



LOCAL GOVERNMENT  
ASSOCIATION OF  
QUEENSLAND INC.

## Background

# **Best Practice Simplified Internal and External Reporting for Local Governments in Queensland**

Prepared for the

**Local Government Association of Queensland**

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# 1. BACKGROUND

## 1.1. Key Points

- Increasing complexity in financial management and the discharge of a Local Government's accountability to the community require that corporate plans and reports need to be presented in a style, format and standard that can be

## 1.2. Developments in Financial Management in the 1990s

Since the early 1990s, there have been a number of financial management and related developments which have had an impact on Local Governments and which have required an increased level of management and councillor attention.

These include:

- Pressure on local governments to deliver a wider range of services to the community and to do so without significant increases in the level of available resources.
- Focus on more efficient and effective use of resources including commercialisation of business activities and demand management through user charging.
- The development of accounting standards for Local Government and the introduction of accrual accounting. This includes the development of financial statements including a Statement of financial position which reports on local government assets and liabilities.
- The introduction of asset management practices by local governments. These are often linked with Total Management Planning requirements for infrastructure assets subsidised by State government.
- The impact of national competition policy, regulated pricing and competitive neutrality arrangements (including tax equivalents) for certain activities.
- Wider use of internal Service Level Agreements.
- Out-sourcing of a wider range of services.
- Changes in purchasing arising from electronic cataloguing and procurement.
- Improvements in communication arising from e-mail and the use of the internet and corporate intranets.
- Changes to auditing processes including a mandate for performance management systems audits for the Queensland Auditor General.

- \_ The availability of more sophisticated computerised financial management systems which provide the capability to provide flexible reporting of financial performance information.
- \_ Greater community interest in matters of corporate governance.
- \_ Developments in Balanced Scorecard and Triple Bottom Line reporting.

### **1.3. Corporate Governance**

#### ***Accountability***

According to Dr Ted Campbell, Director-General Department of Local Government and Planning many Councillor duties can be discharged through an effective financial management process. Financial Management provides the means for a local government to:

- \_ measure the achievement of the Council's objectives (management); and
- \_ provide a means for the council to be gauged against its stated objectives (accountability).

Queensland Councils have a great deal of freedom in determining their own destiny. This responsibility and freedom brings with it the need for some form of accountability. Major accountability of the elected council is the community's reaction to its performance in elections held every four years. A council must spell out each term what its objectives are and provide reports which give the public a clear picture of performance against objectives. In addition it should set out clearly the level of standards it expects to achieve, and what the cost of achieving these standards will be.

The shift in social, political, financial and economic agendas by Councils needs to be sifted by processes of consultation and debate, and synthesised in a flexible form delivered as a corporate plan. The corporate plan needs to be reviewed each year and further distilled into a budget. The value of the plan depends on how well it is sold to the community.

This consultative approach to the production of reporting requires that the community have a very clear understanding of Council's performance against its corporate plan. This implies that corporate plans and annual reports need to be written in a style, format and standard that can be easily understood by the general community. There is the need for a balanced output which recognises both the professional and statutory requirements and the need for the community to know where the council is.

## ***Councillor Focus Group***

The Councillor focus group in June 2001 noted that being an elected member in Local Government brings with it a range of responsibilities not unlike that of a company director. In many respects, the responsibilities are wider in that, in addition to having management responsibilities for the community resources under their control, Councillors also have responsibilities to the community in terms of broader social, economic and environmental issues.

Elected members are entrusted with responsibility for significant community funded assets. As is the case with company directors (especially of a public company), Councillors have an important fiduciary duty for the effective and efficient use of all assets held. The statutory and common law duties which fall upon a company director include:

- \_ to act in good faith in the best interests of the organisation;
- \_ to act with care and diligence;
- \_ to avoid a conflict of interest; and
- \_ prohibiting the misuse of information obtained by directors.

Councillors have similar responsibilities, a number of which are outlined in Queensland's Local Government Act. Effective financial management encompasses many of the responsibilities of elected members.

## ***Information Needs of Elected Members***

The Councillor focus group identified the following information types as being needed by Councillors to meet their responsibilities. These are as follows:

<b>INFORMATION REQUIREMENTS</b>	
<b>STRATEGIC – FUTURE DIRECTION (ANNUAL)</b>	<p>In order to effectively carry out the responsibilities for the setting of the strategic direction the elected members need a range of information including:</p> <ul style="list-style-type: none"><li>(a) Information on the growth within the community / details of units of rateable property / population trends / other economic information.</li><li>(b) Information on the community needs and the priorities.</li><li>(c) Details of external funding opportunities and grants.</li><li>(d) A capital works plan which is drawn preferably from an asset management plan covering issues such as the replacement, refurbishment and renewals of assets and considering issues</li></ul>

**INFORMATION REQUIREMENTS**

	<p>of funding options and the policy on funding of depreciation</p> <ul style="list-style-type: none"> <li>(e) Details of debt levels / trends over time and likely borrowing requirements</li> <li>(f) Information papers on the changing role of local government – service provision.</li> <li>(g) Details of the future impact of funded facilities / services</li> <li>(h) Future financial projections including information on trends with overall assets and liabilities and the operating capability of the Council.</li> </ul>
<p><b>BUDGETING &amp; OPERATIONAL PLANNING (ANNUAL – FEBRUARY TO JUNE)</b></p>	<p>In order to undertake the Budgeting and Operational Planning the Councillors will require:</p> <ul style="list-style-type: none"> <li>(a) A set of budget parameters within which the Council will manage the budget.</li> <li>(b) Details of the likely position in terms of asset/liabilities</li> <li>(c) Information on the likely impact of one off decisions for special funding.</li> <li>(d) Information on trends.</li> <li>(e) Details to allow an assessment of the liquidity of the Council including cash flow information</li> <li>(f) Prior year information and the expected end of year financial position for the year.</li> <li>(g) Information for effective management of infrastructure including roads.</li> <li>(h) Details of expected capital works including whole of life information on major infrastructure to allow an assessment of future impacts of current decisions.</li> <li>(i) Information on different scenarios and the funding options available.</li> <li>(j) Details of plant replacement</li> <li>(k) Details of reserves to be utilised and the management of reserves generally.</li> <li>(l) Specific attention to the construction of budgets to allow an assessment of the programs being delivered and an assessment of whether the services and activities are in line with the desired outcomes of the Council.</li> </ul>
<p><b>MONTHLY MONITORING OF BUDGET/ FINANCES</b></p>	<p>Monthly information required to enable a monthly monitoring of the budget to include:</p> <ul style="list-style-type: none"> <li>(a) Reporting on actuals as against the budget highlighting variances (noting that the budget should be activity driven)</li> <li>(b) cash flow information including forecasts of the expected outturn for the year (high level)</li> <li>(c) Additional reporting on any adverse positions (exception</li> </ul>

**INFORMATION REQUIREMENTS**

	<p>reporting)</p> <p>(d) Other analytical information associated with the performance year to date.</p>
<b>QUARTERLY OR RATE CYCLE MONITORING OF PERFORMANCE</b>	<p>Quarterly or Rate Cycle information on financial management will include:</p> <ul style="list-style-type: none"><li>(a) Details of capital expenditure against the capital works budget including information on the physical delivery of projects.</li><li>(b) Information on the performance of the budget to operational plans</li><li>(c) Reports on major budget variances including information which may require the Budget to be varied.</li><li>(d) Reporting of key performance information – service performance which links financial information with non-financial measures.</li><li>(e) Information on position with key ratios including likely position at the end of the financial year.</li><li>(f) Reports from commercialised or corporatised entities.</li><li>(g) A report on the compliance with the financial requirements and on the audit controls.</li><li>(h) Report to Council on the systems including progress with the implementation of any new systems or processes.</li><li>(i) Specific reports on areas of efficiency improvement or savings sought through the budget process.</li></ul>