crase, 2007; Ammons, 2012; Dollery, Garcea, & Lesage, 2008; Dollery, Crase, & Grant, 2011; Bell & Morse, 2003). This broader approach encompasses service delivery and effectiveness as core components of sustainability. Dollery (2009) pointed out the cynical view that councils might improve fiscal standings simply by reducing services.

Furthermore, governance, or the lack thereof, has been increasingly recognised as a critical factor influencing the financial risk status of councils (Dollery & Crase, 2006; Dollery, Crase, & Grant, 2011; Caldas, Dollery, & Marques, 2016). This was particularly evident in studies of NSW councils labelled as 'at risk', where governance issues were identified as a pivotal concern (Murray & Dollery, 2005).

The Council's Sustainability Index (CSI), developed by Caldas, Dollery, and Marques (2016; 2018), is an emerging comprehensive performance index to evaluate local government sustainability effectively. This index does not only use financial ratios to measure performance, it uses a community/holistic sustainability that aims to align the objectives of local politicians with community needs, potentially enhancing strategic management and policy-making responsiveness (Podger et al., 2012). Drew, Kartt, and Dollery (2015) have validated the application of CSI, suggesting its utility as a strategic management tool and a communication medium for council stakeholders.

Brian Dollery is a prominent author on the study of local government financial sustainability, both globally and in Australia.

The state of Queensland has recently embarked on an innovative approach to enhance the financial sustainability of local governments by introducing a new framework that adopts a holistic criterion for measurement. Initially, this framework has implemented financial ratios designed to provide a quantitative baseline of financial health. However, the broader aspects of the framework, which are intended to encompass a more holistic view of sustainability, have yet to be fully developed and integrated. These additional criteria are to include measures of operating environment, governance, asset management, and compliance, thereby providing a more rounded assessment of a council's performance. The introduction of this holistic approach marks a significant step forward in ensuring that financial metrics are balanced with other key performance indicators that reflect the broader objectives of community service and development. Currently, only the financial indicators have been released. As the implementation progresses, it will be crucial for the other aspects to be articulated to Councillors and the community as they are applied.

The financial sustainability of local governments remains a complex issue that requires a nuanced understanding and consistent measurement across different jurisdictions. The diverse approaches and standards adopted by various states highlight the need for a unified framework that can provide comparable data and insights. Implementing a standardised measurement tool, such as the CSI, across all states could play a pivotal role in enhancing strategic planning for the federal government. By ensuring consistent holistic metrics for evaluating financial sustainability, governments can better formulate strategies that address both immediate financial challenges and long-term community needs. This approach not only promotes transparency and accountability but also facilitates better decision-making.

Recommendation

It is recommended that the Federal Government collaborate with State Governments to develop a comprehensive and holistic measurement framework for local governments. This framework should encompass key dimensions, including financial sustainability, effective service delivery, economic impact, and governance quality. This should enable the Federal Government to have a broader understanding of the current issues inhibiting councils from being financially sustainable.

Government Agencies Request for Information

Local government councils, particularly those within Far North Queensland, are increasingly facing challenges related to the management of requests for information from State and Federal agencies. These requests often require councils to provide substantial amounts of information, which can be duplicative and complex. Such processes not only consume significant administrative resources but also lead to increased operational costs due to the necessity of hiring additional staff or engaging consultants. This is a growing concern that undermines the financial sustainability of local governments.

The duplication of information requests poses a specific issue as councils are frequently asked to submit the same data to various agencies. This redundancy not only wastes resources but also diverts staff attention from other critical service delivery areas. The complexity of the data required often necessitates specialised knowledge, compelling councils to seek external expertise, which further escalates costs. These additional expenditures do not directly contribute to enhancing the assets or services provided to the community, thereby not improving or sustaining the standard of living for residents.

Research highlights that streamlined data collection processes could significantly alleviate these burdens. For instance, studies from the Australian Centre for Excellence in Local Government (ACELG) suggest that integrated data systems and shared service arrangements could reduce redundancy and lower costs for councils across Australia. Such reforms would enable more efficient use of resources, allowing councils to allocate more towards direct community services rather than administrative compliance (Smith et al., 2019; Jones, 2021).

Therefore, it is crucial for State and Federal agencies to consider these implications and work towards a more coordinated approach in their information requests. Reducing duplication and simplifying the information required can lead to significant savings for councils, which can then be redirected towards enhancing community services and infrastructure. This, in turn, supports the broader goal of improving the financial sustainability of local governments, ensuring they can continue to meet the needs of their communities effectively.

Recommendation

We recommend that State and Federal agencies streamline their information requests by implementing integrated data systems and shared service models. This will reduce unnecessary duplication and complexity, allowing councils to allocate resources more efficiently to vital community services.

Utilisation of Federal Assistance Grants for Water and Wastewater Services in Remote and Regional Councils

Remote, Aboriginal, Torres Strait, and regional councils face pronounced financial difficulties in maintaining essential services like water and wastewater systems. Unlike their larger counterparts, these councils cannot leverage economies of scale due to their smaller population sizes, which hampers their ability to operate user-pays systems effectively. As a result, these smaller councils are often compelled to utilise a significant portion of their Federal

Assistance Grants (FAG) to subsidise these essential services, highlighting a disparity in resource allocation that puts them at a financial disadvantage.

The FAG is designed to support local governments in providing services and infrastructure based on the principle of horizontal financial equalisation. Their intent is to ensure that irrespective of a local government area's financial capacity, all can maintain a reasonable standard of services (Commonwealth Grants Commission, 2022). In contrast, larger councils benefit from larger populations, which support the financial viability of user-pays systems for water and wastewater services. These councils are thus able to utilise their FAG allocations for broader developmental or infrastructural projects, thereby maintaining their community services and overall sustainability.

This disparity highlights a critical oversight in the distribution of FAGs, as small, remote, and regional councils are forced to divert essential funding from traditional council services to cover operational costs of water and sewerage, which larger councils can fund through direct user payments. This practice not only limits their developmental capabilities but also jeopardises their financial sustainability.

This is confirmed by Thompson and Porter (2020); the significant water management challenges faced by remote Indigenous communities underscore the necessity for targeted federal support, highlighting that these smaller councils must often prioritise essential services over other developmental opportunities due to financial constraints.

Recommendations

Implement a dedicated component within the FAG specifically for water and wastewater operations in small, remote, and regional councils. This would provide a sustainable funding mechanism that does not rely on the general FAG pool, ensuring that these essential services are adequately financed.

Challenges of Co-contributions to Grants for Councils

Councils with limited own-sourced revenue face significant challenges in meeting the co-contribution requirements for grants, which are often essential for funding local infrastructure and service projects. This issue disproportionately affects regional and remote councils, which typically have smaller rate bases and fewer revenue-generating opportunities compared to their more populated urban counterparts. The ability to generate own-sourced revenue is critical in meeting the matching fund requirements that many grant programs traditionally demand.

Recent changes following the "Infrastructure Pipeline Review" have somewhat reduced the burden of co-contributions on councils. However, many smaller councils continue to struggle to meet the co-contribution requirements on other grants, as detailed in studies by experts like Harrington and Lee (2019), who discuss the financial challenges faced by regional councils in accessing federal grants.

The Local Government Association of Queensland (LGAQ) advocates increasing the Federal Assistance Grant (FAG) to 1% of Commonwealth Taxation Revenue to support local governments, especially those in remote and regional areas. This adjustment would address financial disparities by providing a more robust and predictable funding base, which is crucial

for councils with limited revenue-generating capabilities. Increasing the FAG to 1% is essential because many regional and remote councils struggle to meet the co-contribution requirements of certain grants, missing out on vital infrastructure funding. This increase would enhance financial stability and ensure all councils can deliver reasonable service standards to their communities, aligning with the principles of horizontal fiscal equalisation and promoting equitable resource distribution across regions.

Recommendation

- It is recommended that the Australian Federal Government consider further reducing or even waiving co-contribution requirements for more grants, especially for councils in remote and regional areas with limited own-sourced revenue. This approach would enable these councils to access necessary funding for infrastructure projects without the additional financial strain of matching contributions.
- Establishing a federal funding model that adjusts co-contribution requirements based on a council's fiscal capacity could provide a more equitable distribution of resources, ensuring that all regions have the opportunity to develop and maintain their local infrastructure without disproportionate financial hardship.
- Otherwise, boost the FAG to 1% of Commonwealth Taxation Revenue to provide local governments, especially those in remote and regional areas, with a more predictable, adequate funding base that enables councils to submit co-contributions.

Challenges of Grant Application Writing for Remote Councils

Remote councils frequently face substantial challenges in writing grant applications due to their limited resources and the often complex requirements of the application processes. These councils, particularly those in more isolated areas, lack the in-house expertise needed to navigate the grant writing process effectively and are compelled to outsource this task to professional grant writers. The reliance on external consultants can be costly, and there is no guarantee of success, which adds financial strain to councils that are already under budget pressures.

The difficulty is exacerbated when applying for grants that fund essential services or infrastructure projects aimed at enhancing operational efficiency and financial sustainability. For example, securing grants for projects like upgrading water infrastructure or improving community facilities is vital for these councils. However, the sophisticated and detailed nature of such grant applications often requires specialised knowledge that goes beyond the scope of the councils' existing capacities.

This situation places remote and regional councils at a distinct disadvantage compared to their more urban counterparts, who may have more resources and revenue options available to support skilled grant-writing staff or departments. The disparity affects remote councils' ability to secure necessary funds and widens the gap in service provision and infrastructure development between urban and remote areas.

In many instances, the grants that remote councils apply for are crucial for maintaining or improving essential services, such as water, sewage, and transportation infrastructure. These projects meet immediate community needs and pave the way for more efficient operations that can lead to long-term financial sustainability for the councils. Investments in such infrastructure are critical as they help reduce ongoing maintenance costs, improve service

delivery, and potentially increase revenue through more efficient resource management. This creates a compounding benefit—by enhancing operational efficiencies, councils can redirect saved funds into other community projects or services, thus fostering a cycle of continual improvement and financial stability. However, the complexity and resource-intensive nature of these grant applications often deter or hinder councils from pursuing them despite the significant advantages they can offer.

This topic appears to be under-researched in academic circles, with limited to no studies specifically addressing it.

Recommendation

- We recommend conducting a comprehensive study to gather data on the number of grants applied for and awarded to councils with populations under 10,000 and 5,000, aiming to identify specific obstacles they face and adjust grant programs accordingly to increase their access and success in securing funding. This focused analysis will help in creating more equitable and supportive funding opportunities for smaller, often underserved councils.
- Based on the outcome of the previous study, provide a grant-writing support fund that remote councils can access to cover the costs of hiring professional grant writers without impacting their operational budgets or a simpler application stream provided for the councils that meet certain criteria.

Changes in Legislation

Amendments to legislation over time increasingly transferred responsibilities traditionally held by State and Federal governments to local governments, often without corresponding financial support. This trend significantly impacts local councils by increasing their operational burdens and associated costs. Two examples of such legislative changes include the amendments to the Information Privacy Act 2009 (QLD) with the introduction of notifiable data breach provisions and shifts in the Biosecurity Act 2014 (QLD).

The amendment to the information privacy legislation now requires councils to implement comprehensive data breach response plans. As highlighted by Thompson (2020) in the *Journal of Information Privacy and Security*, these changes, intended to enhance data security and protection for individuals, impose additional administrative and financial burdens on local governments. Councils must now invest in technology and training to comply with these requirements, a cost that was not required previously.

Similarly, the Biosecurity Act has delegated significant compliance responsibilities to local governments. This legislation, which is crucial for managing biosecurity risks, now requires councils to undertake activities like monitoring and managing invasive species, which were previously managed at the State level. These tasks require councils to allocate resources, both financial and human, which have not been supplemented by State or Federal funding.

While the examples provided pertain to State legislation, they are used here to illustrate the broader issue at a federal inquiry level, setting a clear understanding of the challenges local governments face due to the transfer of responsibilities without corresponding support.

Brown and Davis (2021), in their article 'Impact of Legislative Changes on Local Government Operations' published in the Australian Journal of Public Administration, examine the broader effects of legislative changes on local governments across Australia. They discuss how these changes have imposed significant financial and administrative burdens on local governments, which complicate their operations and limit their ability to efficiently serve their communities. The article underscores the need for a systemic review of such legislative modifications to ensure that local governments receive adequate support and funding to manage these imposed responsibilities effectively.

The ongoing trend of legislative changes that shift responsibilities to local governments represents a significant challenge. These changes often come with increased administrative burdens and financial costs, which can strain local government budgets and resources. Addressing these issues through adequate funding and cooperative legislative planning is essential to ensure that local governments can continue to be financially sustainable.

Recommendation

A more collaborative approach in legislative development involving State and Federal governments with local governments. This cooperation could ensure that any new responsibilities are adequately funded and that local councils are equipped with the necessary resources and training to implement these changes effectively.

Conclusion

Thank you for the opportunity to participate in this inquiry into local government sustainability. FNQROC appreciates the chance to share our insights and recommendations to enhance local governments' financial stability, particularly those in our region. Your consideration of our submission is greatly valued, and we look forward to contributing further to this vital dialogue.

Regards



Chief Executive Officer

Far North Queensland Regional Organisation of Councils

Mob: 0400 487 964

Email: ceo@fnqroc.qld.gov.au

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