Financial sustainability in local government

Planning for the next four years

June 2020

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Financial sustainability continues to be a challenge faced by local governments

“More than half of the councils continue to spend more delivering services to their community than they receive in revenue from rates, fees and charges, and grants.”


The financial sustainability of local governments across Australia continues to be a challenge with increasing community demand for services, population growth and rising costs associated with maintenance and renewal of ageing infrastructure.

In February 2020, the Queensland Audit Office (QAO) reported to parliament that over half of Queensland councils spend more than they earn.

Additionally, in March 2020 the NSW Auditor-General reported that while most NSW councils meet the prescribed benchmarks for liquidity and working capital, in 2018 – 19 more councils reported negative operating performance compared with the prior year.

In Victoria, councils have had to adjust to rate capping introduced in 2016 which restricts the amount that councils can raise their rates each year.

Over the coming months, councillors and council executive will finalise their 2020 – 21 budgets and consider the long term financial strategies for their respective communities.

This year’s budget will be heavily impacted by the challenges associated with COVID-19, factoring in the new different ways of working, greater reliance on technology given the social distancing restrictions, and providing assistance and support to the community as they deal with tougher economic conditions.

In Queensland, this will be one of the first tasks for the recently newly elected councillors, and will provide them with the opportunity to test and contribute to their community’s long term strategy.
Questions faced by councils

Many of the financial strategies being considered as part of the annual budgeting process, including strategies in relation to the Council’s response to COVID-19, will set the scene for years to come. It is therefore important that a number of key matters are considered:

— Are the services being provided by the council appropriate and valued by the community?
— Is the council delivering its services in an optimal and contemporary manner, considering methods of delivery and sources of procurement?
— Does the council understand the cost to serve across its service portfolio?
— Does the council have a complete and accurate picture of its asset maintenance and renewal costs over the longer term?
— How does council allocate its resources against immediate and future requirements, and also prioritise the requirements and expectations of the community?
— Does each department accept and endorse council’s strategies and priorities, with all working towards a financially sustainable outcome?
— How does the council consider the financial implications of these items and communicate its strategy to the community?

This document provides an overview of the key financial sustainability issues facing councils, and provides a series of suggestions for councils in respect of planning for financial sustainability in a way that services the community in an optimal and transparent manner.
“Not surprisingly the unrelenting challenge to do more with less ensured that the financial challenges of infrastructure, financial sustainability and stability lead the list of risks for local government.”

Source
2018 Risk Report, A focus on Australian Local Government, Aon
Barriers to financial sustainability of local government

“Financial sustainability is the ability to meet current and future expenses as they arise and the capacity to respond to foreseeable changes and emerging risks.”


Limited ability to increase revenue
Local governments are financed by rates, certain fees and charges, and grants. Constraints exist in keeping rates in line with community expectations.

Grant funding often fluctuates, and is generally of a short term nature, which makes it difficult for councils to plan over the longer term.

These constraints over a council’s ability to increase revenue in line with rising operational costs and significant asset maintenance and renewal costs place pressure on councils’ financial sustainability.
Revenue from services do not cover the costs of provision

Councils are responsible for delivering essential services to the community, often doing so at a price that does not cover the cost.

Many facilities maintained by councils such as parks, libraries, water, roads and utility infrastructure do not provide a commercial return, and yet require considerable maintenance over their lives at a significant cost.

In addition, due to the large nature of councils, and their many legacy systems, there is a lot of innate inefficiencies in councils’ operations that increases the internal running costs. It is likely not fair to pass these costs on to the public, and as discussed later in this article, councils should consider delivery methods in order to maximise efficiencies.

Challenges for rural, remote and Indigenous councils

Maintaining significant infrastructure assets across a large land mass for a lower number of constituents is an additional challenge faced by many regional, rural and Indigenous councils.

Demographic changes and uncertainty

There are a certain factors which also need to be considered from a long term financial sustainability perspective including:

— changing demographics.
— ageing populations.
— population growth.
— changing community expectations and needs.

We are now in the age of the customer and expectations from customers on what they expect to see from a council and how they interact with them is increasing, requiring greater methods for engagement and service delivery.

We have also recently seen a number of natural disasters including the recent summer bushfires, the flooding which followed and the social and economic impact of the COVID-19 outbreak. Councils take a leading role in disaster management but these events may seriously damage council’s assets, infrastructure and capital resources leading to significant financial implications.
Roadmap to financial sustainability

Sustainability planning is an ongoing process and needs to take into account a holistic view of councils’ assets and services, as well as an appreciation for the requirements and expectations of the community.

Community
Community’s expectations evolve. There are often many differing views within a community in relation to where a council’s funds should be allocated over the short term and long term.

Council services and assets
Councils need to actively consider the services it provides and determine whether those services:
— adequately meets the community’s requirements.
— are delivered in an optimal manner, considering value for money, maximising efficiency and effectiveness.

Setting clear service levels for services, and having an understanding of the change in cost profile should this be altered is important to short, medium and long term financial planning.

Councils also need to have a complete understanding of their assets in order to maintain operational standards, and plan for future investments.

Business Planning
An effective plan will help ensure that council rates remain relatively stable, and outline the application of those funds in a transparent manner.

A key aspect of the roadmap to sustainability is balancing the community’s current and future requirements against the resources available to the council. This is difficult to do without a structured process, alignment across council and an established methodology to assess the ‘public good’ outcome of council’s services.

Long term financial forecasts are prepared as part of this process, and are documented in a plan that is released to the community.

Review, monitor and report
A plan is only as good as its implementation. Councils need to be accountable and:
— monitor progress on an ongoing basis.
— review priorities to ensure they remain current.
— report to the community and provide the opportunity for feedback.
Financial sustainability in local government

We delve into each stage of the roadmap on the following pages

- Community
  Understanding community expectations and future needs

- Council services and assets

- Business Planning
  Financial sustainability plan – short and long term

Regularly monitor, review and report

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Consulting with the community helps councils to provide the right services at affordable levels to support long-term financial sustainability.

It is difficult for local governments to be certain they are operating sustainably unless they understand the range of services, service level, and quality required and expected by their communities.

In 2019 the QAO audited five councils in order to assess their ability to manage financially sustainable services.

The QAO found that none of the five councils formally consulted with the local community about the types or levels of services needed now or in the future, or about the level of service the community is prepared to pay for.

The QAO did however find examples where the councils had consulted with their communities about new services associated with major construction works or asset acquisitions.

There are many different community engagement methods available to councils which could be utilised to test and review the council’s current services and future community needs, including:

- community reference groups.
- the use of ‘community champions’.
- participatory budget process.
- surveys.

Technology is also being increasingly used by councils to engage with their communities, with many councils currently undertaking a technology transformation to upgrade and align systems across council. This will also help council to respond to public needs faster and run efficient operations.

Technology can also be used to analyse population and demographic information, both of which are important in considering challenges associated with growth and longer term infrastructure planning.
Financial sustainability in local government

Case studies

‘Have your say’ tools
Various councils are adopting online ‘have your say’ tools to increase community engagement and receive real-time feedback from the community on budgets, proposed developments and existing service quality.

Community service champions¹
Indigo Council in Victoria has engaged community champions – members of the community who host conversations with other residents and run surveys focused on the council’s plan and on other issues.

Community engagement website²
In 2017, Wodonga developed the ‘Make Wodonga Yours’ website, which hosts all of its community consultation activities separate from the council’s main website.

Sunshine Coast Regional Council³
The Sunshine Coast Community Strategy included liaison with 1600 community members and stakeholders between September 2018 and July 2019 to influence the outcomes, priorities and action plan. The council implemented a Community Strategy Leadership Group to continue to be involved in the implementation of the strategy and provide feedback.

Armidale Regional Council⁴
In 2016 the council was found to be financially unsustainable, with projected deficits of $4.6m by 2026 in which time cash reserves would be halved. In response, extensive consultation with the community around service levels and affordability was undertaken.

Guiding questions

— “How does council engage with the community?”
— “Is it easy for all community members to contact council?”
— “What do we do with feedback received from the community?”
— “How is community feedback managed within council?”
— “Does the community understand the services provided by council and appreciate the delivery cost?”
— “Does the community feel valued?”
Ensuring that value for money is maximised across council’s service delivery is integral to achieving financial sustainability.

Councils need complete costing information on individual services so they can ensure that:

— services are being delivered at the required level in the most cost effective manner.

— the appropriate amount of resources are allocated towards the service.

Implementing an appropriate costing model and/or methodology helps councils to gain a clear understanding of the cost of delivering its services.

Costing information is also necessary to guide decisions around the level of rates and other funding sources.

Councils have historically used a ‘zero-based’ or ‘bottom-up’ budgeting process to ascertain service delivery costs, however this takes time and can be a complicated process.

Improving and integrating technology platforms helps to lower the cost of running an organisation, and provides a single source of truth in respect of recording and using information for decision making around asset utilisation and service delivery.

In addition to ascertaining cost data, councils need to understand whether their delivery methods are providing value for money. The use of technology and efficiency analysis have been used to improve council’s costing data. Local governments who budget and report by functional areas are likely to gain a greater understanding of their operating costs by moving to budgeting on a service delivery view.

From a broader perspective, councils have a number of options available to deliver services, including:

— co-sharing with a neighbouring council.

— understanding the cost to revenue (or Public Good) of services and the associated priorities.

— cooperative purchasing with a group of councils.

— outsourcing certain service delivery.

— use of technology.

Many services provided by councils are delivered in high quantities, e.g. rubbish collection. If councils identify even small efficiencies, given the scale of the services provided, the financial impact could certainly be material to council’s sustainability.
Case studies

**Scenic Rim Regional Council**
In their FY20 Budget, Scenic Rim Regional Council implemented zero-based budgeting in the development of the Council's organisational budgets. The impact on applying the method resulted in total budget savings of five per cent.

**Blue Mountains City Council**
Efficiency savings by the Blue Mountains City Council in 2014 included $640k by switching from six to four cylinders in light fleet vehicles, $420k by investing in pothole patching equipment which required less crew and $532k of reduced energy costs by using solar heating, pool blankets and water saving devices.

**A UK perspective**
The UK Local Government Association’s review into cost savings relating to weekly waste collecting identified efficiencies by moving from coloured bins to grey bins with coloured lids, which were on average £5 cheaper per unit to produce. This opportunity was identified through collaboration with key suppliers.

Guiding questions

— “Is council delivering the service in the most efficient and effective manner?”
— “What work has been undertaken by council to determine the true and complete costs associated with service delivery?”
— “Has council benchmarked its service delivery levels against other similar councils?”
— “Has council investigated whether service-sharing or cooperative-buying agreements can be used to reduce costs?”
— “Has council considered out-sourcing certain service delivery against delivering in-house?”
— “Is council using adequate procurement processes to ensure value for money is maximised?”
Roadmap to financial sustainability: asset management

Planning over the council’s long term cannot be performed effectively without a reliable and complete asset management plan.

Councils are custodians of significant public infrastructure, much of which is ageing and requires significant annual maintenance expenditure. Councils also are often faced with competing priorities in respect of committing significant funds to new public infrastructure.

In March 2020, the NSW Auditor General reported that their 2018 – 19 local government audits identified 107 issues in relation to councils’ asset management systems, up from 66 issues identified in 2017 – 18.

In Queensland, councils are forecast to be collectively responsible for the maintenance of approximately $124b of public assets by 2025. However, in 2018 – 19 only 54 of the 77 Queensland councils had a current Asset Management Plan (QAO, 2019).

While it has improved in recent years, asset data is usually treated with low confidence around state of repair, maintenance schedules and remaining useful life. Incomplete and disparate asset data represents significant risk to a local community on many fronts, including difficulty in understanding what assets are actually owned, accurate financial planning to ensure sufficient budget is allocated to current and future maintenance activities, and the ability for a council to maintain its assets in a safe and effective working condition is compromised.

Transforming asset management to meet the above challenges involves a systematic process, including:

— implementing a right-sized asset management framework which includes a complete and up-to-date asset register and provides the ability to evolve into more strategic asset management practices.
— clear understanding of the relationship of assets and facilities with the provision of services.
— utilising technology to automate and optimise processes to free up the workforce to focus on areas of strategic value and improvement.
— ensure the workforce has the necessary skills and training.
— assess whether digitisation can help pave the way for smarter, faster and more robust decision-making.
Case studies

City of Melton®
In 2014, City of Melton developed its first Asset Management Plan. The report, utilising data modelling and community engagement initiatives, found that certain assets were provided and maintained at high or very high level of service, and identified possible over servicing of the communities needs as a possible area for improvement. Accordingly, maintenance was held at an average of 0.5 per cent of the asset’s replacement value per year as opposed to the 1 – 2 per cent recommended by the Institute of Public Works Engineering Australasia.

City of Tea Tree Gully®
The council realised it had to improve the way it managed infrastructure in order to maximise investment and minimise risk. The council implemented a ‘managing assets through capability and knowledge project’, which reviewed its asset management processes to adopt best practice. This review resulted in the introduction of tablets loaded with asset management software which enabled field staff to capture data, receive all their work on tablets and understand what they needed before they attended site to ensure they had the necessary equipment.

RMIT®
The university has developed CAMS, which is a cloud-based asset management and deterioration prediction software that captures data on assets and assessments of deterioration so RMIT can prioritise repair and renewal works.

Guiding questions

— “Does council have a complete picture of all of its assets?”
— “Is council aware of the condition of each of its assets?”
— “Does council set maintenance standard guidelines for each asset class?”
— “How does council allocate costs towards asset maintenance?”
— “How does current performance of assets compare with future community performance requirements?”
— “How does council plan for asset renewal?”
— “Is the asset superfluous to the community’s needs?”
— “Can the asset be divested to raise funds for community benefit?”
Roadmap to financial sustainability: business planning

Councils need to balance between delivering services for the community now versus the community’s expectations for the future.

To combat the challenges faced by local governments, councils should pursue a positive operating position and foster a culture of long term thinking in the best interests of the whole local government area.

A financial sustainability plan should set out how council intends to allocate its resources against the needs of the community now and in the future. The plan should:

— explain to ratepayers the council’s plan to remain financial sustainable.
— outline the prioritisation of services.
— where necessary, define the level of service to be delivered.
— foreshadow the future investment needs of the local government area, and ways in which they will be funded.
— explain the methodology used for setting rates, fees and levies.
— include a long-term financial forecast (i.e. no less than 10 years) as required by the Local Government Act 2009 (Qld).
— apply sensitivity analysis to key assumptions in order to communicate the risks to the community.

The financial sustainability plan should also consider whether debt could be used by the council, especially in respect of delivering new infrastructure as it spreads the cost across generations of ratepayers and over the life of the asset.

The use of debt by councils is increasing in popularity, however it should only be used to fund asset purchases, not operations.

Additionally, councils should document the actions they are taking to support their financial forecasts including:

— the assumptions on which the forecast is based.
— the risks that may impact on achieving the forecast.
— the factors driving the forecast (including links to strategic asset management plans). (Source: QAO Report 17: 2017 – 18).
Case studies

Financial sustainability policies and strategies
Certain councils have adopted a financial sustainability policy which sets and communicates the guidelines and methodology used to develop a long term financial plan.
This policy also generally outlines a methodology or ‘guiding principles’ for prioritising the allocation of resources between competing priorities and needs.

Ipswich City Council
Following the appointment of the Interim Administrator to the Council, a coordinated, evidence-based approach was implemented in relation to prioritisation of regionally significant projects.
The process implemented involves best practice business case development, supported by an updated policy and framework for assessing projects. Council staff are expected to be part of a whole-of-council approach to planning and advocacy of new projects.

Lockyer Valley Regional Council
The Council’s 2019 Long Term Financial Forecast identified asset sustainability ratio is forecast to deteriorate over the period forecast.
Improved asset data and inspection regime needed to be implemented to create a more realistic and sustainable level of required expenditure, which is focused on renewals as opposed to purchase of ‘shiny new’ assets.

Guiding questions

— “Is last year’s resource allocation still relevant to next year?”
— “Why are rates increasing beyond CPI?”
— “How has council prioritised services?”
— “How is council funding the large infrastructure projects required in the future?”
— “Are the increases in rates equitable between the various segments of the community?”
A council’s financial sustainability plan is a living document and must not stay static.

Ongoing monitoring, reviewing priorities and reporting internally within council and externally to the community are essential to meet the principles which underpin accountable, effective, efficient and sustainable local governments.

Developing an internal monitoring and reporting framework from line managers through to a council’s audit committee is essential to ensure:

— the right people receive the right information to allow informed and timely decision making.
— council can efficiently adjust and address any issues or concerns.

An effective monitoring framework starts with defining clear expectations, benchmarks and performance measures that are easily understood within council and by the community. These guidelines should not just relate to financial information, but should also take into account:

— risks: including but not limited to program delivery risks, reputational risks, public safety risks.
— milestones and events: such as community engagement activities, delivery of key projects, reporting deadlines.
— clarity around roles and responsibilities of personnel within the council in respect of monitoring, reporting and reviewing the financial sustainability plan.

Reporting information in an organised manner promotes better decision making and helps those responsible to confirm that funds are being allocated consistent with the sustainability plan, and in line with the community’s expectations.

The risks of not monitoring the implementation of a council’s sustainability plan are significant: not achieving planned performance may otherwise go unnoticed, and the council may not correct inefficiencies in a timely manner, adding unnecessary costs.

The community is also more likely to provide more valuable feedback if they are well informed, and trust the council. Community trust is built through transparent and accountable behaviours.
Case studies

**City of Scottsdale – America**

The council uses performance dashboards which provide information in a transparent manner, and can be easily understood by councilors/the public. This allows the council to:

- automate tracking progress of strategic plan using budgeting software.
- implemented quarterly performance reports.
- cascade system from organisation mission statement into the department centre and employee level.
- re-focus on strategic initiatives
- offer public dashboards that track progress to objectives.
- implement cross-departmental teams to bust silos.

**Financial Sustainability Committees**

Certain councils have established committees charged with the responsibility for considering and reviewing budgets and long term financial plans. These committees also consider reports on performance against budget, and the results of budget reviews conducted by council staff to determine whether any changes to long term financial plans are required.

**Wyndham City Council**

Wyndham has created an online service catalogue which documents all 66 services, target customers, KPIs, cost of delivery and rationale for service delivery (i.e. mandated by government). This document is hosted on an online platform. Accordingly, it acts as a living document and can be adjusted as circumstances change.
References

Case studies

2. Wodonga Council (2019) Make Wodonga Yours
6. Blue Mountains City Council (2014) Resourcing our future
7. Department for Communities and Local Government (2012) 50 ways to save
10. AssetHub (2013) CAMS Toolkit
11. Ipswich City Council (2020) Ipswich City Council Administrators Update – Vision 2020
13. City of Scottsdale (2020) High performance and innovation
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June 2020. 4765467421GH