Governance In Local Government

A QUICK REFERENCE GUIDE FOR ELECTED OFFICIALS AND STAFF

AUDAX AT FIDELIS

QUEENSLAND TREASURY CORPORATION

This booklet is a quick reference guide to help you to:

- understand what is meant by governance and what is required in terms of financial reporting for local governments,
- ask the relevant questions of council staff to ensure that your council satisfies the legislative requirements for financial reporting, and
- ensure that your systems and processes demonstrate transparency and accountability to your local community.

Role of local government in Queensland

Local government is the essential, third tier of government in Australia, operating in tandem with federal and state government. Local government is recognised in the *Constitution of Queensland, 2001* which states that 'there must be a system of local government in Queensland'. Section 71 of the *Constitution* describes local government as 'an elected body that is charged with the good rule and government of a part of Queensland.'

Relevant legislation

The role and responsibilities of local government in this State are established in legislation. Local governments have statutory authority through the *Local Government Act, 2009* and the supporting *Local Government Regulation, 2012*.

The *Local Government Act, 2009* states that "a local government is a body corporate with perpetual succession". The re-corporatisation of local government was a key amendment to the legislation which took effect in early 2013.

The *Act* is founded on the following principles, which should, in turn, shape the governance arrangements of local governments:

- transparent and effective processes and decision making that are in the public interest
- sustainable development, asset and infrastructure management and service delivery
- democratic representation
- social inclusion
- meaningful community engagement
- good governance of, and by, local government, and
- ethical and legal behaviour of local government employees.

These principles apply to anyone who is performing a responsibility under the Act, principally mayors, councillors, CEOs and council employees.

What is governance?

Governance is the development and management of policy for the benefit of the community. It consists of the processes and systems that the council employs to ensure the 'good rule and government' of its local area. Good governance provides an environment where political, economic and social development occurs with positive outcomes.

Why is governance necessary?

The fundamental role of councillors is to serve and represent the interests of their community—the local government area as a whole, rather than of any particular section or interest group. Council members are accountable to their community, which expects that the council will apply good governance through its decision-making processes and systems.

What is expected?

As elected officials, councillors are individually and collectively bound by their statutory responsibilities and obligations under the *Local Government Act 2009*, to:

- make the best decisions for their communities through effective collaboration with council staff,
- use the best information available in the decision-making process, in the form of timely, meaningful reports, and
- understand the financial implications of decisions that are made.

Councillors should adopt a strategic approach, focusing on policy direction and service delivery that is in the public interest. This includes planning the future of their communities and developing operational and financial strategies and policies to achieve those plans.

Elected members' duties and responsibilities include (but are not limited to):

- providing strategic vision and leadership through the implementation of principles, policies and local laws
- attending council meetings to represent the overall public interest of the local government and ensure that decisions are taken collectively rather than individually
- ensuring that council staff supply all information necessary for effective decision making
- maintaining an accurate register of interests in order to identify and monitor situations where:
  - a councillor has a material personal interest in a specific council debate, or
  - a conflict of interest arises between the public and private interests of a councillor and/or their associates or related persons, and
- taking specific actions where a conflict of interest or a material personal interest arises to ensure that the public interest prevails.

What is good governance?

Good governance is achieved by having efficient and effective decision-making processes and systems. The use of appropriate policy and accountability frameworks enable councils to focus on strategic rather than operational issues.

Key steps to achieving good governance include:

- ensuring consistency in decision making: setting a long-term strategy and following it through, for example, by identifying what the council wishes to achieve over the medium to long term and how this will be funded
- making measured, reasoned decisions based on the best available information
- effectively managing community expectations: differentiating between an ideal outcome and what is achievable in practice, and communicating this effectively to the community
- effectively managing risk: deciding what to do if there is a major shock, determining how likely it is to happen, acting to minimise risk
- asking executive staff the right questions, and
- monitoring the performance of the CEO and the council's executive staff, for example, in terms of the council's financial performance, progress on plans and projects, and the gathering of feedback on outcomes delivered.

The importance of good leadership

The mayor is important in driving a culture of governance within their council. In addition to chairing council meetings, the mayor is also responsible for the preparation of a budget and for directing the CEO and senior executive staff.

It is important that there is good understanding and communication between the mayor, the CEO and the council's executive staff to help establish and maintain a strong governance culture within the council.

EFFECTIVE GOVERNANCE REQUIRES:

- decisions to be made in a consistent and transparent way
- elected officials and senior staff 'walking the talk', and
- the council to deliver on its undertaking to the community and implementing all of its decisions.

Financial governance

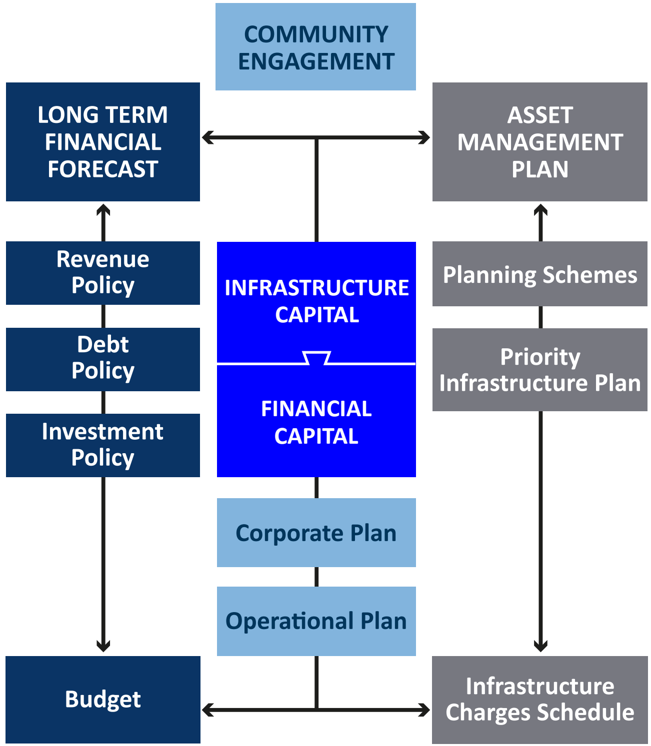
Annual financial reporting is a key part of the governance process and demonstrates that a council is accountable to its community. The *Local Government Act, 2009* outlines the financial and strategic documents that local governments must produce to meet their financial management and accountability obligations. These are broadly divided into:

- strategic planning documents
- financial planning documents, and
- financial accountability documents.

Strategic planning documents

Strategic planning documents should include:

- a five-year corporate plan outlining the council's strategic direction, driving council's strategic policies and forming the high-level basis for strategic decision-making
- a ten-year financial forecast outlining expected income, expenditure and likely values of assets, liabilities and equity, and
- a long-term asset management plan linked to the ten-year financial forecast, outlining how the council will ensure the sustainable management of its asset base. This document should include an estimate of capital expenditure for asset renewals and upgrades.



Financial planning documents

Financial planning documents should include:

- an annual budget, and
- an operational plan covering the following 12-month period.

Annual budget

The *Local Government Act, 2009* and *Local Government Regulation, 2012* specify that a budget must be developed annually and should be consistent with a council's corporate and operational plans and revenue policy. It must be adopted by the council by 1 August in the financial year to which the budget relates.

The budget is defined as 'a plan that estimates income and expenditure in order to meet financial goals. The budget identifies how a council will spend the money it receives from grants and other sources of revenue during the year.'

It must include statements for the financial year for which it is prepared and for the next two financial years for the following items:

- financial position
- cashflow
- income and expenditure, and
- changes in equity.

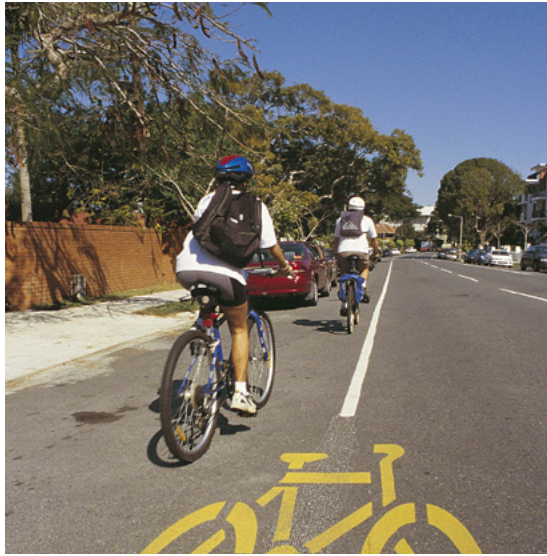
The *Regulation, 2012* states that the annual budget must include a long-term financial forecast, a revenue statement and a community financial report, as well as the relevant measures of financial sustainability for the financial year to which it relates (in the form of financial ratios) and nine subsequent years. The measures currently required by the Department of Infrastructure, Local Government and Planning, are the:

- asset sustainability ratio
- net financial liability ratio, and
- operating surplus ratio.

Operational plan

A council's operational plan should cover a 12-month period and be consistent with its budget. The operational plan should show how the council intends to progress the implementation of the five-year corporate plan over the following 12-month period through specific projects and activities. It should also highlight how the council will manage its operational risks and include an annual performance plan for each of its commercial business units (if applicable).

The link between the 10-year forecast and corporate and operational plans is shown in the diagram on the following page.



Financial accountability documents

Financial accountability documents should include:

- general purpose financial statements, which must be prepared each year in accordance with the accounting standards published by the Australian Accounting Standards Board and submitted to the Auditor-General for auditing purposes. Each council must also prepare a current year financial sustainability statement and a long-term financial sustainability statement to accompany the general purpose financial statements
- an asset register listing the council's non-current physical assets, and
- an annual report, which must be published on the council's website within two weeks of the annual report being adopted. The annual report must comprise:
  - the audited general purpose financial statement for the year
  - the external audit report on the general financial statement
  - the council's current and long term financial sustainability statements, and
  - the Community Financial Report.

COUNCILS NEED TO

- apply principles of sound financial management
- manage risks prudently
- prepare long term integrated plans and an annual budget
- maintain accurate and timely accounts and records
- monitor monthly financial reports
- have an audit committee
- invest and borrow in accordance with council policy

COMMUNITY ENGAGEMENT	**What are your community needs and aspirations?** Long term — 10 years plus. Can we afford this?
CORPORATE PLAN	**What do you want to achieve?** Long term- 5 years plus
OPERATIONAL PLAN	**How long will you go about achieving that?** Short term — 12 months
BUDGET	**How will you pay for it?** Short term plus long term projections

10-Year financial forecast

Financial reporting to council

Councils need to make strategic financial decisions. In order to assist in achieving this outcome, each council's executive staff should report high-level, relevant financial information to their councillors.

The reports provided to councils need to cover key issues; they should be presented in a concise form that ensures all councillors will understand the information contained.

The content of financial reporting to council should:

- summarise the council's financial health
- show how financial performance is tracking against budget
- highlight any risks faced by the council, and
- provide summary information on any other relevant issues.

Framework for Financial Reporting to Council

A financial report to council should include the following.

Executive summary

This should be a brief overview of the report, the operating result and key highlights.

Financial analysis

This should be a snapshot of the council's financial health, including:

- Financial and infrastructure ratios required by the Department
- QTC credit metrics
- Other key operational ratios as determined by council and executive staff, such as:
  - liquidity/working capital analysis (highlighting that efficient cash management is required to enable the council to provide the community services required)
  - asset sustainability (highlighting that assets must be well-managed and maintained, and service outcomes renewed in order to meet the needs of the community)
  - fiscal flexibility (highlighting that strong fiscal flexibility provides a buffer to the council in meeting funding requirements, and
  - operating performance – surplus/deficit financial position, and key drivers (highlighting that in the long term a surplus enhances and a deficit erodes community net assets).

Image: Michael Marston

Performance reporting

This is an analysis of the council's actual performance against budget, consisting of:

- a high-level budget vs actual analysis with variances investigated and explained, and
- proposed remedial actions if required.

Risk reporting

Key risks that should be disclosed include:

- the primary risks the council is facing
- a preliminary assessment of the likelihood and possible treatment of the risks (where relevant), and
- the potential financial impact of these risks on the council's financial forecast.

Additional information

Other issues that can be included are contingent liabilities, legal issues, environmental issues, regulatory issues and changes.

QTC provides training courses on many aspects of financial management tailored to your council. These courses are facilitated by highly qualified professionals with extensive experience working with local governments and can assist you to take the first step on this important journey.

Councils interested in learning more about QTC's financial management training options can contact QTC on 07 3842 4600 or through your QTC Client Account Manager.

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